

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 **SEPTEMBER 30, 2019**; OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File Number: 000-20728

QUMU CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota

41-1577970

(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)

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|--------------------------------|----------------|---|
| Common stock, par value \$0.01 | QUMU | The NASDAQ Stock Market LLC |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 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 November 1, 2019 – 9,908,982 shares of \$.01 par value Common Stock.

QUMU CORPORATION
FORM 10-Q
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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)

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| Assets | (unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,525 | \$ 8,636 |
| Receivables, net of allowance for doubtful accounts of \$49 and \$61, respectively | 4,202 | 6,278 |
| Contract assets | 1,330 | 485 |
| Income tax receivable | 274 | 327 |
| Prepaid expenses and other current assets | 1,752 | 2,192 |
| Total current assets | 15,083 | 17,918 |
| Property and equipment, net of accumulated depreciation of \$2,864 and \$2,809, respectively | 633 | 545 |
| Right of use assets – operating leases | 1,783 | — |
| Intangible assets, net | 3,279 | 4,247 |
| Goodwill | 6,748 | 6,971 |
| Deferred income taxes, non-current | 45 | 55 |
| Other assets, non-current | 602 | 544 |
| Total assets | \$ 28,173 | \$ 30,280 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and other accrued liabilities | \$ 3,286 | \$ 2,838 |
| Accrued compensation | 817 | 1,548 |
| Deferred revenue | 9,050 | 9,672 |
| Operating lease liabilities | 465 | — |
| Deferred rent | — | 45 |
| Financing obligations | 214 | 152 |
| Term loan | 3,834 | — |
| Warrant liability | 3,550 | 2,798 |
| Total current liabilities | 21,216 | 17,053 |
| Long-term liabilities: | | |
| Deferred revenue, non-current | 1,768 | 1,672 |
| Income taxes payable, non-current | 580 | 563 |
| Deferred tax liability, non-current | — | 2 |
| Operating lease liabilities, non-current | 1,735 | — |
| Deferred rent, non-current | — | 302 |
| Financing obligations, non-current | 104 | 57 |
| Term loan, non-current | — | 3,431 |
| Other non-current liabilities | — | 195 |
| Total long-term liabilities | 4,187 | 6,222 |
| Total liabilities | 25,403 | 23,275 |
| Commitments and contingencies (Note 3) | | |
| 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 9,908,782 and 9,624,060, respectively | 99 | 96 |
| Additional paid-in capital | 69,705 | 69,072 |
| Accumulated deficit | (63,457) | (58,875) |
| Accumulated other comprehensive loss | (3,577) | (3,288) |
| Total stockholders' equity | 2,770 | 7,005 |
| Total liabilities and stockholders' equity | \$ 28,173 | \$ 30,280 |

See accompanying notes to unaudited condensed consolidated financial statements.

QUMU CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(unaudited - in thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | |
| Software licenses and appliances | \$ 1,962 | \$ 985 | \$ 3,656 | \$ 4,303 |
| Service | 4,709 | 4,668 | 15,478 | 13,807 |
| Total revenues | 6,671 | 5,653 | 19,134 | 18,110 |
| Cost of revenues: | | | | |
| Software licenses and appliances | 719 | 504 | 1,366 | 1,643 |
| Service | 1,294 | 1,611 | 3,747 | 4,990 |
| Total cost of revenues | 2,013 | 2,115 | 5,113 | 6,633 |
| Gross profit | 4,658 | 3,538 | 14,021 | 11,477 |
| Operating expenses: | | | | |
| Research and development | 1,849 | 1,617 | 5,361 | 5,159 |
| Sales and marketing | 2,083 | 1,796 | 6,647 | 6,388 |
| General and administrative | 1,673 | 1,608 | 4,998 | 5,536 |
| Amortization of purchased intangibles | 168 | 224 | 587 | 680 |
| Total operating expenses | 5,773 | 5,245 | 17,593 | 17,763 |
| Operating loss | (1,115) | (1,707) | (3,572) | (6,286) |
| Other income (expense): | | | | |
| Gain on sale of BriefCam, Ltd. | 41 | 6,502 | 41 | 6,502 |
| Loss on extinguishment of debt | — | (1,189) | — | (1,189) |
| Interest expense, net | (235) | (262) | (654) | (1,616) |
| Decrease (increase) in fair value of warrant liability | 973 | (401) | (752) | (292) |
| Other, net | (3) | (78) | 32 | (481) |
| Total other income (expense), net | 776 | 4,572 | (1,333) | 2,924 |
| Income (loss) before income taxes | (339) | 2,865 | (4,905) | (3,362) |
| Income tax expense (benefit) | (118) | 469 | (133) | 303 |
| Net income (loss) | \$ (221) | \$ 2,396 | \$ (4,772) | \$ (3,665) |
| Net income (loss) per share – basic: | | | | |
| Net income (loss) per share | \$ (0.02) | \$ 0.25 | \$ (0.49) | \$ (0.39) |
| Weighted average shares outstanding – basic | 9,913 | 9,559 | 9,822 | 9,472 |
| Net income (loss) per share – diluted: | | | | |
| Income (loss) attributable to common shareholders | \$ (1,194) | \$ 2,396 | \$ (4,772) | \$ (3,665) |
| Net income (loss) per share – diluted | \$ (0.11) | \$ 0.25 | \$ (0.49) | \$ (0.39) |
| Weighted average shares outstanding – diluted | 10,413 | 9,709 | 9,822 | 9,472 |

See accompanying notes to unaudited condensed consolidated financial statements.

QUMU CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Loss
(unaudited - in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income (loss) | \$ (221) | \$ 2,396 | \$ (4,772) | \$ (3,665) |
| Other comprehensive loss: | | | | |
| Net change in foreign currency translation adjustments | (254) | (87) | (289) | (233) |
| Total other comprehensive loss | (254) | (87) | (289) | (233) |
| Total comprehensive income (loss) | <u>\$ (475)</u> | <u>\$ 2,309</u> | <u>\$ (5,061)</u> | <u>\$ (3,898)</u> |

See accompanying notes to unaudited condensed consolidated financial statements.

QUMU CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(unaudited - in thousands)

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total |
|--|--------------|--------|----------------------------------|------------------------|---|----------|
| | Shares | Amount | | | | |
| Balance at December 31, 2018 | 9,624 | \$ 96 | \$ 69,072 | \$ (58,875) | \$ (3,288) | \$ 7,005 |
| Adoption of ASC Topic 842 | — | — | — | 190 | — | 190 |
| Net loss | — | — | — | (950) | — | (950) |
| Other comprehensive income, net of taxes | — | — | — | — | 243 | 243 |
| Issuance of stock under employee stock plan, net of forfeitures | 156 | 2 | (1) | — | — | 1 |
| Redemption of stock to cover withholdings on employee stock plan issuances | (15) | — | (36) | — | — | (36) |
| Stock-based compensation | — | — | 231 | — | — | 231 |
| Balance at March 31, 2019 | 9,765 | \$ 98 | \$ 69,266 | \$ (59,635) | \$ (3,045) | \$ 6,684 |
| Net loss | — | — | — | (3,601) | — | (3,601) |
| Other comprehensive loss, net of taxes | — | — | — | — | (278) | (278) |
| Issuance of stock under employee stock plan, net of forfeitures | 159 | 1 | 96 | — | — | 97 |
| Redemption of stock to cover withholdings on employee stock plan issuances | (17) | — | (72) | — | — | (72) |
| Stock-based compensation | — | — | 194 | — | — | 194 |
| Balance at June 30, 2019 | 9,907 | \$ 99 | \$ 69,484 | \$ (63,236) | \$ (3,323) | \$ 3,024 |
| Net loss | — | — | — | (221) | — | (221) |
| Other comprehensive loss, net of taxes | — | — | — | — | (254) | (254) |
| Issuance of stock under employee stock plan, net of forfeitures | 2 | — | 4 | — | — | 4 |
| Redemption of stock to cover withholdings on employee stock plan issuances | — | — | (2) | — | — | (2) |
| Stock-based compensation | — | — | 219 | — | — | 219 |
| Balance at September 30, 2019 | 9,909 | \$ 99 | \$ 69,705 | \$ (63,457) | \$ (3,577) | \$ 2,770 |

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total |
|--|--------------|--------|----------------------------------|------------------------|---|----------|
| | Shares | Amount | | | | |
| Balance at December 31, 2017 | 9,365 | \$ 94 | \$ 68,035 | \$ (56,197) | \$ (2,740) | \$ 9,192 |
| Adoption of ASC Topic 606 | — | — | — | 939 | (5) | 934 |
| Net loss | — | — | — | (4,530) | — | (4,530) |
| Other comprehensive income, net of taxes | — | — | — | — | 623 | 623 |
| Issuance of stock under employee stock plan, net of forfeitures | 24 | — | — | — | — | — |
| Redemption of stock to cover withholdings on employee stock plan issuances | (11) | — | (19) | — | — | (19) |
| Stock-based compensation | — | — | 210 | — | — | 210 |
| Balance at March 31, 2018 | 9,378 | \$ 94 | \$ 68,226 | \$ (59,788) | \$ (2,122) | \$ 6,410 |
| Net loss | — | — | — | (1,531) | — | (1,531) |
| Other comprehensive loss, net of taxes | — | — | — | — | (769) | (769) |
| Issuance of stock under employee stock plan, net of forfeitures | 155 | 1 | (11) | — | — | (10) |
| Redemption of stock to cover withholdings on employee stock plan issuances | (4) | — | (8) | — | — | (8) |
| Stock-based compensation | — | — | 228 | — | — | 228 |
| Balance at June 30, 2018 | 9,529 | \$ 95 | \$ 68,435 | \$ (61,319) | \$ (2,891) | \$ 4,320 |
| Net income | — | — | — | 2,396 | — | 2,396 |
| Other comprehensive loss, net of taxes | — | — | — | — | (87) | (87) |
| Issuance of stock under employee stock plan, net of forfeitures | (1) | — | (1) | — | — | (1) |
| Stock-based compensation | — | — | 329 | — | — | 329 |
| Balance at September 30, 2018 | 9,528 | \$ 95 | \$ 68,763 | \$ (58,923) | \$ (2,978) | \$ 6,957 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------|
| | 2019 | 2018 |
| Operating activities: | | |
| Net loss | \$ (4,772) | \$ (3,665) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,170 | 1,924 |
| Stock-based compensation | 644 | 767 |
| Accretion of debt discount and issuance costs | 403 | 1,194 |
| Gain on sale of BriefCam, Ltd. | (41) | (6,502) |
| Loss on debt extinguishment | — | 1,189 |
| Gain on lease modification | (21) | — |
| Loss on lease contract termination | — | 177 |
| Increase in fair value of warrant liability | 752 | 292 |
| Deferred income taxes | 8 | (99) |
| Changes in operating assets and liabilities: | | |
| Receivables | 2,038 | 1,363 |
| Contract assets | (845) | 394 |
| Income taxes receivable / payable | 62 | 357 |
| Prepaid expenses and other assets | 573 | 291 |
| Accounts payable and other accrued liabilities | 546 | (2,082) |
| Accrued compensation | (732) | (857) |
| Deferred revenue | (431) | 2,283 |
| Deferred rent | — | (121) |
| Other non-current liabilities | (24) | 98 |
| Net cash used in operating activities | <u>(670)</u> | <u>(2,997)</u> |
| Investing activities: | | |
| Proceeds from sale of BriefCam, Ltd. | 41 | 9,678 |
| Purchases of property and equipment | (137) | (116) |
| Net cash provided by (used in) investing activities | <u>(96)</u> | <u>9,562</u> |
| Financing activities: | | |
| Proceeds from term loan and warrant issuance | — | 10,000 |
| Principal payments on term loans | — | (14,000) |
| Payments for term loan issuance costs | — | (1,308) |
| Principal payments on financing obligations | (242) | (329) |
| Proceeds from employee stock plans | 46 | — |
| Common stock repurchases to settle employee withholding liability | (54) | (28) |
| Net cash used in financing activities | <u>(250)</u> | <u>(5,665)</u> |
| Effect of exchange rate changes on cash | (95) | (91) |
| Net increase (decrease) in cash and cash equivalents | (1,111) | 809 |
| Cash and cash equivalents, beginning of period | 8,636 | 7,690 |
| Cash and cash equivalents, end of period | <u>\$ 7,525</u> | <u>\$ 8,499</u> |
| Supplemental disclosures of net cash paid (received) during the period: | | |
| Income taxes, net | \$ (207) | \$ 52 |
| Interest, net | \$ 14 | \$ 502 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

(1) Nature of Business and Basis of Presentation

Qumu Corporation ("Qumu" or the "Company") provides the software solutions to create, manage, secure, distribute and measure the success of live and on-demand video for enterprises. The Qumu platform enables global organizations to drive employee engagement, increase access to video, and modernize the workplace by providing a more efficient and effective way to share knowledge. The world's largest organizations leverage the Qumu platform for a variety of cloud, on-premise and hybrid deployments. Use cases including self-service webcasting, sales enablement, internal communications, product training, regulatory compliance and customer engagement. The Company markets its products to customers primarily in North America, Europe and Asia.

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 condensed 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, 2018.

Leases

The Company is a lessee in several non-cancellable (1) operating leases, primarily for office space, and (2) finance leases, for certain IT equipment. Beginning January 1, 2019, the Company accounts for leases in accordance with ASU 2016-02, *Leases*, and the related amendments (collectively, "Topic 842"). The Company determines if an arrangement is or contains a lease at contract inception and recognizes a right of use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and at the same date as for operating leases, and is subsequently measured at amortized cost using the effective interest method.

Key estimates and judgments in accounting for leases under Topic 842 include how the Company determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

- ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, the Company cannot determine the interest rate implicit in the lease because it does not have access to the lessor's information. Therefore, the Company uses its incremental borrowing rate as the discount rate for the lease. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms.

- The lease term for all of the Company’s leases includes the non-cancellable period of the lease plus any additional periods covered by either a Company option to extend the lease that the Company is reasonably certain to exercise, or an option to extend the lease controlled by the lessor.
- Lease payments included in the measurement of the lease liability include the fixed payments owed over the lease term, termination penalties, amounts expected to be payable under a residual-value guarantee, and the exercise price of an option to purchase the asset if the Company is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus any prepaid lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Company recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term.

Recently Adopted Accounting Standards

Leases (Topic 842)

On January 1, 2019, the Company adopted ASU 2016-02, *Leases*, and the related amendments (collectively, "Topic 842"), using the modified retrospective transition approach as of the effective date. The comparative information in the condensed consolidated financial statements has not been revised and continues to be reported under the previously applicable lease accounting guidance.

In addition, the Company elected the package of practical expedients, which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company did not adopt the hindsight practical expedient, and therefore continues to utilize lease terms determined under pre-Topic 842 lease guidance.

As a result of adopting ASU 2016-02, the Company recognized additional operating lease liabilities of \$1.9 million (of which \$759,000 was current and \$1.1 million was non-current) and corresponding ROU assets of \$1.4 million as of January 1, 2019. Additionally, upon adoption of this standard, the Company recognized a cumulative-effect adjustment to accumulated deficit of \$190,000, net of taxes, as of January 1, 2019. The new lease guidance did not have a material impact on the Company's condensed consolidated statements of operations or cash flows or compliance with debt covenants. For additional information regarding the Company's leases, see Note 3—"Commitments and Contingencies."

The cumulative effect of the changes made to our January 1, 2019 condensed consolidated balance sheet from the modified retrospective adoption of Topic 842 is as follows (in thousands):

| | December 31, 2018 | Adjustments | January 1, 2019 |
|--|----------------------|-------------|--------------------|
| Assets: | | | |
| Property and equipment | \$ 545 | \$ 124 | \$ 669 |
| Operating lease assets | — | 1,367 | 1,367 |
| Liabilities: | | | |
| Accounts payable and other accrued liabilities | \$ 2,838 | \$ (211) | \$ 2,627 |
| Operating lease liabilities | — | 759 | 759 |
| Deferred rent | 45 | (45) | — |
| Operating lease liabilities, non-current | — | 1,100 | 1,100 |
| Deferred rent, non-current | 302 | (302) | — |
| Stockholders' equity: | | | |
| Accumulated deficit | \$ (58,875) | \$ 190 | \$ (58,685) |

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Adjustments to accounts payable and other accrued liabilities include the derecognition of a contract termination obligation of \$218,000 upon adoption of Topic 842. See Note 3—"Commitments and Contingencies" for additional information.

Income Statement – Reporting Comprehensive Income (Topic 220)

On January 1, 2019, the Company adopted 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). The Company did not reclassify any income tax effects of the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive loss to accumulated deficit as a result of the adoption of this standard.

Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)* which changes the fair value measurement disclosure requirements of ASC 820. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. The Company does not believe the impact of adopting this standard will be material to its consolidated financial statements disclosures.

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 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.

(2) Intangible Assets and Goodwill**Intangible Assets**

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

| | September 30, 2019 | | | |
|------------------------------------|------------------------|----------------------|--------------------------|-----------|
| | Customer Relationships | Developed Technology | Trademarks / Trade Names | Total |
| Original cost | \$ 4,758 | \$ 7,916 | \$ 2,178 | \$ 14,852 |
| Accumulated amortization | (3,089) | (7,437) | (1,047) | (11,573) |
| Net identifiable intangible assets | \$ 1,669 | \$ 479 | \$ 1,131 | \$ 3,279 |

| | December 31, 2018 | | | |
|------------------------------------|------------------------|----------------------|--------------------------|-----------|
| | Customer Relationships | Developed Technology | Trademarks / Trade Names | Total |
| Original cost | \$ 4,818 | \$ 8,023 | \$ 2,180 | \$ 15,021 |
| Accumulated amortization | (2,721) | (7,110) | (943) | (10,774) |
| Net identifiable intangible assets | \$ 2,097 | \$ 913 | \$ 1,237 | \$ 4,247 |

Changes to the carrying amount of net amortizable intangible assets consisted of the following (in thousands):

| | Nine Months Ended September 30, 2019 |
|------------------------------|---|
| Balance, beginning of period | \$ 4,247 |
| Amortization expense | (927) |
| Currency translation | (41) |
| Balance, end of period | \$ 3,279 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Amortization expense associated with the developed technology included in cost of revenues | \$ 109 | \$ 288 | \$ 340 | \$ 879 |
| Amortization expense associated with other acquired intangible assets included in operating expenses | 168 | 224 | 587 | 680 |
| Total amortization expense | \$ 277 | \$ 512 | \$ 927 | \$ 1,559 |

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 \$6.7 million at September 30, 2019 reflects the impact of foreign currency exchange rate fluctuations since the acquisition date.

As of September 30, 2019, 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 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.

(3) Commitments and Contingencies

Leases

The Company is obligated under finance leases covering certain IT equipment that expire at various dates over the next three years. The Company also has non-cancellable operating leases, primarily for office space, that expire over the next five years. The Company has two leases that each contain a renewal option for a period of five years. Because the Company is not reasonably certain to exercise this option, the option is not considered in determining the lease term under Topic 842, which was adopted January 1, 2019.

During the three months ended September 30, 2019, the Company commenced leases for office space in London, United Kingdom and Hyderabad, India.

Many of the Company's leases include escalation clauses, renewal options and/or termination options that are factored into its determination of lease payments under Topic 842 when reasonably certain. These options to extend or terminate a lease are at the Company's discretion. The Company has elected to take the practical expedient and not separate lease and non-lease components of contracts. The Company estimates its incremental borrowing rate to discount the lease payments based on information available at lease commencement under Topic 842. The Company's lease agreements do not contain any material residual value guarantees.

The components of lease cost were as follows (in thousands):

| | Three Months Ended September 30, | Nine Months Ended September 30, |
|-------------------------------------|-------------------------------------|------------------------------------|
| Operating lease cost | \$ 154 | \$ 432 |
| Finance lease cost: | | |
| Amortization of right of use assets | 31 | 75 |
| Interest on lease liabilities | 3 | 8 |
| Total finance cost | 34 | 83 |
| Total lease cost | \$ 188 | \$ 515 |

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The Company's ROU assets and lease liabilities were reported in the condensed consolidated balance sheet as follows (in thousands):

| Leases | Classification on Balance Sheet | September 30, 2019 |
|-------------------------|--|-----------------------|
| Assets | | |
| Operating | Right of use assets – operating leases | \$ 1,783 |
| Finance | Property and equipment | 161 |
| Total lease assets | | <u>\$ 1,944</u> |
| Liabilities | | |
| Current | | |
| Operating | Operating lease liabilities | \$ 465 |
| Finance | Financing obligations | 82 |
| Non-current | | |
| Operating | Operating lease liabilities, non-current | 1,735 |
| Finance | Financing obligations, non-current | 104 |
| Total lease liabilities | | <u>\$ 2,386</u> |

Other information related to leases is as follows (in thousands):

| | Nine Months Ended September 30, |
|--|------------------------------------|
| Supplemental cash flow information: | |
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flow from operating leases | \$ 348 |
| Financing cash flow from finance leases | 57 |
| ROU assets obtained in exchange for new lease obligations | |
| Finance leases | \$ 148 |
| Weighted-average remaining lease term: | |
| Operating leases | 4.0 years |
| Finance leases | 2.3 years |
| Weighted-average discount rate: | |
| Operating leases | 10.0 % |
| Finance leases | 6.2 % |

Future payments used in the measurement of lease liabilities on the condensed consolidated balance sheet as of September 30, 2019 are as follows (in thousands):

| | Operating leases | Finance leases |
|------------------------------------|---------------------|-------------------|
| Remainder of 2019 | \$ 138 | \$ 23 |
| 2020 | 695 | 91 |
| 2021 | 703 | 80 |
| 2022 | 663 | 5 |
| 2023 | 286 | — |
| Thereafter | 170 | — |
| Total undiscounted lease payments | 2,655 | 199 |
| Less amount representing interest | (455) | (13) |
| Present value of lease liabilities | <u>\$ 2,200</u> | <u>\$ 186</u> |

Subleases

The Company determined that it had excess capacity at its Minneapolis, Minnesota headquarters and its London, United Kingdom office and effective May 1, 2018 and December 31, 2017, respectively, ceased using portions of its leased spaces, subsequently making them available for occupancy by sublessees. The Minneapolis sublease agreement had a term beginning May 1, 2018 and extending through January 2023. On January 17, 2019, the Company terminated the Minneapolis sublease agreement, effective February 15, 2019, and contemporaneously modified the Company's primary lease agreement to relinquish the sublet space to the lessor, and be relieved of future lease payments for the previously sublet space, effective March 1, 2019. Upon modification of the Minneapolis lease agreement, the Company recognized a gain of \$21,000, which is reported in other income (expense) in the Company's condensed consolidated statement of operations for the nine months ended September 30, 2019. Sublease income from the Company's subleases was \$32,000 and \$105,000 for the three and nine months ended September 30, 2019, respectively, which is reported in other income (expense) in the Company's condensed consolidated statement of operations.

Prior to the adoption of Topic 842 on January 1, 2019, the Company accounted for the above subleases under guidance for exit and disposal activities (ASC 420). As such, the Company carried a lease contract termination liability of \$218,000 as of December 31, 2018, representing the liability at fair value for the future contractual lease payments, net of expected sublease receipts.

Term Loan

The Company's term loan is reported in the condensed consolidated balance sheets as follows (in thousands):

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| Term loan, remaining principal balance | \$ 4,000 | \$ 4,000 |
| Unamortized original issue discount | (140) | (481) |
| Unamortized debt issuance costs | (26) | (88) |
| Term loan | <u>\$ 3,834</u> | <u>\$ 3,431</u> |

Credit Agreement – ESW Holdings, Inc.

On January 12, 2018, the Company and its wholly-owned subsidiary, Qumu, Inc., entered into a \$10.0 million term loan credit agreement (the "ESW credit agreement") with ESW Holdings, Inc. as lender and administrative agent to replace its previous \$8.0 million term loan credit agreement with HCP-FVD, LLC as lender and Hale Capital Partners, LP as administrative agent. Following the Company's \$6.0 million principal payment on July 19, 2018, the term loan with ESW Holdings, Inc. has an outstanding principal balance of \$4.0 million at September 30, 2019.

The term loan is scheduled to mature on January 10, 2020. The Company expects that it will be able repay the term loan from the Company's existing cash and intends to raise additional capital to meet its continued operational needs through an offering of its securities or, in the alternative, an asset-based line of credit or other debt facility. Interest accrues and compounds monthly at a variable rate per annum equal to the prime rate plus 4.0%. As of September 30, 2019 and December 31, 2018, interest was payable at 9.0% and 9.5%, respectively. At September 30, 2019, there was \$480,000 in accrued and unpaid interest. The Company may prepay the term loan at any time with the payment of a prepayment fee of 10.0% of the amount prepaid. However, no prepayment fee will be due for any prepayment made from the proceeds of the Company's sale of its investment in BriefCam.

The term loan had an estimated fair value of \$3.8 million as of September 30, 2019. The fair value of the term loan is estimated using a discounted cash flow analysis based on the Company's current incremental borrowing rate. As the contractual terms of the loan provide all the necessary inputs for this calculation, the term loan is classified as Level 2 within the fair value hierarchy. The estimated fair value is not necessarily indicative of the amount that would be realized in a current market exchange.

Covenant Compliance

The ESW credit agreement contains affirmative and negative covenants and requirements relating to the Company and its operations. The Company was in compliance with all financial covenants during the three and nine months ended September 30, 2019.

The Company's monthly, quarterly and annual results of operations are subject to significant fluctuations due to a variety of factors, many of which are outside of the Company's control. These factors include the number and mix of products and solutions sold in the period, timing of customer purchase commitments, including the impact of long sales cycles and seasonal

buying patterns, and variability in the size of customer purchases and the impact of large customer orders on a particular period. The foregoing factors are difficult to forecast, and these, as well as other factors, could adversely affect the Company's monthly, quarterly and annual results of operations. Failure to achieve its monthly, quarterly or annual forecasts may result in the Company being out of compliance with covenants or projecting noncompliance in the future. Management actively monitors its opportunity pipeline, forecast, and projected covenant compliance on an ongoing basis.

Contingencies

The Company is exposed to a number of asserted and unasserted claims encountered in the normal course of business. Legal costs related to loss contingencies are expensed as incurred. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

The Company's standard arrangements include provisions indemnifying customers against liabilities if the Company's products infringe a third-party's intellectual property rights. The Company has not incurred any costs in its continuing operations as a result of such indemnifications and has not accrued any liabilities related to such contingent obligations in the accompanying condensed consolidated financial statements.

(4) Fair Value Measurements

A hierarchy for inputs used in measuring fair value is in place that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. Three levels within the hierarchy may be used to measure fair value:

- Level 1: Inputs are unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs are generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect an entity's own estimates of assumptions that market participants would use in pricing the asset or liability.

In conjunction with the debt financings completed in October 2016 and January 2018, the Company issued two warrants for the purchase of up to an aggregate of 1,239,286 shares of the Company's common stock, which remained unexercised and outstanding at September 30, 2019. The warrant issued in conjunction with the October 21, 2016 debt financing (Hale warrant) for the purchase of up to 314,286 shares of the Company's common stock expires on October 21, 2026, has an exercise price of \$2.80 per share and is transferable. The warrant issued in conjunction with the January 12, 2018 debt financing (ESW warrant) for the purchase of up to 925,000 shares of the Company's common stock expires on January 12, 2028, has an exercise price of \$1.96 per share and is transferable. Additionally, on August 31, 2018, the Company issued a warrant to a sales partner, iStudy Co., Ltd., (iStudy warrant) for the purchase of up to 100,000 shares of the Company's common stock; the warrant expires on August 31, 2028, has an exercise price of \$2.43 per share and is transferable. The Hale warrant and ESW warrant contain a cash settlement feature upon the occurrence of a certain event, essentially the sale of the Company as defined in the warrant agreements. Upon a sale of the Company, the holder of the iStudy warrant may exercise the warrant or may elect to receive the same consideration as it would have been entitled to receive upon the occurrence of such transaction if it had been the holder of the shares then issuable upon such exercise of the warrant. As a result of these features, the warrants are subject to derivative accounting as prescribed under ASC 815. Accordingly, the fair value of the warrants on the dates of issuance was recorded in the Company's condensed consolidated balance sheets as a liability.

The warrant liability was recorded in the Company's condensed consolidated balance sheets at its fair value on the respective dates of issuance and is revalued on each subsequent balance sheet date until such instrument is exercised or expires, with any changes in the fair value between reporting periods recorded as other income or expense. The Company recorded non-cash income of \$973,000 and non-cash expense of \$401,000 for the three months ended September 30, 2019 and 2018, respectively, and non-cash expense of \$752,000 and \$292,000 for the nine months ended September 30, 2019 and 2018, respectively, resulting from the change in fair value of the warrant liability. The increase in fair value for the three months ended September 30, 2018, the nine months ended September 30, 2019 and the nine months ended September 30, 2018 was primarily driven by corresponding increases in the Company's stock price of 23%, 72% and 14% for the respective periods. The decrease in fair value during the three months ended September 30, 2019 was primarily driven by a decrease in the Company's stock price of 21% during the period.

The Company estimates the fair value of this liability using option pricing models that are based on the individual characteristics of the warrants on the valuation date, which include assumptions for expected volatility, expected life and risk-free interest rate, as well as the present value of the minimum cash payment component of the instrument for the warrants, when applicable. Changes in the assumptions used could have a material impact on the resulting fair value. The primary inputs affecting the value of the warrant liability are the Company's stock price and volatility in the Company's stock price, as well as assumptions about the probability and timing of certain events, such as a change in control or future equity offerings. Increases in the fair value of the underlying stock or increases in the volatility of the stock price generally result in a corresponding increase in the fair value of the warrant liability; conversely, decreases in the fair value of the underlying stock or decreases in the volatility of the stock price generally result in a corresponding decrease in the fair value of the warrant liability.

The Company's liabilities measured at fair value on a recurring basis and the fair value hierarchy utilized to determine such fair values is as follows as September 30, 2019 and December 31, 2018 (in thousands):

| | Total Fair Value at September 30, 2019 | Fair Value Measurements Using | | |
|---|--|---|---|---|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Liabilities: | | | | |
| Derivative warrant liability - ESW warrant | \$ 2,603 | \$ — | \$ — | \$ 2,603 |
| Derivative warrant liability - Hale warrant | 793 | — | — | 793 |
| Derivative warrant liability - iStudy | 154 | — | — | 154 |
| Derivative warrant liability | <u>\$ 3,550</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 3,550</u> |

| | Total Fair Value at December 31, 2018 | Fair Value Measurements Using | | |
|---|---------------------------------------|---|---|---|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Liabilities: | | | | |
| Derivative warrant liability - ESW warrant | \$ 2,015 | \$ — | \$ — | \$ 2,015 |
| Derivative warrant liability - Hale warrant | 750 | — | — | 750 |
| Derivative warrant liability - iStudy | 33 | — | — | 33 |
| Derivative warrant liability | <u>\$ 2,798</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 2,798</u> |

The Company classified the warrant liability as Level 3 due to the lack of relevant observable market data over fair value inputs such as the probability-weighting of the various scenarios in the arrangements. The following table represents a rollforward of the fair value of the Level 3 instruments (significant unobservable inputs):

| | |
|-------------------------------|-----------------|
| Balance at December 31, 2018 | \$ 2,798 |
| Change in fair value | 752 |
| Balance at September 30, 2019 | <u>\$ 3,550</u> |

(5) 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.

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 September 30, | | Nine Months Ended September 30, | |
|---------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Software licenses and appliances | \$ 1,962 | \$ 985 | \$ 3,656 | \$ 4,303 |
| Service | | | | |
| Subscription, maintenance and support | 4,166 | 4,091 | 13,883 | 12,251 |
| Professional services and other | 543 | 577 | 1,595 | 1,556 |
| Total service | 4,709 | 4,668 | 15,478 | 13,807 |
| Total revenues | \$ 6,671 | \$ 5,653 | \$ 19,134 | \$ 18,110 |
| | | | | |
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| North America | \$ 4,916 | \$ 3,766 | \$ 12,416 | \$ 11,593 |
| Europe | 1,505 | 1,618 | 5,650 | 4,693 |
| Asia | 250 | 269 | 1,068 | 1,824 |
| Total | \$ 6,671 | \$ 5,653 | \$ 19,134 | \$ 18,110 |

Contract Balances

The Company's balances for contract assets totaled \$1.3 million and \$485,000 as of September 30, 2019 and December 31, 2018, respectively. The Company's balances for contract liabilities, which are included in deferred revenue, totaled \$10.8 million and \$11.3 million as of September 30, 2019 and December 31, 2018, respectively.

During the three and nine months ended September 30, 2019, the Company recognized \$3.4 million and \$8.3 million, respectively, of revenue that was included in the deferred revenue balance at the beginning of the period. During the three and nine months ended September 30, 2018, the Company recognized \$3.8 million and \$7.3 million, respectively, of revenue that was included in the deferred revenue balance 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 recognizable 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. Contracted but unsatisfied performance obligations were approximately \$19.4 million as of September 30, 2019, of which the Company expects to recognize \$11.1 million of revenue over the next 12 months and the remainder thereafter. During the three and nine months ended September 30, 2019 and 2018, no revenue was recognized from performance obligations satisfied in previous periods.

(6) Stock-Based Compensation

The Company granted the following stock-based awards:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------|------------------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| Stock options | 14,000 | 3,500 | 39,000 | 544,000 |
| Restricted stock awards and restricted stock units | 25,900 | — | 222,588 | 180,000 |
| Performance stock units | — | — | — | 168,500 |

The stock options and restricted stock awards granted during the three and nine months ended September 30, 2019 and 2018 were granted under the Company's Second Amended and Restated 2007 Stock Incentive Plan (the "2007 Plan"), a shareholder approved plan.

The Company granted performance stock units during 2018 ("2018 Performance Stock Units") and 2017 ("2017 Performance Stock Units"). The 2018 Performance Stock Units consisted of 147,741 units outstanding as of December 31, 2018, of which 98,492 vested during the nine months ended September 30, 2019. In settlement of the vested 2018 Performance Stock Units, during the nine months ended September 30, 2019, the Company issued 98,492 shares of restricted stock upon vesting, which was equal to the number of 2018 Performance Stock Units vested multiplied by the percentage achievement of the performance

goals of 100.0%. At September 30, 2019, there were 40,599 shares of common stock underlying the outstanding 2018 Performance Stock Units that may become vested upon the achievement of performance goals for the performance period of January 1, 2019 to December 31, 2019.

The 2017 Performance Stock Units consisted of 140,493 units outstanding as of December 31, 2017, of which 116,168 vested during the nine months ended September 30, 2018. In settlement of the vested 2017 Performance Stock Units, during the nine months ended September 30, 2018, the Company issued 25,726 shares upon vesting, which was equal to the number of 2017 Performance Stock Units vested multiplied by the weighted percentage achievement of the performance goals for the 2017 Incentive Plan of approximately 22.1%. With the vesting and settlement of the 2017 Performance Stock Units in shares, the 2017 Performance Stock Units terminated.

The Company recognized the following expense related to its share-based payment arrangements (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------------|------------------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Stock-based compensation cost, before income tax benefit: | | | | |
| Stock options | \$ 85 | \$ 105 | \$ 255 | \$ 225 |
| Restricted stock awards and restricted stock units | 134 | 140 | 384 | 458 |
| Performance stock units | — | 84 | 5 | 84 |
| Total stock-based compensation | \$ 219 | \$ 329 | \$ 644 | \$ 767 |
| | | | | |
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Stock-based compensation cost included in: | | | | |
| Cost of revenues | \$ 6 | \$ 8 | \$ 20 | \$ 26 |
| Operating expenses | 213 | 321 | 624 | 741 |
| Total stock-based compensation | \$ 219 | \$ 329 | \$ 644 | \$ 767 |

**(7) Income
Taxes**

As of September 30, 2019 and December 31, 2018, the Company's liability for gross unrecognized tax benefits (excluding interest and penalties) totaled \$1.8 million and \$1.7 million, respectively. The Company had accrued interest and penalties relating to unrecognized tax benefits of \$22,300 and \$5,600 on a gross basis at September 30, 2019 and December 31, 2018, respectively. The change in the liability for gross unrecognized tax benefits reflects an increase in interest and penalty reserves established for federal and state uncertain tax positions. The Company does not currently expect significant changes in the amount of unrecognized tax benefits during the next twelve months.

(8) Computation of Net Loss Per Share of Common Stock

The following table identifies the components of net loss per basic and diluted share (in thousands, except for per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income (loss) per share – basic | | | | |
| Net income (loss) | \$ (221) | \$ 2,396 | \$ (4,772) | \$ (3,665) |
| Weighted average shares outstanding | 9,913 | 9,559 | 9,822 | 9,472 |
| Net income (loss) per share – basic | \$ (0.02) | \$ 0.25 | \$ (0.49) | \$ (0.39) |
| Net income (loss) per share – diluted | | | | |
| Income (loss) attributable to common shareholders: | | | | |
| Net income (loss) | \$ (221) | \$ 2,396 | \$ (4,772) | \$ (3,665) |
| Numerator effect of dilutive securities | | | | |
| Warrants | (973) | — | — | — |
| Income (loss) attributable to common shareholders | \$ (1,194) | \$ 2,396 | \$ (4,772) | \$ (3,665) |
| Weighted average shares outstanding – diluted: | | | | |
| Weighted average shares outstanding – basic | 9,913 | 9,559 | 9,822 | 9,472 |
| Denominator effect of dilutive securities | | | | |
| Unvested restricted stock units | — | 150 | — | — |
| Warrants | 500 | — | — | — |
| Diluted potential common shares | 500 | 150 | — | — |
| Weighted average shares outstanding – diluted | 10,413 | 9,709 | 9,822 | 9,472 |
| Net income (loss) per share – diluted | \$ (0.11) | \$ 0.25 | \$ (0.49) | \$ (0.39) |

Stock options, warrants and restricted stock units to acquire common shares that were excluded from the computation of diluted weighted-average common shares as their effect is anti-dilutive were as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------|-------------------------------------|-------|------------------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| Stock options | 1,268 | 1,334 | 1,337 | 1,261 |
| Warrants | — | 1,273 | 1,339 | 1,213 |
| Restricted stock units | 109 | — | 124 | 150 |
| Total anti-dilutive | 1,377 | 2,607 | 2,800 | 2,624 |

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

The following discussion and analysis of our financial condition and results of operations should be read together with the section titled "Financial Information" and our audited financial statements and related notes which are included in our most recent Annual Report on Form 10-K. Our actual results could differ materially from those anticipated in the forward-looking statements included in this discussion as a result of certain factors, including, but not limited to, those discussed in "Risk Factors" included our most recent Annual Report on Form 10-K.

Overview

Qumu Corporation ("Qumu" or the "Company") provides the software solutions to create, manage, secure, distribute and measure the success of live and on-demand video for enterprises. Qumu's platform enables global organizations to drive employee engagement, increase access to video, and modernize the workplace by providing a more efficient and effective way to share knowledge.

For the three months ended September 30, 2019 and 2018, the Company generated revenues of \$6.7 million and \$5.7 million, respectively. For the nine-month periods ended September 30, 2019 and 2018, the Company generated revenues of \$19.1 million and \$18.1 million, respectively. For the year ended December 31, 2018, the Company generated revenues of \$25.0 million.

Critical Accounting Policies

The discussion of the Company's financial condition and results of operations is based upon its financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of the Company's financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. On an ongoing basis, management evaluates its estimates and assumptions. Management bases its estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that management believes to be reasonable. The Company's actual results may differ from these estimates under different assumptions or conditions.

Management utilizes its technical knowledge, cumulative business experience, judgment and other factors in the selection and application of the Company's accounting policies. The accounting policies considered by management to be the most critical to the presentation of the condensed consolidated financial statements because they require the most difficult, subjective and complex judgments include revenue recognition, accounting for leases, derivative liabilities for outstanding warrants, and royalties for third party technology. Except for the accounting policies for lease accounting that were updated as a result of adopting Topic 842 effective January 1, 2019, our significant accounting policies applicable to the nine months ended September 30, 2019 are discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

See Note 1—"Nature of Business and Basis of Presentation" of the accompanying condensed consolidated financial statements for a description of the Company's change in critical accounting policies with respect to lease accounting during the nine months ended September 30, 2019.

Results of Operations

The percentage relationships to revenues of certain income and expense items for the three and nine months ended September 30, 2019 and 2018, and the percentage changes in these income and expense items relative to the prior year periods, are contained in the following table:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------|----------------------------------|---------|--------------------------------|---------------------------------|---------|--------------------------------|
| | Percentage of Revenues | | Percent Increase (Decrease) | Percentage of Revenues | | Percent Increase (Decrease) |
| | 2019 | 2018 | 2018 to 2019 | 2019 | 2018 | 2018 to 2019 |
| Revenues | 100.0 % | 100.0 % | 18 % | 100.0 % | 100.0 % | 6 % |
| Cost of revenues | (30.2) | (37.4) | (5) | (26.7) | (36.6) | (23) |
| Gross profit | 69.8 | 62.6 | 32 | 73.3 | 63.4 | 22 |
| Operating expenses: | | | | | | |
| Research and development | 27.7 | 28.6 | 14 | 28.0 | 28.4 | 4 |
| Sales and marketing | 31.2 | 31.8 | 16 | 34.7 | 35.3 | 4 |
| General and administrative | 25.1 | 28.4 | 4 | 26.1 | 30.6 | (10) |
| Amortization of purchased intangibles | 2.5 | 4.0 | (25) | 3.2 | 3.8 | (14) |
| Total operating expenses | 86.5 | 92.8 | 10 | 92.0 | 98.1 | (1) |
| Operating loss | (16.7) | (30.2) | (35) | (18.7) | (34.7) | (43) |
| Other income (expense), net | 11.6 | 80.9 | (83) | (6.9) | 16.1 | (146) |
| Income (loss) before income taxes | (5.1) | 50.7 | (112) | (25.6) | (18.6) | 46 |
| Income tax expense (benefit) | (1.8) | 8.3 | (125) | (0.7) | 1.6 | (144) |
| Net income (loss) | (3.3)% | 42.4 % | (109)% | (24.9)% | (20.2)% | 30 % |

Revenues

The Company generates revenue through the sale of enterprise video content management software solutions, appliances, 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, which varies due to customer specifications and preferences. Software licenses and appliances revenue includes sales of perpetual software licenses and hardware. Service revenue includes term software licenses, SaaS, maintenance and support, and professional and other services.

The table below describes the Company's revenues by product category (dollars in thousands):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---------------------------------------|----------------------------------|----------|------------------------|--------------------------------|---------------------------------|-----------|------------------------|--------------------------------|
| | | | Increase (Decrease) | Percent Increase (Decrease) | | | Increase (Decrease) | Percent Increase (Decrease) |
| | 2019 | 2018 | 2018 to 2019 | 2018 to 2019 | 2019 | 2018 | 2018 to 2019 | 2018 to 2019 |
| Software licenses and appliances | \$ 1,962 | \$ 985 | \$ 977 | 99 % | \$ 3,656 | \$ 4,303 | \$ (647) | (15)% |
| Service | | | | | | | | |
| Subscription, maintenance and support | 4,166 | 4,091 | 75 | 2 | 13,883 | 12,251 | 1,632 | 13 |
| Professional services and other | 543 | 577 | (34) | (6) | 1,595 | 1,556 | 39 | 3 |
| Total service | 4,709 | 4,668 | 41 | 1 | 15,478 | 13,807 | 1,671 | 12 |
| Total revenues | \$ 6,671 | \$ 5,653 | \$ 1,018 | 18 % | \$ 19,134 | \$ 18,110 | \$ 1,024 | 6 % |

Revenues can vary period to period based on the type and size of contract agreed to by each customer. The quarterly software licenses and appliances revenues are also subject to the timing of fulfillment of products, which can result in large fluctuations when compared to the prior quarters. The increase in software licenses and appliances revenues in the three months ended September 30, 2019 compared to the same period in 2018 was driven by a few large perpetual software license and appliance sales to new and existing customers. The decrease in software licenses and appliances revenues in the nine months ended September 30, 2019 compared to the same period in 2018 was driven by a decrease in perpetual software license and appliance sales to both new and existing customers.

Subscription, maintenance and support revenues for the three months ended September 30, 2019 increased slightly compared to the corresponding 2018 period. The increase in subscription, maintenance and support revenues in the nine months ended September 30, 2019 compared to the corresponding 2018 period primarily resulted from significant first quarter 2019 term

software license sales for which revenue is recognized up front, as well as the revenue attributable to maintenance contracts entered into in late 2018.

Professional services revenues for the three and nine months ended September 30, 2019 were generally consistent with the corresponding 2018 periods.

Future consolidated revenues will be dependent upon many factors, including the rate of adoption of the Company's software solutions in its targeted markets and whether arrangements with customers are structured as a software license or a SaaS, which impacts the timing of revenue recognition. Other factors that will influence future consolidated revenues include the timing of customer orders and renewals, the product and service mix of customer orders, the impact of changes in economic conditions and the impact of foreign currency exchange rate fluctuations.

Cost of Revenues and Gross Profit

A comparison of gross profit and gross margin by revenue category is as follows (dollars in thousands):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|----------------------------------|----------------------------------|----------|--------------------------|----------------------------------|---------------------------------|-----------|--|--|
| | 2019 | 2018 | Increase 2018 to 2019 | Percent Increase 2018 to 2019 | 2019 | 2018 | Increase (Decrease) 2018 to 2019 | Percent Increase (Decrease) 2018 to 2019 |
| Gross profit: | | | | | | | | |
| Software licenses and appliances | \$ 1,243 | \$ 481 | \$ 762 | 158% | \$ 2,290 | \$ 2,660 | \$ (370) | (14)% |
| Service | 3,415 | 3,057 | 358 | 12 | 11,731 | 8,817 | 2,914 | 33 |
| Total gross profit | \$ 4,658 | \$ 3,538 | \$ 1,120 | 32% | \$ 14,021 | \$ 11,477 | \$ 2,544 | 22 % |
| Gross margin: | | | | | | | | |
| Software licenses and appliances | 63.4% | 48.8% | 14.6% | | 62.6% | 61.8% | 0.8% | |
| Service | 72.5% | 65.5% | 7.0% | | 75.8% | 63.9% | 11.9% | |
| Total gross margin | 69.8% | 62.6% | 7.2% | | 73.3% | 63.4% | 9.9% | |

Gross profit includes \$109,000 and \$288,000 for the three months ended September 30, 2019 and 2018, respectively, and \$340,000 and \$879,000 for the nine months ended September 30, 2019 and 2018, respectively, for the amortization of intangible assets acquired as a result of the acquisition of Qumu, Inc. in the fourth quarter of 2011 and Kulu Valley in the fourth quarter of 2014. Cost of revenues for the full year 2019 is expected to include approximately \$0.5 million of amortization expense for purchased intangibles, compared to \$1.0 million for the full year 2018. Included in cost of revenues are the costs related to the Company's service personnel, of which there were 19 at both September 30, 2019 and 2018.

The total gross margin percentages improved 7.2% and 9.9% in the three and nine months ended September 30, 2019, respectively, compared to the corresponding periods in 2018. Increases in both service gross margins and software license and appliances gross margin contributed to the improvement. The 7.0% and 11.9% improvement in service gross margin in the three and nine months ended September 30, 2019, respectively, compared to the corresponding 2018 periods, was primarily due to an increase in term software license revenue, decreased amortization expense as certain purchased intangible assets became fully amortized during 2018 and lower royalty expense associated with third-party software licenses. The 14.6% and 0.8% increase in software licenses and appliances gross margin in the three and nine months ended September 30, 2019, respectively, compared to the corresponding 2018 periods was, for the three months ended September 30, 2019, driven primarily by increased revenue without a proportionate increase in cost of revenue and, for the nine months ended September 30, 2019, due primarily to decreased expense related to fixed amortized prepaid royalties for embedded OEM licenses.

Future gross profit margins are expected fluctuate quarter to quarter and will be impacted by the rate of growth and mix of the Company's product and service offerings, utilization of service personnel, fixed and variable royalty expense, and foreign currency exchange rate fluctuations.

Operating Expenses

The following is a summary of operating expenses (dollars in thousands):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---------------------------------------|----------------------------------|-----------------|------------------------|--------------------------------|---------------------------------|------------------|------------------------|--------------------------------|
| | 2019 | 2018 | Increase (Decrease) | Percent Increase (Decrease) | 2019 | 2018 | Increase (Decrease) | Percent Increase (Decrease) |
| | | | 2018 to 2019 | 2018 to 2019 | | | 2018 to 2019 | 2018 to 2019 |
| Operating expenses: | | | | | | | | |
| Research and development | \$ 1,849 | \$ 1,617 | \$ 232 | 14 % | \$ 5,361 | \$ 5,159 | \$ 202 | 4 % |
| Sales and marketing | 2,083 | 1,796 | 287 | 16 | 6,647 | 6,388 | 259 | 4 |
| General and administrative | 1,673 | 1,608 | 65 | 4 | 4,998 | 5,536 | (538) | (10) |
| Amortization of purchased intangibles | 168 | 224 | (56) | (25) | 587 | 680 | (93) | (14) |
| Total operating expenses | <u>\$ 5,773</u> | <u>\$ 5,245</u> | <u>\$ 528</u> | 10 % | <u>\$ 17,593</u> | <u>\$ 17,763</u> | <u>\$ (170)</u> | (1)% |

Total operating expenses as a percent of revenues for the three and nine months ended September 30, 2019 continued to reflect year-over-year improvement in the Company's operational efficiency. Total operating expenses as a percent of revenues were 87% and 93% for the three months ended September 30, 2019 and 2018, respectively, and 92% and 98% for the nine months ended September 30, 2019 and 2018, respectively. The Company had 83 and 80 personnel in operating activities at September 30, 2019 and 2018, respectively. The Company incurred severance expense within operating expense of \$134,000 and \$177,000 in the nine months ended September 30, 2019 and 2018, respectively; no severance expense was incurred within operating expenses in the three months ended September 30, 2019 and 2018.

Research and development

Research and development expenses were as follows (dollars in thousands):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|----------------------------------|-----------------|------------------------|--------------------------------|---------------------------------|-----------------|------------------------|--------------------------------|
| | 2019 | 2018 | Increase (Decrease) | Percent Increase (Decrease) | 2019 | 2018 | Increase (Decrease) | Percent Increase (Decrease) |
| | | | 2018 to 2019 | 2018 to 2019 | | | 2018 to 2019 | 2018 to 2019 |
| Compensation and employee-related | \$ 1,239 | \$ 1,159 | \$ 80 | 7 % | \$ 3,653 | \$ 3,829 | \$ (176) | (5)% |
| Overhead and other expenses | 464 | 295 | 169 | 57 | 1,184 | 906 | 278 | 31 |
| Outside services and consulting | 113 | 111 | 2 | 2 | 423 | 287 | 136 | 47 |
| Depreciation and amortization | — | 4 | (4) | (100) | 2 | 27 | (25) | (93) |
| Equity-based compensation | 33 | 48 | (15) | (31) | 99 | 110 | (11) | (10) |
| Total research and development expenses | <u>\$ 1,849</u> | <u>\$ 1,617</u> | <u>\$ 232</u> | 14 % | <u>\$ 5,361</u> | <u>\$ 5,159</u> | <u>\$ 202</u> | 4 % |

Total research and development expenses as a percent of revenues were 28% and 29% for the three months ended September 30, 2019 and 2018, respectively, and 28% for both of the nine-month periods ended September 30, 2019 and 2018. The Company had 36 and 34 research and development personnel as of September 30, 2019 and 2018, respectively.

The increase in total research and development expenses of \$232,000 and \$202,000 in the three and nine months ended September 30, 2019, respectively, compared to the corresponding 2018 periods was primarily due to transition costs related to the Company's in-process migration and consolidation of cloud hosting providers during 2019, impacting both outside services and consulting expenses and overhead and other expenses. Partially offsetting the increase for the nine months ended September 30, 2019 were lower employee costs due to the mix of research and development personnel.

Sales and marketing

Sales and marketing expenses were as follows (dollars in thousands):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|------------------------------------|----------------------------------|-----------------|------------------------|--------------------------------|---------------------------------|-----------------|------------------------|--------------------------------|
| | 2019 | 2018 | Increase (Decrease) | Percent Increase (Decrease) | 2019 | 2018 | Increase (Decrease) | Percent Increase (Decrease) |
| | | | 2018 to 2019 | 2018 to 2019 | | | 2018 to 2019 | 2018 to 2019 |
| Compensation and employee-related | \$ 1,616 | \$ 1,236 | \$ 380 | 31 % | \$ 5,137 | \$ 4,668 | \$ 469 | 10 % |
| Overhead and other expenses | 286 | 263 | 23 | 9 | 830 | 970 | (140) | (14) |
| Outside services and consulting | 151 | 230 | (79) | (34) | 630 | 626 | 4 | 1 |
| Depreciation and amortization | 2 | 3 | (1) | (33) | 5 | 12 | (7) | (58) |
| Equity-based compensation | 28 | 64 | (36) | (56) | 45 | 112 | (67) | (60) |
| Total sales and marketing expenses | <u>\$ 2,083</u> | <u>\$ 1,796</u> | <u>\$ 287</u> | 16 % | <u>\$ 6,647</u> | <u>\$ 6,388</u> | <u>\$ 259</u> | 4 % |

Total sales and marketing expenses as a percent of revenues were 31% and 32% for the three months ended September 30, 2019 and 2018, respectively, and 35% for both of the nine-month periods ended September 30, 2019 and 2018. The Company had 29 and 28 sales and marketing personnel at September 30, 2019 and 2018, respectively.

The increase in sales and marketing expenses of \$287,000 and \$259,000 in the three and nine months ended September 30, 2019 compared to the corresponding 2018 periods was primarily driven by increased compensation and employee-related costs due to higher commissions expense and the mix and number of sales and marketing personnel. Additionally, expenses for the nine months ended September 30, 2019 were favorably impacted by continued cost reduction initiatives reflected in overhead and other expenses.

General and administrative

General and administrative expenses were as follows (dollars in thousands):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|----------------------------------|-----------------|------------------------|--------------------------------|---------------------------------|-----------------|------------------------|--------------------------------|
| | 2019 | 2018 | Increase (Decrease) | Percent Increase (Decrease) | 2019 | 2018 | Increase (Decrease) | Percent Increase (Decrease) |
| | | | 2018 to 2019 | 2018 to 2019 | | | 2018 to 2019 | 2018 to 2019 |
| Compensation and employee-related | \$ 754 | \$ 639 | \$ 115 | 18 % | \$ 2,212 | \$ 2,081 | \$ 131 | 6 % |
| Overhead and other expenses | 268 | 275 | (7) | (3) | 848 | 834 | 14 | 2 |
| Outside services and consulting | 417 | 429 | (12) | (3) | 1,222 | 1,783 | (561) | (31) |
| Depreciation and amortization | 82 | 56 | 26 | 46 | 236 | 319 | (83) | (26) |
| Equity-based compensation | 152 | 209 | (57) | (27) | 480 | 519 | (39) | (8) |
| Total general and administrative expenses | <u>\$ 1,673</u> | <u>\$ 1,608</u> | <u>\$ 65</u> | 4 % | <u>\$ 4,998</u> | <u>\$ 5,536</u> | <u>\$ (538)</u> | (10)% |

Total general and administrative expenses as a percent of revenues were 25% and 28% for the three months ended September 30, 2019 and 2018, respectively, and 26% and 31% for the nine months ended September 30, 2019 and 2018, respectively. The Company had 18 general and administrative personnel at both September 30, 2019 and 2018.

The increase in general and administrative expenses of \$65,000 in the three months ended September 30, 2019 compared to the corresponding 2018 period was primarily driven by increased compensation and other employee-related costs. The decrease in expenses of \$538,000 in the nine months ended September 30, 2019 compared to the corresponding 2018 period was driven primarily by lower outside services costs resulting from lower expenses associated with legal professional services, a reduction in audit fees and lower contractor costs in the nine months ended September 30, 2019.

Amortization of Purchased Intangibles

Operating expenses include \$168,000 and \$224,000 for the three months ended September 30, 2019 and 2018, respectively, and \$587,000 and \$680,000 for the nine months ended September 30, 2019 and 2018, respectively, for the amortization of intangible assets acquired as part of the Company's acquisition of Qumu, Inc. in October 2011 and Kulu Valley in October 2014. Operating expenses for the full year 2019 are expected to include approximately \$0.8 million of amortization expense associated with purchased intangibles, exclusive of the portion classified in cost of revenue, compared to \$0.9 million for the full year 2018.

Other Income (Expense), Net

Other income (expense), net was as follows (dollars in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Gain on sale of BriefCam, Ltd. | \$ 41 | \$ 6,502 | \$ 41 | \$ 6,502 |
| Loss on extinguishment of debt | — | (1,189) | — | (1,189) |
| Interest expense, net | (235) | (262) | (654) | (1,616) |
| Decrease (increase) in fair value of warrant liability | 973 | (401) | (752) | (292) |
| Other, net | (3) | (78) | 32 | (481) |
| Total other income (expense), net | \$ 776 | \$ 4,572 | \$ (1,333) | \$ 2,924 |

The Company recognized interest expense on its term loan and finance leases of \$235,000 and \$262,000 for the three months ended September 30, 2019 and 2018, respectively, and \$654,000 and \$1.6 million for the nine months ended September 30, 2019 and 2018, respectively, which includes the accrual of interest on the Company's term loans, as well as the amortization of deferred financing costs. Amortization of deferred financing costs for the nine months ended September 30, 2018 includes \$395,000 of expense related to the Company's acceleration of the amortization of deferred financing costs in connection with the modification of its term loan credit agreement with Hale Capital Partners, LP in the fourth quarter of 2017 and subsequent repayment in full of this debt with the proceeds from the ESW Holdings, Inc. term loan in the first quarter of 2018. Additionally, interest expense on the Company's term loan was lower in the three and nine months ended September 30, 2019, compared to the corresponding 2018 periods, due to the Company's \$6.0 million paydown on its term loan principal balance in July 2018.

The Company recorded non-cash income of \$973,000 and non-cash expense of \$401,000 for the three months ended September 30, 2019 and 2018, respectively, and non-cash expense of \$752,000 and \$292,000 for the nine months ended September 30, 2019 and 2018, respectively, resulting from the change in fair value of the warrant liability. The increase in fair value for the three months ended September 30, 2018, the nine months ended September 30, 2019 and the nine months ended September 30, 2018 was primarily driven by corresponding increases in the Company's stock price of 23%, 72% and 14% for the respective periods. The decrease in fair value during the three months ended September 30, 2019 was primarily driven by a decrease in the Company's stock price of 21% during the period.

Other expense included net losses on foreign currency transactions of \$31,000 and \$69,000 for the three months ended September 30, 2019 and 2018, respectively, and \$94,000 and \$171,000 for the nine months ended September 30, 2019 and 2018, respectively. Other expense also included debt issuance costs of \$110,000 for the nine months ended September 30, 2018 related to a warrant issued in the first quarter of 2018. See "Liquidity and Capital Resources" below for a discussion of changes in cash levels.

Income Taxes

The provision for income taxes represents federal, state, and foreign income taxes or income tax benefit on income or loss. Net income tax benefit was \$118,000 and net income tax expense was \$469,000 for the three months ended September 30, 2019 and 2018, respectively. Net income tax benefit was \$133,000 and net income tax expense was \$303,000 for the nine months ended September 30, 2019 and 2018, respectively. The net income tax benefit for the three and nine months ended September 30, 2019, was impacted by the tax benefit for refundable research credits from United Kingdom operations offset by an increase in reserves for unrecognized tax benefits. The net income tax expense for the three months and nine months ended September 30, 2018, was impacted by an increase in reserves for unrecognized tax benefits, partially offset by a tax benefit for refundable research credits from United Kingdom operations.

Liquidity and Capital Resources

The following table sets forth certain relevant measures of the Company's liquidity and capital resources (in thousands):

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| Cash and cash equivalents | \$ 7,525 | \$ 8,636 |
| Working capital | \$ (6,133) | \$ 865 |
| Financing obligations | \$ 318 | \$ 209 |
| Operating lease liabilities | 2,200 | — |
| Term loan | 3,834 | 3,431 |
| Financing obligations, operating lease liabilities and term loan | \$ 6,352 | \$ 3,640 |

The Company expects it will be able to maintain current operations and anticipated capital expenditure requirements for at least the next 12 months through its cash reserves. The Company has implemented operational initiatives designed to improve the Company's cash and liquidity position while it pursues alternatives to fund execution of the Company's business plan to drive revenue growth and to fund the Company's repayment of the term loan from ESW Holdings, which matures on January 10, 2020. The Company expects that it will be able to repay the term loan from ESW Holdings from the Company's existing cash and intends to raise additional capital to meet its continued operational needs through an offering of its securities or, in the alternative, an asset-based line of credit or other debt facility. There is no assurance that additional financing will be available in the amount or at the time the Company needs it, or that it will be available on acceptable terms or at all. The Company's expected financing needs are based upon management estimates as to future revenue, cash flow and expense. The Company's business plan and financing needs are subject to change based upon, among other factors, the Company's ability to grow revenue and its ability to effectively manage costs. If the Company's estimate of its financing needs change, the Company may need additional capital more quickly than expected or a greater amount of capital. If the Company is unable to timely secure sufficient capital to meet its needs, the Company may be required to further reduce expenses and curtail capital expenditures.

At September 30, 2019, the Company had aggregate negative working capital of \$6.1 million, compared to positive working capital of \$865,000 at December 31, 2018. Working capital includes current deferred revenue of \$9.1 million and \$9.7 million at September 30, 2019 and December 31, 2018, respectively. The primary contributors to the change in working capital were the reclassification of the carrying value of the Company's term loan of \$3.8 million and related accrued interest of \$480,000 from long-term liabilities to current liabilities as the loan and accrued interest is due and payable on January 10, 2020, the increase in the warrant liability of \$752,000 during the nine months ended September 30, 2019, and cash used to fund the Company's operating loss during the nine months ended September 30, 2019.

Financing obligations as of September 30, 2019 and December 31, 2018 primarily consists of finance leases related to the acquisition of computer and network equipment and furniture. Upon adoption of Topic 842 on January 1, 2019, operating lease liabilities as of September 30, 2019 consists of liabilities primarily related to the Company's operating leases for office space.

The term loan with ESW Holdings, Inc. consists of a note having a face value of \$4.0 million at September 30, 2019 that is scheduled to mature on January 10, 2020. Interest accrues and compounds monthly at a variable rate per annum equal to the prime rate plus 4.0%. As of September 30, 2019, interest accrued at 9.0% and accrued and unpaid interest was \$480,000.

The Company's primary source of cash from operating activities has been cash collections from sales of products and services to customers. The Company expects cash inflows from operating activities to be affected by increases or decreases in sales and timing of collections. The Company's primary use of cash for operating activities has been for personnel costs and outside service providers, payment of royalties associated with third-party software licenses and purchases of equipment to fulfill customer orders. The Company expects cash flows from operating activities to be affected by fluctuations in revenues, personnel costs, outside service providers, and the amount and timing of royalty payments and equipment purchases as the Company continues to support the growth of the business. The amount of cash and cash equivalents held by the Company's international subsidiaries that is not available to fund domestic operations unless repatriated was \$2.8 million as of September 30, 2019. The repatriation of cash and cash equivalents held by the Company's international subsidiaries would not result in an adverse tax impact on cash given that the future tax consequences of repatriation are expected to be insignificant as a result of the Tax Cuts and Jobs Act of 2017.

Summary of Cash Flows

A summary of cash flows is as follows (in thousands):

| | Nine Months Ended September 30, | |
|---|------------------------------------|---------------|
| | 2019 | 2018 |
| Cash flows provided by (used in): | | |
| Operating activities | \$ (670) | \$ (2,997) |
| Investing activities | (96) | 9,562 |
| Financing activities | (250) | (5,665) |
| Effect of exchange rate changes on cash | (95) | (91) |
| Net change in cash and cash equivalents | <u>\$ (1,111)</u> | <u>\$ 809</u> |

Operating activities

Net cash used in operating activities was \$670,000 for the nine months ended September 30, 2019 compared to \$3.0 million for the corresponding 2018 period. The operating cash flows for the 2019 period were favorably impacted by the change in accounts receivables. The operating cash flows for the 2018 period were unfavorably impacted by the change in accounts payable and other accrued liabilities.

Investing activities

Net cash used in investing activities for the purchases of property and equipment totaled \$137,000 for the nine months ended September 30, 2019 compared to \$116,000 in the corresponding 2018 period. Net cash provided by investing activities from the sale of the Company's investment in BriefCam totaled \$41,000 for the nine months ended September 30, 2019 related to the release of cash from escrow and \$9.7 million for the nine months ended September 30, 2018.

Financing activities

Financing activities used net cash of \$250,000 for the nine months ended September 30, 2019 and \$5.7 million in the comparable 2018 period. Primarily impacting the current period use of cash were principal payments of \$242,000 on finance leases and other financing obligations. Primarily impacting the prior year period use of cash were the principal payment on the Hale term loan of \$8.0 million and debt prepayment fee of \$800,000, the principal payment of \$6.0 million on the outstanding term loan with ESW Holdings, Inc., and principal payments of \$329,000 on capital leases and other financing obligations, partially offset by \$10.0 million in cash proceeds from the Company's refinancing of its term loan in January 2018.

In October 2010, the Company's Board of Directors approved a common stock repurchase program of up to 3,500,000 shares. Shares may be purchased at prevailing market prices in the open market or in private transactions, subject to market conditions, share price, trading volume and other factors. The repurchase program has been funded to date using cash on hand and may be discontinued at any time. The Company did not repurchase any shares of its common stock under the repurchase program during the nine months ended September 30, 2019 and 2018. As of September 30, 2019, the Company had 778,365 shares available for repurchase under the authorizations. While the current authorization remains in effect, the Company expects its primary use of cash will be to fund operations in support of the Company's goals for revenue growth and operating margin improvement. Under the credit agreement, the Company is prohibited from repurchasing or redeeming its stock, subject to certain exceptions relating to the exercise or vesting of equity awards.

The Company did not declare or pay any dividends during the nine months ended September 30, 2019 and 2018. Under the credit agreement, the Company is prohibited from declaring or paying any dividends.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties. The Company's actual results could differ significantly from those discussed in the forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to, the following, as well as other factors not now identified: the markets for video content and software to manage video content are each in early stages of development, and if these markets do not develop or develop more slowly than we expect, our revenues may decline or fail to grow; if we are unable to attract new customers, retain existing customers and sell additional products and services to our

existing and new customers, our revenue growth and profitability will be adversely affected and we may violate our covenants under the ESW Holdings credit agreement; we will need additional capital to fund repayment of our term loan due in January 2020 and any additional capital we seek may not be available in the amount or at the time we need it; we have a history of losses and we may not achieve or sustain cash flows or profitability in the future; we encounter long sales cycles with our Qumu enterprise video solutions, which could adversely affect our operating results in a given period; to compete effectively, we must continually improve existing products and introduce new products that achieve market acceptance; we face intense competition and such competition may result in price reductions, lower gross profits and loss of market share; economic and market conditions, particularly those affecting our customers, have harmed and may continue to harm our business; our sales will decline, and our business will be materially harmed, if our sales and marketing efforts are not effective; competition for highly skilled personnel is intense and if we fail to attract and retain talented employees, we may fail to compete effectively; our enterprise video content management software products must be successfully integrated into our customers' information technology environments and workflows and changes to these environments, workflows or unforeseen combinations of technologies may harm our customers' experience in using our software products; the growth and functionality of our enterprise video content management software products depend upon the solution's effective operation with mobile operating systems and computer networks; any failure of major elements of our products could lead to significant disruptions in the ability to serve customers, which could damage our reputation, reduce our revenues or otherwise harm our business; if we lose access to third-party licenses, our software product development and production may be delayed or we may incur additional expense to modify our products or products in development; if the limited amount of open source software that is incorporated into our products were to become unavailable or if we violate the terms of open source licenses, it could adversely affect sales of our products, which could disrupt our business and harm our financial results; we sell a significant portion of our products internationally, which exposes us to risks associated with international operations; if our domestic or international intellectual property rights are not adequately protected, others may offer products similar to ours or independently develop the same or similar technologies or otherwise obtain access to our technology and trade secrets which could depress our product selling prices and gross profit or result in loss of market share; changes in laws and regulations related to the internet or changes in the internet infrastructure itself may diminish the demand for our products, and could have a negative impact on our business; expanding laws, regulations and customer requirements relating to data security and privacy may adversely affect sales of our products and result in increased compliance costs; we may face circumstances in the future that could result in impairment charges, including, but not limited to, significant goodwill impairment charges; we may experience significant quarterly and annual fluctuations in our results of operations due to a number of factors and these fluctuations may negatively impact the market price of our common stock; the limited liquidity for our common stock could affect your ability to sell your shares at a satisfactory price; and provisions of Minnesota law, our bylaws and other agreements may deter a change of control of our company and may have a possible negative effect on our stock price. These forward-looking statements are made as of the date of this report and the Company assumes no obligation to update such forward-looking statements, or to update the reasons why actual results could differ materially from those anticipated in such forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company, the Company is not required to provide information typically disclosed under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer, Vernon J. Hanzlik, and the Company's Chief Financial Officer, David G. Ristow, have evaluated the Company's disclosure controls and procedures as of September 30, 2019. Based upon such evaluation, they have concluded that these disclosure controls and procedures are effective. The Company's Chief Executive Officer and Chief Financial Officer used the definition of "disclosure controls and procedures" as set forth in Rule 13a-15(e) under the Exchange Act in making their conclusion as to the effectiveness of such controls and procedures.

Changes in Internal Control Over Financial Reporting

No changes in internal controls over financial reporting have occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION**Item 1. Legal Proceedings**

Not Applicable.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

In October 2010, the Company's Board of Directors approved a common stock repurchase program of up to 3,500,000 shares of the Company's common stock. Shares may be purchased at prevailing market prices in the open market or in private transactions, subject to market conditions, share price, trading volume and other factors. The repurchase program may be discontinued at any time. The repurchase program has been funded to date using cash on hand. During the three months ended September 30, 2019, no repurchases were made under the repurchase program. While the current authorization remains in effect, the Company expects its primary use of cash will be to fund operations in support of the Company's goals for revenue growth and operating margin improvement. Under the credit agreement with ESW Holdings, the Company is prohibited from repurchasing or redeeming its stock, subject to certain exceptions relating to the exercise or vesting of equity awards.

In addition to shares that may be purchased under the Board authorization, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax withholding on stock option exercises or vesting of restricted awards and performance stock units. All of the share repurchase activity included in the table below for the three months ended September 30, 2019 was associated with satisfaction of employee tax withholding requirements on vesting of restricted stock units.

Information on the Company's repurchases of its common stock during each month of the quarter ended September 30, 2019 is as follows:

| Monthly Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as part of Publicly Announced Plans or Programs | Maximum Number of Shares that may yet be Purchased under the Plans or Programs (at end of period) |
|----------------|----------------------------------|------------------------------|--|---|
| July 2019 | 168 | \$4.35 | — | 778,365 |
| August 2019 | — | \$— | — | 778,365 |
| September 2019 | — | \$— | — | 778,365 |

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

(a) The following exhibits are included herein:

[31.1 Certificate of Chief Executive Officer pursuant to Rules 13a-14\(a\) and 15d-14\(a\) of the Exchange Act.](#)

[31.2 Certificate of Chief Financial Officer pursuant to Rules 13a-14\(a\) and 15d-14\(a\) of the Exchange Act.](#)

[32 Certifications pursuant to 18 U.S.C. §1350.](#)

SIGNATURES

In accordance with the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

QUMU CORPORATION

Registrant

Date: November 5, 2019

By: /s/ Vernon J. Hanzlik

Vernon J. Hanzlik
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 5, 2019

By: /s/ David G. Ristow

David G. Ristow
Chief Financial Officer
(Principal Financial Officer)
(Principal Accounting Officer)

CERTIFICATION

I, Vernon J. Hanzlik, certify that:

1. I have reviewed this Form 10-Q of Qumu Corporation;
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 15d-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 5, 2019

/s/ Vernon J. Hanzlik

Vernon J. Hanzlik

President and Chief Executive Officer

CERTIFICATION

I, David G. Ristow, certify that:

1. I have reviewed this Form 10-Q of Qumu Corporation;
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 15d-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 5, 2019

/s/ David G. Ristow

David G. Ristow
Chief Financial Officer

CERTIFICATION

The undersigned certify pursuant to 18 U.S.C. § 1350, that:

- (1) The accompanying Quarterly Report on Form 10-Q for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the accompanying report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2019

/s/ Vernon J. Hanzlik
Vernon J. Hanzlik
President and Chief Executive Officer

Date: November 5, 2019

/s/ David G. Ristow
David G. Ristow
Chief Financial Officer