ASURE SOFTWARE INC
Form 10-Q
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _______ to _______

Commission file number: 0-20008

ASURE SOFTWARE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**74-2415696**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3700 N. Capital of Texas Hwy #350	
Austin, Texas	**78746**
(Address of Principal Executive Offices)	(Zip Code)

(512) 437-2700

(Registrant's Telephone Number, including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer 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

As of November 7, 2018, the registrant had outstanding 15,224,384 shares of its Common Stock, $0.01 par value.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASURE SOFTWARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 19,194	$ 27,792
Accounts receivable, net of allowance for doubtful accounts of $706 and $425 at September 30, 2018 and December 31, 2017, respectively	18,824	13,361
Inventory	1,265	509
Prepaid expenses and other current assets	4,518	2,588
Total current assets before funds held for clients	43,801	44,250
Funds held for clients	71,176	42,328
Total current assets	**114,977**	**86,578**
Property and equipment, net	7,830	5,217
Goodwill	107,557	77,348
Intangible assets, net	75,823	33,554
Other assets	3,453	614
Total assets	**$ 309,640**	**$ 203,311**
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of notes payable	$ 4,502	$ 8,895
Accounts payable	4,025	1,912
Accrued compensation and benefits	2,551	2,477
Other accrued liabilities	2,246	862
Deferred revenue	12,110	13,078
Total current liabilities before client fund obligations	**25,434**	**27,224**
Client fund obligations	71,699	42,328
Total current liabilities	**97,133**	**69,552**
Long-term liabilities:		
Deferred revenue	998	1,125

Deferred tax liability	2,198	1,070
Notes payable, net of current portion and debt issuance cost	108,566	66,973
Other liabilities	953	817
Total long-term liabilities	**112,715**	**69,985**
Total liabilities	**209,848**	**139,537**
Commitments		
Stockholders' equity:		
Preferred stock, $.01 par value; 1,500 shares authorized; none issued or outstanding	-	-
Common stock, $.01 par value; 22,000 shares authorized; 15,609 and 12,876 shares issued, 15,224 and 12,492 shares outstanding at September 30, 2018 and December 31, 2017, respectively	156	129
Treasury stock at cost, 384 shares at September 30, 2018 and December 31, 2017	(5,017)	(5,017)
Additional paid-in capital	390,834	346,322
Accumulated deficit	(285,372)	(277,597)
Accumulated other comprehensive loss	(809)	(63)
Total stockholders' equity	**99,792**	**63,774**
Total liabilities and stockholders' equity	**$ 309,640**	**$ 203,311**

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

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ASURE SOFTWARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in thousands, except share and per share data)

(Unaudited)

	FOR THE THREE MONTHS ENDED September 30,		FOR THE NINE MONTHS ENDED September 30,	
	2018	2017	2018	2017
Revenue:				
Cloud	$18,390	$11,062	$51,149	$27,724
Hardware	1,457	1,003	3,612	3,651
Maintenance and support	1,264	1,777	3,985	4,325
Professional services	2,347	1,685	5,783	3,434
Total revenue	**23,458**	**15,527**	**64,529**	**39,134**
Cost of sales	**8,471**	**3,396**	**21,248**	**8,660**
Gross profit	**14,987**	**12,131**	**43,281**	**30,474**
Operating expenses				
Selling, general and administrative	11,052	9,459	33,394	25,286
Research and development	3,514	883	6,495	2,488
Amortization of intangible assets	2,447	1,341	6,038	3,230
Total operating expenses	**17,013**	**11,683**	**45,927**	**31,004**
Income (Loss) from operations	**(2,026)**	**448**	**(2,646)**	**(530)**
Other income (loss)				
Interest expense, net	(2,350)	(1,644)	(6,832)	(3,279)
Other income	489	-	489	-
Total other loss, net	**(1,861)**	**(1,644)**	**(6,343)**	**(3,279)**
Income (loss) from operations before income taxes	**(3,887)**	**(1,196)**	**(8,989)**	**(3,809)**
Income tax provision	303	(85)	(288)	(368)
Net income (loss)	**$(3,584)**	**$(1,281)**	**$(9,277)**	**$(4,177)**
Other comprehensive income (loss)				
Foreign currency gain (loss)	(211)	(6)	(645)	(63)
Unrealized net losses	(101)	-	(101)	-
Comprehensive income (loss)	**$(3,896)**	**(1,287)**	**$(10,023)**	**$(4,240)**

Basic and diluted net income (loss) per share				
Basic	$(0.24)	$(0.10)	$(0.68)	$(0.40)
Diluted	$(0.24)	$(0.10)	$(0.68)	$(0.40)
Weighted average basic and diluted shares				
Basic	15,223,000	12,418,000	13,591,000	10,355,000
Diluted	15,223,000	12,418,000	13,591,000	10,355,000

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

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ASURE SOFTWARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(9,277)	$(4,177)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Depreciation and amortization	9,599	4,344
Provision for doubtful accounts	496	320
Share-based compensation	887	363
Release of contingent consideration	(489)	-
Changes in operating assets and liabilities:		
Accounts receivable	(6,587)	(4,450)
Inventory	(137)	(287)
Prepaid expenses and other assets	(2,250)	(471)
Accounts payable	850	(569)
Accrued expenses and other long-term obligations	678	881
Deferred revenue	168	1,963
Net cash used in operating activities	**(6,062)**	**(2,083)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions net of cash acquired	(66,366)	(45,472)
Purchases of property and equipment	(1,503)	(942)
Software capitalization costs	(2,536)	(804)
Net change in funds held for clients	16,617	8,867
Net cash used in investing activities	**(53,788)**	**(38,351)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	36,750	45,777
Payments on notes payable	(5,772)	(8,098)
Proceeds from revolving line of credit	4,540	-
Payments on revolving line of credit	(4,540)	-
Net proceeds from issuance of common stock	39,156	27,820
Debt issuance cost	(1,693)	(1,433)
Payments on capital leases	(124)	(131)

Net change in client fund obligations	(16,937)	(8,812)
Net cash provided by financing activities	**51,380**	**55,123**
Effect of foreign exchange rates	**(128)**	**8**
Net (decrease) increase in cash and cash equivalents	**(8,598)**	**14,697**
Cash and cash equivalents at beginning of period	**27,792**	**12,767**
Cash and cash equivalents at end of period	**$19,194**	**$27,464**
SUPPLEMENTAL INFORMATION:		
Cash paid for:		
Interest	$5,605	$2.180
Income taxes	101	23
Non-cash Investing and Financing Activities:		
Subordinated notes payable –acquisitions	7,592	8,165
Equity issued in connection with acquisitions	$4,493	21,825

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

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ASURE SOFTWARE, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data unless otherwise noted)

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

Asure Software, Inc., ("Asure", the "Company", "we" and "our"), a Delaware Corporation, is a leading provider of Human Capital Management ("HCM") and Workplace Management, offering intuitive and innovative cloud-based solutions designed to help organizations of all sizes and complexities build companies of the future. Our cloud platforms enables clients worldwide to better manage their people and space in a mobile, digital, multi-generational, and global landscape. Asure's offerings include a fully-integrated HCM platform, flexible benefits and compliance administration, Human Resources ("HR") consulting, and time and labor management as well as a full suite of workspace management solutions for conference room scheduling, desk sharing programs, and real estate optimization. We develop, market, sell and support our offerings worldwide through our principal office in Austin, Texas and through additional offices in Alabama, Florida, Massachusetts, Michigan, Oregon, Vermont, Washington, and the United Kingdom. As a result of the 2018 acquisitions, we also have operations in California, Iowa, Tennessee, North Carolina, Georgia and New York.

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with the rules and regulations of the Securities and Exchange Commission and accordingly, they do not include all information and footnotes required under U.S. generally accepted accounting principles for complete financial statements. Certain reclassifications were made to conform to the current period presentation in the condensed consolidated balance sheets. These reclassifications include a reclassification to the long-term deferred tax liability.

In the opinion of management, these interim financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of our financial position as of September 30, 2018, the results of operations for the three and nine months ended September 30, 2018 and September 30, 2017, and our cash flows for the nine months ended September 30, 2018 and September 30, 2017.

These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto filed with the Securities and Exchange Commission in our annual report on Form 10-K for the fiscal year ended December 31, 2017. The results for the interim periods are not necessarily indicative of results for a full fiscal year.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and highly liquid investments with an original maturity of three months or less when purchased.

INVESTMENTS AVAILABLE-FOR SALE

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums and accretion of discounts is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income (expense). The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

LIQUIDITY

In April 2018, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC") to provide access to additional capital, if needed. Pursuant to the shelf registration statement, we may from time to time offer to sell in one or more offerings shares of our common stock or other securities having an aggregate value of up to $175,000 (which includes approximately $60,000 of unsold securities that were previously registered on our currently effective registration statements). The shelf registration statement relating to these securities became effective on April 16, 2018. As of September 30, 2018, there is $133,438 remaining available under the shelf registration statement.

In June 2018, we completed an underwritten public offering in which we sold an aggregate of 2,375,000 shares of our common stock at a public offering price of $17.50 per share. We realized net proceeds of approximately $38,910 after deducting underwriting discounts and estimated offering expenses.

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ASURE SOFTWARE, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data unless otherwise noted)

As of September 30, 2018, our principal sources of liquidity consisted of $19,194 of cash and cash equivalents, cash we expect to generate in the future from our business operations, $5,000 available for borrowing under our revolving line of credit, and $25,000 delayed draw term loan commitment with Wells Fargo Bank, National Association ("Wells Fargo") discussed in Note 6 – Notes Payable. We believe that we have and/or will generate sufficient cash for our short- and long-term needs, including meeting the requirements of our term loan, and the related debt covenant requirements. We continue to seek reductions in our expenses as a percentage of revenue on an annual basis and thus may utilize our cash balances in the short-term to reduce long-term costs. We believe that we have and/or will generate sufficient cash for our operational needs, including any required debt payments, for at least the next twelve months from the issuance of these condensed consolidated financial statements. However, we may need to raise additional capital or incur additional indebtedness to grow our existing software operations and to seek additional strategic acquisitions in the near future.

Management is focused on growing our existing product offering, as well as our customer base, to increase our recurring revenue. We have made and will continue to explore additional strategic acquisitions. We expect to fund any future acquisitions with equity, available cash, cash we expect to generate in the future from our business operations, funds under our credit facilities, and cash generated from the issuance of equity or debt securities.

We cannot assure that we can grow our cash balances or limit our cash consumption and thus maintain sufficient cash balances for our planned operations or future acquisitions. Future business demands may lead to cash utilization at levels greater than recently experienced. We will need to raise additional capital in the future. However, we cannot assure that we will be able to raise additional capital on acceptable terms, or at all.

In our evaluation of the Company's ability to continue as a going concern in accordance with ASU 2014-15, we have considered factors such as the Company's historical and forecasted results of operations and cash flows from operations.The Company recorded $9,277 of net loss and $6,062 of cash outflows from operations during the nine months ended September 30, 2018, which are indicators of substantial doubt regarding the Company's ability to continue as a going concern.. We believe that we have sufficient capital and liquidity to fund and cultivate the growth of our current and future operations for at least the next twelve months from the issuance of these condensed consolidated financial statements and to maintain compliance with the terms of our debt agreements and related covenants or to obtain compliance through debt repayments made with the available cash on hand or anticipated for receipt in the ordinary course of operations, which will mitigate such substantial doubt regarding the Company's ability to continue as a going concern.

<u>RECENT ACCOUNTING PRONOUNCEMENTS</u>

<u>Recently Adopted Standards</u>

Effective January 1, 2018, we adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date,* which deferred the effective date of ASU 2014-09 by one year. ASU 2014-09 ("Topic 606") "Revenue from Contracts with Customers) supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition,* and is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue, cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The adoption of ASU 2014-09, using the modified retrospective approach, had no significant impact on our results of operations, cash flows, or financial position. The initial application was applied to all contracts at the date of initial application. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. Results of reporting periods after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

We recorded a $1,502 cumulative effect adjustment to opening retained earnings as of January 1, 2018 related to an increase in deferred commissions. There was no impact to revenue as a result of applying Topic 606.

The primary impact of adopting Topic 606 is to sales commissions related to onboarding new clients that were previously expensed. Under the new standard, these costs are now capitalized as deferred commissions and amortized over the estimated customer life of five to ten years.

ASURE SOFTWARE, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data unless otherwise noted)

The impact from the adoption of Topic 606 to our consolidated balance sheet and income statement as of and for the three and nine months ended September 30, 2018, are as follows:

	September 30, 2018	Balance Using Previous Standard	Increase (Decrease)
Balance Sheet			
Assets			
Prepaid expenses and other current assets	$ 4,518	$ 4,356	$ (162)
Total current assets before funds held for clients	**43,801**	**43,639**	**(162**)
Total current assets	**114,977**	**114,815**	**(162**)
Other assets	3,453	713	2,740
Total assets	**$ 309,640**	**$ 306,738**	**$ 2,578**
Liabilities and stockholders' equity			
Accumulated deficit	(285,372)	(282,470)	2,578
Total stockholders' equity	**99,792**	**96,890**	**2,578**
Total liabilities and stockholders' equity	**$ 309,640**	**$ 306,738**	**$ 2,578**

	For the Three Months Ended September 30, 2018	Balance Using Previous Standard	Increase (Decrease)
Income Statement			
Operating expenses			
Selling, general and administrative	11,052	10,738	(314)
Total operating expenses	**17,013**	**16,699**	**(314**)
Gain (Loss) from operations	**(2,026**)	**(1,712**)	**(314**)
Loss from operations before income tax	**(3,887**)	**(3,573**)	**(314**)
Net Loss	**$ (3,584**)	**$ (3,270**)	**$ 314**

Other comprehensive loss	**$ (3,896)**	**$ (3,582)**	**$ 314**

	For the Nine Months Ended September 30, 2018	Balance Using Previous Standard	Increase (Decrease)
Income Statement			
Operating expenses			
Selling, general and administrative	33,394	32,519	(875)
Total operating expenses	**45,927**	**45,052**	**(875)**
Gain (Loss) from operations	**(2,646)**	**1,771**	**(875)**
Loss from operations before income tax	**(8,989)**	**(8,114)**	**(875)**
Net Loss	**$ (9,277)**	**$ (8,402)**	**$ (875)**
Other comprehensive loss	**$ (10,023)**	**$ (9,148)**	**$ (875)**

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments” which eliminates the diversity in practice related to eight cash flow classification issues. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The adoption of this accounting standard did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

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ASURE SOFTWARE, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data unless otherwise noted)

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires the change in restricted cash or cash equivalents to be included with other changes in cash and cash equivalents in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The adoption of this accounting standard did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017. The adoption of this accounting standard did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718) Scope of Modification Accounting," which clarifies when to account for a change in the terms or conditions of a share-based payment award as a modification. ASU 2017-09 requires modification accounting only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of this accounting standard did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

Standards Yet To Be Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". The core principle of the standard is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in its statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. We will be required to adopt the new standard in the first quarter of 2019. While we are currently evaluating the impact ASU 2016-02 will have on our consolidated financial statements, we expect the adoption will result in a material increase in the assets and liabilities recorded on our Condensed

Consolidated Balance Sheets and additional qualitative and quantitative disclosures.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income", which provides entities the option to reclassify tax effects stranded in accumulated other comprehensive income as a result of the 2017 Tax Cuts and Jobs Act ("the Tax Act") to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We do not expect the adoption of this accounting standard to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

REVENUE RECOGNITION

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results of reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. There was no impact to revenue as a result of applying Topic 606 for the three and nine months ended September 30, 2018.

Our revenue consist of software-as-a-service ("SaaS") offerings and time-based software subscription license arrangements that also, typically include hardware, maintenance/support, and professional services elements. We recognize revenue on an output basis when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We determine standalone selling prices based on the amount that we believe the market is willing to pay determined through historical analysis of sales data as well as through use of the residual approach when we can estimate the standalone selling price for one or more, but not all, of the promised goods or services.

ASURE SOFTWARE, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data unless otherwise noted)

SaaS arrangements and time-based software subscriptions typically have an initial term ranging from one to three years and are renewable on an annual basis. A typical SaaS/software subscription arrangement will also include hardware, setup and implementation services. Revenue allocated to the SaaS/software subscription performance obligations are recognized on an output basis ratably as the service is provided over the non-cancellable term of the SaaS/subscription service and are reported as Cloud revenue on the Consolidated Statement of Comprehensive Loss. Revenue allocated to other performance obligations included in the arrangement is recognized as outlined in the paragraphs below.

Hardware devices sold to customers (typically time clocks, LCD panels, sensors and other peripheral devices) are sold as either a standard product sell arrangement where title to the hardware passes to the customer or under a hardware-as-a-service (“HaaS”) arrangement where the title to the hardware remains with Asure. Revenue allocated to hardware sold as a standard product are recognized on an output basis when title passes to the customer, typically the date we ship the hardware. Revenue allocated to hardware under a hardware-as-a-service (“HaaS”) arrangement are recognized on an output basis, recorded ratably as the service is provided over the non-cancellable term of the HaaS arrangement, typically one year. Revenue recognized from hardware devices sold to customers via either of the two above types of arrangements are reported as Hardware revenue on the Consolidated Statement of Comprehensive Loss.

Our professional services offerings typically include data migration, set up, training, and implementation services. Set up and implementation services typically occur at the start of the software arrangement while certain other professional services, depending on the nature of the services and customer requirements, may occur several months later. We can reasonably estimate professional services performed for a fixed fee and we recognize allocated revenue on an output basis on a proportional performance basis as the service is provided. We recognize allocated revenue on an output basis for professional services engagements billed on a time and materials basis as the service is provided. We recognize allocated revenue on an output basis on all other professional services engagements upon the earlier of the completion of the service’s deliverable or the expiration of the customer’s right to receive the service. Revenue recognized from professional services offerings are reported as Professional service revenue on the Consolidated Statement of Comprehensive Loss.

We recognize allocated revenue for maintenance/support on an output basis ratably over the non-cancellable term of the support agreement. Initial maintenance/support terms are typically one to three years and are renewable on an annual basis. Revenue recognized from maintenance/support are reported as Maintenance and support revenue on the

Consolidated Statement of Comprehensive Loss.

We do not recognize revenue for agreements with rights of return, refundable fees, cancellation rights or substantive acceptance clauses until these return, refund or cancellation rights have expired or acceptance has occurred. Our arrangements with resellers do not allow for any rights of return.

Our payment terms vary by the type of customer and the customer's payment history and the products or services offered. The term between invoicing and when payment is due is not significant and as such our contracts do not include a significant financing component. The transaction prices of our contracts do not include consideration amounts that are variable and do not include noncash consideration.

Deferred revenue includes amounts invoiced to customers in excess of revenue we recognize, and is comprised of deferred Cloud, HaaS, Maintenance and support, and Professional services revenue. We recognize deferred revenue when we complete the service and over the terms of the arrangements, primarily ranging from one to three years.

CONTINGENCIES

Although we have been, and in the future may be, the defendant or plaintiff in various actions arising in the normal course of business, as of September 30, 2018, we were not party to any pending legal proceedings.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

During the three months ended September 30, 2018, $4,217 of Funds Held for Clients were invested in short-term available-for-sale securities consisting of government and commercial bonds, including mortgage backed securities. There were no investments in securities during the first six months of 2018 and the three and nine months ended September 30, 2017. At September 30, 2018, we also had $10,000 in money market funds, classified as cash equivalents.

ASURE SOFTWARE, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data unless otherwise noted)

Investments classified as short-term available-for-sale as of September 30, 2018 consisted of the following:

As of September 30, 2018	**Amortized Cost**	**Gross Unrealized Gains** [1]	**Gross Unrealized Losses** [1]	**Aggregate Estimated Fair Value**
Corporate debt securities [2]	$ 4,318	$ 14	$ (115)	$ 4,217

(1) Unrealized gains and losses on available-for-sale securities are included as a component of comprehensive loss. At September 30, 2018, there were 27 securities in an unrealized gain position and there were 29 securities in an unrealized loss position. These unrealized losses were less than $25,000 individually and $115,000 in the aggregate. These securities have not been in a continuous unrealized gain or loss position for more than 12 months. The Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost basis, which may be at maturity. The Company reviews its investments to identify and evaluate investments that have an indication of possible other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

(2) At September 30, 2018, none of these securities were classified as cash and cash equivalents on the Company's balance sheet and none of these securities were scheduled to mature outside of one year.

Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements.

ASC 820 establishes a three-tier fair value hierarchy, which is based on the reliability of the inputs used in measuring fair values. These tiers include:

Level 1: Quoted prices in active markets for *identical* assets or liabilities;

Level 2: Quoted prices in active markets for *similar* assets or liabilities; quoted prices in markets that are not active for identical or similar assets or liabilities; and model-driven valuations whose significant inputs are observable; and

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At September 30, 2018, we had $10,000 in money market funds, classified as cash equivalents. Short-term available-for-sale securities consist of government and commercial bonds, including mortgage backed securities, and are classified as Funds Held for Clients on the accompanying condensed consolidated balance sheet.

ASURE SOFTWARE, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data unless otherwise noted)

The following table presents the fair value hierarchy for our financial assets measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, respectively:

		Fair Value Measure at September 30, 2018		
Description	**Total Carrying Value at September 30, 2018**	**Quoted Prices in Active Market (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash and cash equivalents	$ 19,194	$19,194	$ -	$ -
Short-term available-for-sale securities- Funds Held for Clients	4,217	-	4,217	-
Total	$ 23,411	$19,194	$ 4,217	$ -

		Fair Value Measure at December 31, 2017		
Description	**Total Carrying Value at December 31, 2017**	**Quoted Prices in Active Market (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash and cash equivalents	$ 27,792	$27,792	$ -	$ -
Total	**$ 27,792**	**$27,792**	**$ -**	**$ -**

NOTE 4 – ACQUISITIONS

2018 Acquisitions

In January 2018, we acquired all of the outstanding shares of common stock of Pay Systems of America, Inc. ("Pay Systems"), a provider of HR, payroll and employee benefits services. The aggregate consideration for the shares consisted of (i) $19,194 in cash and (ii) a subordinated promissory note (the "Pay Systems Note") in the principal amount of $1,572, subject to adjustment, We funded the cash payment with cash on hand. The Pay Systems Note bears interest at an annual rate of 2.0% and is payable in two installments – one-half, plus accrued interest, on July 1, 2018 and the remaining principal balance and accrued interest on January 1, 2019.

In January 2018, we also completed the acquisitions of two other companies that are current resellers of our leading Human Resource Information System platform. We funded these two acquisitions with cash on hand, subordinated promissory notes and shares of Asure common stock.

In April 2018, we acquired all of the assets of a provider of outsourced HR, consulting, and professional services around payroll and employee benefits; and we acquired all of the share capital of a provider of a sensor-based solution that allows organizations across the world to streamline operations, create efficiencies, enhance productivity, and analyze employee engagement. We funded these acquisitions with cash (using borrowed funds under our Second Restated Credit Agreement) and subordinated promissory notes.

In April 2018, we also purchased a portfolio of customer accounts and the related contracts for payroll processing services (known as Evolution Payroll) from Wells Fargo for an aggregate purchase price of $10,450. The aggregate purchase price consisted of (i) $10,000 in cash and (ii) a subordinated promissory note (the "Evolution Payroll Note") in the principal amount of $450. The Evolution Payroll Note bears interest at an annual rate of 2.0%, and the unpaid principal and all accrued interest under the Evolution Payroll Note is payable on April 9, 2020. To finance this transaction, we borrowed approximately $10,000 under our Second Restated Credit Agreement.

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ASURE SOFTWARE, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except share and per share data unless otherwise noted)

In July 2018, we acquired all of the capital stock of USA Payroll, Inc. and assets of its affiliates ("USA Payroll"), a payroll processing company based in Rochester, New York and a licensee of our Evolution software. The aggregate purchase price consisted of (i) $18,561 in cash; (ii) a subordinated promissory note (the "USA Payroll Notes") in the principal amount of $3,263; and (iii) 225,089 unregistered shares of our common stock valued at $3,600 based on a volume-weighted average of the closing prices of our common stock during a 90-day period. We funded the cash payment with cash on hand. The USA Payroll Notes bear interest at an annual rate of 3.0%. Interest payments are due on July 1, 2019, July 1, 2020 and accrued interest and principal is due on July 1, 2021.

Except for the purchase of Pay Systems Evolution Payroll portfolio and USA Payroll, the 2018 acquisitions, individually, were not material to our results of operations, financial position, or cash flows. We have treated the purchase of the Evolution Payroll portfolio as an acquisition of assets, rather than as an acquisition of a business.

Purchase Price Allocation

Following is the purchase price allocation for the 2018 business acquisitions. We based the preliminary fair value estimate for the assets acquired and liabilities assumed for these acquisitions upon preliminary calculations and valuations. Our estimates and assumptions for these acquisitions are subject to change as we obtain additional information for our estimates during the respective measurement periods (up to one year from the acquisition date). The primary areas of those preliminary estimates that we have not yet finalized relate to certain tangible assets and liabilities acquired, and income and non-income based taxes.

We recorded the transactions, with the exception of the Evolution Payroll portfolio purchase, using the acquisition method of accounting and recognized assets and liabilities assumed at their fair value as of the dates of acquisitions. The $36,960 of intangible assets subject to amortization consist of $32,200 allocated to Customer Relationships, $2,100 for Developed Technology, $2,330 for Trade Names, and $330 for Noncompete Agreements. To value the Trade Names, we employed the relief from royalty method under the market approach. For the Noncompete Agreements, we employed a form of the income approach which analyzes the Company's profitability with these assets in place, in contrast to the Company's profitability without them. For the Customer Relationships and Developed Technology, we employed a form of the excess earnings method, which is a form of the income approach. The discount rate used in valuing these assets ranged from 13.0% to 33.0%, which reflects the risk associated with the intangible assets related to the other assets and the overall business operations to us. We estimated the fair values of the Trade Names using the relief from royalty method based upon a 1.0% royalty rate.

We believe significant synergies are expected to arise from these strategic acquisitions. This factor contributed to a purchase price that was in excess of the fair value of the net assets acquired and, as a result, we recorded goodwill for each acquisition. A portion of acquired goodwill will be deductible for tax purposes.

Assets Acquired	**Pay Systems**	**USA Payroll**	**Others**	**Total**
Cash & cash equivalents	$767	$470	$600	$1,837
Accounts receivable	54	114	2,609	2,777
Fixed assets	121	94	39	254
Inventory	-	-	657	657
Other assets	49	13	1,014	1,076
Funds held for clients	10,976	20,439	14,050	45,465
Goodwill	8,871	12,388	10,373	31,632
Intangibles	7,240	14,280	15,440	36,960
Total assets acquired	**$28,078**	**$47,798**	**$44,782**	**$120,658**
Liabilities assumed				
Accounts payable	113	39	1,170	1,322
Accrued other liabilities	951	393	2,983	4,327
Deferred revenue	-	-	355	355
Client fund obligations	11,820	20,439	14,050	46,309
Total liabilities assumed	**12,884**	**20,871**	**18,558**	**52,313**
Net assets acquired	**$15,194**	**$26,927**	**$26,224**	**$68,345**

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ASURE SOFTWARE, INC.

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(Amounts in thousands, except share and per share data unless otherwise noted)

The following is a reconciliation of the purchase price to the fair value of net assets acquired at the date of acquisition:

	Pay Systems	**USA Payroll**	**Others**	**Total**
Purchase price	$15,724	$27,450	$27,950	$71,124
Working capital adjustment	(469)	66	210	(193)
Adjustment to fair value of contingent liability	-	-	(1,761)	(1,761)
Adjustment to fair value of Asure's stock	-	(299)	(104)	(403)
Debt discount	(61)	(290)	(71)	(422)
Fair value of net assets acquired	**$15,194**	**$26,927**	**$26,224**	