

Qumu Corp  
Form 10-Q  
May 15, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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 MARCH 31, 2018; OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

Commission File Number: 000-20728

QUMU CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

510 1st Avenue North, Suite 305, Minneapolis, MN 55403

(Address of principal executive offices)

(612) 638-9100

(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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer

Accelerated filer

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

Emerging growth company

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

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

Common Stock outstanding at May 11, 2018 – 9,527,797 shares of \$.01 par value Common Stock.



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QUMU CORPORATION

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## PART 1 – FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## QUMU CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(in thousands, except share data)

	March 31, 2018	December 31, 2017
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,558	\$ 7,690
Receivables, net of allowance for doubtful accounts of \$22 and \$21, respectively	3,973	5,529
Contract assets	536	—
Income tax receivable	218	156
Prepaid expenses and other current assets	2,186	1,830
Total current assets	13,471	15,205
Property and equipment, net of accumulated depreciation of \$4,855 and \$4,678, respectively	743	911
Intangible assets, net	5,877	6,295
Goodwill	7,681	7,390
Deferred income taxes, non-current	74	77
Other assets, non-current	4,258	4,398
Total assets	\$ 32,104	\$ 34,276
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 3,170	\$ 3,878
Accrued compensation	1,834	1,824
Deferred revenue	9,128	8,923
Deferred rent	136	181
Financing obligations	152	1,047
Warrant liability	2,608	819
Total current liabilities	17,028	16,672
Long-term liabilities:		
Deferred revenue, non-current	165	141
Income taxes payable, non-current	—	3
Deferred tax liability, non-current	120	153
Deferred rent, non-current	476	507
Financing obligations, non-current	—	3
Term loan, non-current	7,667	7,605
Other non-current liabilities	238	—
Total long-term liabilities	8,666	8,412
Total liabilities	25,694	25,084
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, authorized 250,000 shares, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, authorized 29,750,000 shares, issued and outstanding 9,377,797 and 9,364,804, respectively	94	94
Additional paid-in capital	68,226	68,035

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Accumulated deficit	(59,788 )	(56,197 )
Accumulated other comprehensive loss	(2,122 )	(2,740 )
Total stockholders' equity	6,410	9,192
Total liabilities and stockholders' equity	\$ 32,104	\$ 34,276

See accompanying notes to unaudited condensed consolidated financial statements.

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## QUMU CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

(unaudited - in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Software licenses and appliances	\$451	\$1,220
Service	4,380	5,491
Total revenues	4,831	6,711
Cost of revenues:		
Software licenses and appliances	335	494
Service	1,777	2,090
Total cost of revenues	2,112	2,584
Gross profit	2,719	4,127
Operating expenses:		
Research and development	1,903	2,109
Sales and marketing	2,180	2,451
General and administrative	2,181	2,460
Amortization of purchased intangibles	229	223
Total operating expenses	6,493	7,243
Operating loss	(3,774 )	(3,116 )
Other income (expense):		
Interest expense, net	(844 )	(317 )
Change in fair value of warrant liability	387	(78 )
Other, net	(387 )	(55 )
Total other expense, net	(844 )	(450 )
Loss before income taxes	(4,618 )	(3,566 )
Income tax benefit	(88 )	(4 )
Net loss	\$(4,530)	\$(3,562)

Net loss per share – basic and diluted:

Net loss per share \$(0.48 ) \$(0.39 )

Weighted average shares outstanding 9,370 9,245

See accompanying notes to unaudited condensed consolidated financial statements.

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## QUMU CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)  
(unaudited - in thousands)

	Three Months Ended March 31,	
	2018	2017
Net loss	\$(4,530)	\$(3,562)
Other comprehensive income:		
Net change in foreign currency translation adjustments	623	137
Total other comprehensive income	623	137
Total comprehensive loss	\$(3,907)	\$(3,425)

See accompanying notes to unaudited condensed consolidated financial statements.

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QUMU CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows  
(unaudited - in thousands)

	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Net loss	\$(4,530)	\$(3,562 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	699	774
Stock-based compensation	210	413
Accretion of debt discount and issuance costs	746	111
Change in fair value of warrant liability	(387 )	78
Deferred income taxes	(37 )	(33 )
Changes in operating assets and liabilities:		
Receivables	1,645	2,896
Contract assets	14	—
Income taxes receivable / payable	(62 )	148
Prepaid expenses and other assets	(317 )	(23 )
Accounts payable and other accrued liabilities	(444 )	(367 )
Accrued compensation	—	(245 )
Deferred revenue	603	178
Deferred rent	(75 )	(75 )
Other non-current liabilities	186	—
Net cash provided by (used in) operating activities	(1,749 )	293
Investing activities:		
Purchases of property and equipment	(2 )	(14 )
Net cash used in investing activities	(2 )	(14 )
Financing activities:		
Proceeds from term loan and warrant issuance	10,000	—
Principal payments on term loan	(8,000 )	—
Payments for term loan and warrant issuance costs	(1,308 )	(125 )
Principal payments on financing obligations	(99 )	(125 )
Common stock repurchases to settle employee withholding liability	(19 )	—
Net cash provided by (used in) financing activities	574	(250 )
Effect of exchange rate changes on cash	45	18
Net increase (decrease) in cash and cash equivalents	(1,132 )	47
Cash and cash equivalents, beginning of period	7,690	10,364
Cash and cash equivalents, end of period	\$6,558	\$10,411
Supplemental disclosures of net cash paid (received) during the period:		
Income taxes, net	\$6	\$(125 )
Interest, net	\$33	\$208

See accompanying notes to unaudited condensed consolidated financial statements.



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QUMU CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

(1) Nature of Business and Basis of Presentation

Qumu Corporation (the "Company") provides the software applications businesses use to create, manage, secure, deliver and measure the success of their videos. The Company's innovative solutions release the power in video to engage and empower employees, partners and clients, allowing organizations around the world to realize the greatest possible value from video they create and publish. Whatever the audience size, viewer device or network configuration, the Company's solutions are how business does video.

The Company views its operations and manages its business as one segment and one reporting unit. Factors used to identify the Company's single operating segment and reporting unit include the financial information available for evaluation by the chief operating decision maker in making decisions about how to allocate resources and assess performance. The Company manages the marketing of its products and services through regional sales representatives and independent distributors in the United States and international markets.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying condensed consolidated financial statements are unaudited and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in a complete set of financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations and cash flows of the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2017. The Company has continued to experience recurring operating losses and negative cash flows from operating activities. The ability of the Company to continue as a going concern is dependent upon the Company maintaining compliance with its term loan covenants beginning September 30, 2018. If an event of default occurs due to the Company not maintaining compliance with its covenants, the lender may accelerate the repayment of outstanding principal, which could negatively impact the Company's ability to fund its working capital requirements, capital expenditures and general corporate expenses. On January 12, 2018, the Company replaced its credit agreement, as described in Note 4—"Commitments and Contingencies," and is projecting future compliance with its covenants under its current operating plan.

Recently Adopted Accounting Standards

Revenue from Contracts with Customers

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and the related amendments ("Topic 606") using the modified retrospective transition method. Under this method, the Company evaluated contracts that were in effect at the beginning of fiscal 2018 as if those contracts had been accounted for under Topic 606. The Company did not evaluate individual modifications for those periods prior to the adoption date, but the aggregate effect of all modifications as of the adoption date and such effects are provided below. Under the modified retrospective transition approach, periods prior to the adoption date were not adjusted and continue to be reported in accordance with historical, pre-Topic 606 accounting. A cumulative catch up adjustment was recorded to beginning accumulated deficit to reflect the impact of all existing arrangements under Topic 606.

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At the adoption date, the Company adjusted accumulated deficit by \$939,000 primarily driven by uncompleted contracts for which revenue will not be recognized in future periods under Topic 606, partially offset by the incremental originating costs

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associated with those contracts. The cumulative effect of the changes made to our January 1, 2018 condensed consolidated balance sheet from the modified retrospective adoption of Topic 606 was as follows (in thousands):

	December 31, 2017	Adjustments	January 1, 2018
Assets:			
Contract assets	\$ —	\$ 550	\$ 550
Prepaid expenses and other current assets	1,830	(99 )	1,731
Other assets, non-current	4,398	(10 )	4,388
Liabilities:			
Deferred revenue	8,923	(493 )	8,430
Deferred revenue, non-current	141	—	141
Stockholders' equity:			
Accumulated deficit	(56,197)	939	(55,258)
Accumulated other comprehensive loss	(2,740)	(5 )	(2,745)

The most significant impact of the adoption of Topic 606 was on the Company's term software licenses that, under the Company's previous revenue accounting ("Topic 605"), would have continued to be recognized into revenue ratably in 2018 and beyond. However, under Topic 606 the standalone selling price attributable to the license is recognized upon transfer of control resulting in up-front recognition, typically upon fulfillment. The timing of revenue recognition for perpetual software licenses, hardware, and professional services is expected to remain substantially unchanged. See Note 2—"Revenue" for the Company's revenue recognition policy after the adoption of Topic 606.

Revenue generated under Topic 606 is expected to be approximately \$1.1 million lower than revenue would have been under Topic 605 for the year ending December 31, 2018. The following table summarizes the effects of adopting Topic 606 on the Company's condensed consolidated statement of operations and comprehensive loss for the three months ended March 31, 2018:

	Three Months Ended March 31, 2018		
	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Revenues	\$4,831	\$ 184	\$ 5,015
Cost of revenues	2,112	8	2,120
Sales and marketing	2,180	24	2,204
Net loss	(4,530 )	152	(4,378 )
Net change in foreign currency translation adjustments	623	(4 )	619
Total comprehensive loss	(3,907 )	148	(3,759 )

The following table summarizes the effects of adopting Topic 606 on the Company's condensed consolidated balance sheet as of March 31, 2018:

	March 31, 2018		
	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Assets:			
Contract assets	536	(536 )	—
Prepaid expenses and other current assets	2,186	73	2,259

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Other assets, non-current	4,258	4	4,262
Liabilities:			
Deferred revenue	9,128	296	9,424
Deferred revenue, non-current	165	31	196
Stockholders' equity:			
Accumulated deficit	(59,788)	(787)	(60,575)
Accumulated other comprehensive loss	(2,122)	1	(2,121)

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The Company's net cash used in operating activities for the three months ended March 31, 2018 did not change due to the adoption of Topic 606. The following table summarizes the effects of adopting Topic 606 on the financial statement line items of the Company's condensed consolidated statement of cash flows for the three months ended March 31, 2018:

	Three Months Ended March 31, 2018		
	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Operating activities:			
Net loss	\$ (4,530)	\$ 152	\$ (4,378)
Adjustments to reconcile net loss to net cash used in operating activities:			
Changes in operating assets and liabilities:			
Contract assets	14	(14)	—
Prepaid expenses and other assets	(317)	32	(285)
Deferred revenue	603	(170)	433

## Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall, which the Company adopted on January 1, 2018, modifying its accounting and required disclosures for its equity investment previously accounted for under the cost basis method of accounting.

The Company's equity investment consists of its investment totaling \$3.1 million in convertible preferred stock of privately-held BriefCam, Ltd. ("BriefCam"), as described in Note 9—"Investment in Software Company," which is included in other assets in the condensed consolidated balance sheets. The new standard eliminated the cost method of accounting for investments in equity securities that do not have readily determinable fair values and permits the election of a measurement alternative that allows such securities to be recorded at cost, less impairment, if any, plus or minus changes resulting from observable price changes in market-based transactions for an identical or similar investment of the same issuer. The Company adopted the provisions of the new standard applicable to its investment in BriefCam on a prospective basis and elected the measurement alternative for non-marketable investments previously accounted for under the cost method of accounting. Gains and losses resulting from observable price changes in market-based transactions for an identical or similar investment of the same issuer or impairment will be recorded through net income (loss) in the period incurred.

The Company's investment in BriefCam had a carrying value of \$3.1 million as of March 31, 2018 and December 31, 2017. During the three months ended March 31, 2018, there were no observable price changes or impairments related to the Company's non-marketable investment in the equity security. See Note 10—"Subsequent Event" for information relating to the potential sale of the Company's investment in BriefCam subsequent to March 31, 2018.

## Income Taxes

In March 2018, the Company adopted ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which updates the income tax accounting in U.S. GAAP to reflect the SEC interpretive guidance released on December 22, 2017, when the Tax Cuts and Jobs Act of 2017 was signed into law. Additional information regarding the adoption of this standard is contained in Note 7—"Income Taxes." Accounting Standards Not Yet Adopted

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220), which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings (accumulated deficit) for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 and requires certain disclosures regarding stranded tax effects in accumulated other comprehensive income (loss). This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted during interim or annual periods. The Company does not believe the impact of adopting this

standard will be material to its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The purpose of the amendment is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. This standard is effective for fiscal

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years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company does not believe the impact of adopting this standard will be material to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the existing lease guidance and will require all leases with a term greater than 12 months to be recognized in the statements of financial position and eliminate current real estate-specific lease guidance, while maintaining substantially similar classification criteria for distinguishing between finance leases and operating leases. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements of adopting this standard, which will require right-of-use assets and lease liabilities be recorded in the consolidated balance sheet for operating leases.

(2) Revenue

The Company generates revenue through the sale of enterprise video content management software, hardware, maintenance and support, and professional and other services. Software sales may take the form of a perpetual software license, a cloud-hosted software as a service (SaaS) or a term software license. Software licenses and appliances revenue includes sales of perpetual software licenses and hardware. Service revenue includes SaaS, term software licenses, maintenance and support, and professional and other services. An individual sale can range from single year agreements for thousands of dollars to multi-year agreements for over a million dollars.

The Company follows a five-step model to assess each contract of a sale or service to a customer: identify the legally binding contract, identify the performance obligations, determine the transaction price, allocate the transaction price, and determine whether revenue will be recognized at a point in time or over time basis.

Revenue is recognized upon transfer of control of promised products or services (i.e., performance obligations) to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for promised goods or services. The Company's performance obligations are satisfied either over time (for cloud-hosted software as a service, maintenance and support, and other services) or at a point in time (for software licenses and hardware).

The Company enters into contracts that can include various combinations of software licenses, appliances, maintenance and services, some of which are distinct and are accounted for as separate performance obligations. For contracts with multiple performance obligations, the Company allocates the transaction price of the contract to each distinct performance obligation, on a relative basis using its standalone selling price. The stated contract value is generally the transaction price to be allocated to the separate performance obligations.

The Company determines the standalone selling price for software-related elements, including professional services and software maintenance and support contracts, based on the price charged for the deliverable when sold separately. With the adoption of Topic 606 beginning January 1, 2018, the Company had a change in the accounting for revenue of its on-premise term software license arrangements. Under Topic 605, the term software license and technical support elements of the combined bundle were recognized over time. In contrast, Topic 606 requires the Company to identify the performance obligations in the contract – that is, those promised goods and services (or bundles of promised goods or services) that are distinct – and allocate the transaction price of the contract to those performance obligations on the basis of standalone selling prices. The transaction price allocated to each performance obligation is then recognized either at a point in time or over time using an appropriate measure of progress. Under Topic 606, the Company has concluded that its on-premise term software licenses and technical support for its on-premise term software licenses are distinct from each other. As a result, the software license is now recognized upon transfer of control, which is at fulfillment, resulting in earlier revenue recognition. The revenue allocable to technical support continues to be recognized ratably over the non-cancellable committed term of the agreement.

Other items relating to charges collected from customers include shipping and handling charges and sales taxes charges. Shipping and handling charges collected from customers as part of the Company's sales transactions are included in revenues and the associated costs are included in cost of revenues. Sales taxes charged to and collected from customers as part of the Company's sales transactions are excluded from revenues and recorded as a liability to the applicable governmental taxing authority.

Nature of Products and Services

Perpetual software licenses

The Company's perpetual software license arrangements grant customers the right to use the software indefinitely as it exists at the time of purchase. The Company recognizes revenue for distinct software licenses once the license period has begun and the

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software has been made available to the customer. Payments for perpetual software license contracts are generally received upon fulfillment of the software product.

**Term software licenses**

The Company's term software licenses differ from perpetual software licenses in that the customer's right to use the licensed product has a termination date. Prior to the adoption of Topic 606, these licenses were recognized ratably over the contractual term, beginning on the commencement date of each contract, which is typically the date the Company's product has been fulfilled. Under the provisions of Topic 606, term software licenses are now recognized upon transfer of control, which is typically at fulfillment, resulting in up-front revenue recognition. The Company categorizes revenue from term software licenses as subscription, maintenance and support revenue in service revenues. Payments are generally received quarterly or annually in equal or near equal installments over the term of the agreement.

**Cloud-hosted software as a service**

Cloud-hosted software as a service (SaaS) arrangements grant customers the right to access and use the licensed products at the outset of an arrangement via third-party cloud providers. Updates are generally made available throughout the entire term of the arrangement, which is generally one to three years. The Company provides an online library and technical support resources in these cloud-hosted SaaS arrangements, which in conjunction with the SaaS license constitute a single, combined performance obligation, and revenue is recognized over the term of the license. Payments are generally received annually in advance of the service period.

**Hardware**

The Company sells appliances that are typically drop shipped from third-party suppliers selected by the Company. The transaction price allocated to the appliance is generally recognized as revenue at fulfillment when the customer obtains control of the product. Payments for appliances are generally received upon delivery of the hardware product.

**Maintenance and support**

Maintenance and support arrangements grant customers the right to software updates and technical support over the term of the maintenance and support contract. Revenue from maintenance and support is generally recognized ratably over the contract term beginning on the commencement date of each contract, which is upon fulfillment of the software obligation. Payments are generally received annually in advance of the service period.

**Professional services and training**

Professional services and training generally consist of software implementation, on-boarding services and best practices consulting. Revenue from professional services contracts is typically recognized as performed, generally using hours expended to measure progress. Services are generally invoiced monthly for work performed.

**Revenues by product category and geography**

The Company combines its products and services into three product categories and three geographic regions, based on customer location, as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Software licenses and appliances	\$451	\$1,220
Service		
Subscription, maintenance and support	4,038	4,838
Professional services and other	342	653
Total service	4,380	5,491
Total revenues	\$4,831	\$6,711

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	Three Months Ended March 31, 2018 2017	
North America	\$2,810	\$4,817
Europe	1,610	1,745
Asia	411	149
Total	\$4,831	\$6,711

**Significant Judgments**

More judgments and estimates are required under Topic 606 than were required under Topic 605. Due to the complexity of certain contracts, the actual revenue recognition treatment required under Topic 606 for the Company's arrangements may be dependent on contract-specific terms and may vary in some instances.

Our contracts with customers typically contain promises to transfer multiple products and services to a customer. Judgement is required to determine whether each product and/or service is considered to be a distinct performance obligation that should be accounted for separately under the contract. We allocate the transaction price to the distinct performance obligations based on relative standalone selling price ("SSP"). We estimate SSP by maximizing use of observable prices such as the prices charged to customers on a standalone basis, established prices lists, contractually stated prices, profit margins and other entity-specific factors, or by using information such as market conditions and other observable inputs. However, the selling prices of the Company's software licenses and cloud-hosted SaaS arrangements are highly variable. Thus, we estimate SSP for software licenses and cloud-hosted SaaS arrangements using the residual approach, determined based on total transaction price less the SSP of other goods and services promised in the contract.

Determining whether licenses and services are distinct performance obligations that should be accounted for separately, or not distinct and thus accounted for together, requires significant judgment. In some arrangements, such as most of the Company's license arrangements, the Company has concluded that the licenses and associated services are distinct from each other. In others, like the Company's cloud-hosted SaaS arrangements, the license and certain services are not distinct from each other and therefore the Company has concluded that these promised goods and services are a single, combined performance obligation.

If a group of agreements are so closely related that they are, in effect, part of a single arrangement, such agreements are deemed to be one arrangement for revenue recognition purposes. The Company exercises significant judgment to evaluate the relevant facts and circumstances in determining whether the separate agreements should be accounted for separately or as, in substance, a single arrangement. The Company's judgments about whether a group of contracts comprise a single arrangement can affect the allocation of consideration to the distinct performance obligations, which could have an effect on results of operations for the periods involved.

The Company is required to estimate the total consideration expected to be received from contracts with customers. In limited circumstances, the consideration expected to be received is variable based on the specific terms of the contract or based on the Company's expectations of the term of the contract. Generally, the Company has not experienced significant returns from or refunds to customers. These estimates require significant judgment and the change in these estimates could have an effect on its results of operations during the periods involved.

**Contract Balances**

The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables or contract liabilities (deferred revenue) on the Company's condensed consolidated balance sheet. The Company records deferred revenue when revenue is recognized subsequent to invoicing.

The Company's balances for contract assets totaled \$550,000 and \$536,000 as of January 1, 2018 and March 31, 2018, respectively. The Company's balances for contract liabilities, which are included in deferred revenue, totaled \$8.6 million and \$9.3 million as of January 1, 2018 and March 31, 2018, respectively.

During the three months ended March 31, 2018, the Company recognized \$3.3 million of revenue that was included in the deferred revenue balance, as adjusted for Topic 606, at the beginning of the period. All other activity in deferred revenue is due to the timing of invoices in relation to the timing of revenue as described above.

Revenue allocated to remaining performance obligations represents the transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods. The Company has elected to exclude the future billable professional services from the

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remaining performance obligations. Contracted but unsatisfied performance obligations were approximately \$18.4 million as of March 31, 2018, of which the Company expects to recognize \$12.6 million of revenue over the next 12 months and the remainder thereafter.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that its contracts generally do not include a significant financing component. The primary purpose of invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, and not to facilitate financing arrangements.

**Deferred Sales Commissions**

Sales commissions represent the direct incremental costs related to the acquisition of customer contracts. The Company recognizes commissions as sales and marketing expense at the time the associated product revenue is recognized, requiring establishment of a deferred cost in the event a commission is paid prior to recognition of revenue. The deferred commission amounts are recoverable through the related future revenue streams under non-cancellable customer contracts and commission clawback provisions in the Company's sales compensation plans. Deferred commission costs included in prepaid expenses and other assets were \$268,000 and \$308,000 at March 31, 2018 and December 31, 2017, respectively. Deferred commission costs in other assets, non-current were \$59,000 and \$47,000 at March 31, 2018 and December 31, 2017, respectively. The Company recognized commissions expense of \$207,000 and \$382,000 during the three months ended March 31, 2018 and 2017, respectively.

**(3) Intangible Assets and Goodwill****Intangible Assets**

The Company's amortizable intangible assets consisted of the following (in thousands):

	March 31, 2018			
	Customer Relationships	Developed Technology	Trademarks / Trade-Names	Total
Original cost	\$5,005	\$ 8,365	\$ 2,186	\$15,556
Accumulated amortization	(2,366 )	(6,470 )	(843 )	(9,679 )
Net identifiable intangible assets	\$2,639	\$ 1,895	\$ 1,343	\$5,877
	December 31, 2017			
	Customer Relationships	Developed Technology	Trademarks / Trade-Names	Total
Original cost	\$4,928	\$ 8,225	\$ 2,184	\$15,337
Accumulated amortization	(2,194 )	(6,043 )	(805 )	(9,042 )
Net identifiable intangible assets	\$2,734	\$ 2,182	\$ 1,379	\$6,295

Changes to the carrying amount of net amortizable intangible assets for the three months ended March 31, 2018 consisted of the following (in thousands):

	Three Months Ended March 31, 2018
Balance, beginning of period	\$6,295
Amortization expense	(527 )
Currency translation	109
Balance, end of period	\$5,877

Amortization expense of intangible assets consisted of the following (in thousands):

Three  
Months  
Ended

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	March 31,	
	2018	2017
Amortization expense associated with the developed technology included in cost of revenues	\$298	\$293
Amortization expense associated with other acquired intangible assets included in operating expenses	229	223
Total amortization expense	\$527	\$516

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Goodwill

On October 3, 2014, the Company completed the acquisition of Kulu Valley, Ltd., subsequently renamed Qumu Ltd., and recognized \$8.8 million of goodwill and \$6.7 million of intangible assets. The goodwill balance of \$7.7 million at March 31, 2018 reflects the impact of foreign currency exchange rate fluctuations since the acquisition date.

As of March 31, 2018, the Company's market capitalization, without a control premium, was greater than its book value and, as a result, the Company concluded there was no goodwill impairment. Declines in the Company's market capitalization or a downturn in its future financial performance and/or future outlook could require the Company to record goodwill and other impairment charges. While a goodwill impairment charge is a non-cash charge, it would have a negative impact on the Company's results of operations.

(4) Commitments and Contingencies

Leases and Other Financing Obligations

Balances for assets acquired under capital lease obligations and included in property and equipment were as follows (in thousands):

March 31,  
2018