

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended September 30, 2015

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

000-50327  
(Commission File Number)

---

**iPass Inc.**

(Exact name of Registrant as specified in its charter)

---

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

93-1214598  
(I.R.S. Employer  
Identification No.)

3800 Bridge Parkway  
Redwood Shores, California 94065  
(Address of principal executive offices, including zip code)

(650) 232-4100  
(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 submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months or for such shorter period that the registrant was required to submit and post such files. Yes  No

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

Large Accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The number of shares outstanding of the Registrant's Common Stock, \$0.001 par value, as of October 30, 2015 was 64,520,886.

---

---

---

**IPASS INC.**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED September 30, 2015**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION:**

<b><u>Item 1. Financial Statements</u></b>	<b><u>3</u></b>
<b><u>a) Condensed Consolidated Balance Sheets as of September 30, 2015, and December 31, 2014 (Unaudited)</u></b>	<b><u>3</u></b>
<b><u>b) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and 2014 (Unaudited)</u></b>	<b><u>4</u></b>
<b><u>c) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 (Unaudited)</u></b>	<b><u>5</u></b>
<b><u>d) Notes to Condensed Consolidated Financial Statements (Unaudited)</u></b>	<b><u>6</u></b>
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b><u>13</u></b>
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b><u>22</u></b>
<b><u>Item 4. Controls and Procedures</u></b>	<b><u>23</u></b>

**PART II. OTHER INFORMATION:**

<b><u>Item 1A. Risk Factors</u></b>	<b><u>24</u></b>
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b><u>29</u></b>
<b><u>Item 6. Exhibits</u></b>	<b><u>29</u></b>
<b><u>SIGNATURE</u></b>	<b><u>30</u></b>
<b><u>INDEX TO EXHIBITS</u></b>	<b><u>31</u></b>

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

IPASS INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited; in thousands)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 24,243	\$ 33,814
Accounts receivable, net	10,180	10,063
Prepaid expenses and other current assets	2,526	4,318
Total current assets	36,949	48,195
Property and equipment, net	4,582	6,213
Other assets	612	847
Total assets	\$ 42,143	\$ 55,255
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,994	\$ 7,301
Accrued liabilities	6,773	7,188
Deferred revenue, short-term	2,272	437
Total current liabilities	16,039	14,926
Deferred revenue, long-term	245	115
Vendor financed property and equipment	—	854
Other long-term liabilities	1,018	879
Total liabilities	17,302	16,774
Stockholders' equity:		
Common stock	65	65
Additional paid-in capital	219,973	220,368
Accumulated deficit	(195,197)	(181,952)
Total stockholders' equity	24,841	38,481
Total liabilities and stockholders' equity	\$ 42,143	\$ 55,255

*See Accompanying Notes to Condensed Consolidated Financial Statements*

**IPASS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (LOSS)**  
(Unaudited; in thousands, except shares and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 14,985	\$ 17,250	\$ 47,138	\$ 52,649
Cost of revenue and operating expenses:				
Network access costs	7,186	7,584	20,899	22,462
Network operations	2,169	3,093	7,629	10,146
Research and development	2,456	2,853	7,948	9,114
Sales and marketing	2,506	3,548	8,072	12,325
General and administrative	3,067	4,286	11,274	13,287
Restructuring charges and related adjustments	916	715	4,179	745
Total cost of revenue and operating expenses	18,300	22,079	60,001	68,079
Operating loss	(3,315)	(4,829)	(12,863)	(15,430)
Interest expense, net	(12)	(29)	(50)	(95)
Foreign exchange gain (loss), net	(72)	45	(1)	(132)
Other gain (loss), net	—	345	(135)	345
Loss from continuing operations before income taxes	(3,399)	(4,468)	(13,049)	(15,312)
(Provision for) benefit from income taxes	(29)	1,355	(196)	5,538
Net loss from continuing operations	\$ (3,428)	\$ (3,113)	\$ (13,245)	\$ (9,774)
Net income (loss) from discontinued operations (Note 11)	\$ —	\$ (1,296)	\$ —	\$ 20,693
Total net income (loss)	\$ (3,428)	\$ (4,409)	\$ (13,245)	\$ 10,919
Total comprehensive net income (loss)	\$ (3,428)	\$ (4,409)	\$ (13,245)	\$ 10,919
Total income (loss) per share - basic and diluted				
Continuing operations	\$ (0.05)	\$ (0.05)	\$ (0.21)	\$ (0.16)
Discontinued operations	—	(0.02)	—	0.33
Total net income (loss) per share	\$ (0.05)	\$ (0.07)	\$ (0.21)	\$ 0.17
Weighted average shares outstanding - basic and diluted	62,979,830	62,696,930	62,862,144	62,507,683

*See Accompanying Notes to the Condensed Consolidated Financial Statements*

**IPASS INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited; in thousands)**

	Nine Months Ended September 30,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (13,245)	\$ 10,919
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Gain on sale of discontinued operations	—	(25,014)
Stock-based compensation (benefit) expense	(522)	1,107
Depreciation and amortization	2,214	2,539
Deferred income taxes	7	(2)
Loss on disposal of property and equipment	4	36
Recovery of doubtful accounts	(32)	(108)
Changes in operating assets and liabilities:		
Accounts receivable	(86)	519
Prepaid expenses and other current assets	235	847
Other assets	235	10
Accounts payable	(251)	(903)
Accrued liabilities	(437)	(2,399)
Deferred revenue	1,965	(548)
Other liabilities	139	763
Net cash used in operating activities	(9,774)	(12,234)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(642)	(1,112)
Proceeds from sale of discontinued operations	—	26,750
Release of cash held in escrow and change in restricted cash	1,550	100
Net cash provided by investing activities	908	25,738
<b>Cash flows from financing activities:</b>		
Net proceeds from issuance of common stock	127	184
Principal payments for vendor financed property and equipment	(832)	(590)
Net cash used in financing activities	(705)	(406)
Net (decrease) increase in cash and cash equivalents	(9,571)	13,098
Cash and cash equivalents at beginning of period	33,814	24,017
Cash and cash equivalents at end of period	\$ 24,243	\$ 37,115
<b>Supplemental disclosures of cash flow information:</b>		
Net cash paid for taxes	\$ 51	\$ 220
Accrued amounts for acquisition of property and equipment	\$ 56	\$ 20
Vendor financing of property and equipment	\$ —	\$ 501

*See Accompanying Notes to Condensed Consolidated Financial Statements*

**IPASS INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1. Basis of Presentation and Recent Accounting Pronouncements**

***Basis of Presentation***

The Condensed Consolidated Financial Statements include the accounts of iPass Inc. and its wholly owned subsidiaries ("iPass" and the "Company"). The Condensed Consolidated Financial Statements that accompany these notes have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") consistent in all material respects with those applied in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2014. The Condensed Consolidated Financial Statements as of and for December 31, 2014, were derived from audited financial statements but do not include all disclosures required by GAAP. The interim financial information is unaudited but reflects all normal adjustments that are, in the opinion of management, necessary to provide a fair presentation for the interim periods presented. This interim financial information should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results that the Company experiences may differ materially from those estimates. Estimates are used for, but not limited to, the valuation of accounts receivables, other long-lived assets, recognition of deferred revenue, network access costs, stock-based compensation, legal contingencies, and income taxes.

The Company reports total comprehensive net income (loss) in a single continuous financial statement within its Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). The Company's comprehensive net income (loss) is equivalent to its total net income (loss) because the Company does not have any transactions that are recorded through other comprehensive income (loss).

The Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) have been reclassified for all periods presented to reflect discontinued operations treatment (refer to Note 11 for discussion related to Divestiture of Business Segment).

***Recent Accounting Pronouncements***

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. Under application of this guidance, if a cloud computing arrangement includes a software license, the update specifies that the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. A customer should account for a cloud computing arrangement as a service contract if the arrangement does not include a software license. ASU No. 2015-05 is effective for 2016 and early adoption is allowed. The Company is currently assessing the impact of this update and the timing of adoption.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." Under this guidance, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. Under application of the existing guidance, the Company's sales made to distributors and retailers are generally deferred until the distributors or retailers sell the merchandise to their end customer. Under the new standard, the Company's sales made to distributors and retailers are expected to be recognized upon transfer of inventory to the distributor or retailer resulting in earlier revenue recognition than per existing guidance with additional use of estimation. In August 2015, the FASB issued ASU No. 2015-14, which defers by one year the effective date of ASU No. 2014-09. The Company is currently evaluating the appropriate transition method, timing of adoption and any further impact of this guidance on its Consolidated Financial Statements and related disclosures.

**Note 2. Financial Instruments and Fair Value**

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market between market participants at the measurement date. When

[Table of Contents](#)

determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers assumptions that market participants would use when pricing the asset or liability.

**Fair Value Hierarchy**

The three levels of inputs that may be used to measure fair value are as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; 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.

The recurring fair value measurements of these financial assets (excluding cash) were determined using the following inputs at September 30, 2015, and December 31, 2014, respectively:

	As of September 30, 2015				As of December 31, 2014			
	Fair Value Measured Using			Total Balance	Fair Value Measured Using			Total Balance
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
(In thousands)								
<b>Financial assets</b>								
Money market funds <sup>(1)</sup>	\$ 20,315	\$ —	\$ —	\$ 20,315	\$ 29,306	\$ —	\$ —	\$ 29,306
Total financial assets	\$ 20,315	\$ —	\$ —	\$ 20,315	\$ 29,306	\$ —	\$ —	\$ 29,306

(1) Held in cash and cash equivalents on the Company's condensed consolidated balance sheets.

There were no transfers between Levels 1, 2, and 3 from December 31, 2014 through September 30, 2015. As of September 30, 2015 and December 31, 2014, the carrying amounts of accounts receivable, accounts payable, and accrued liabilities approximated fair value due to their short maturities (refer to Note 6 and 7 for discussion related to Accrued Restructuring and Vendor Financed Property and Equipment).

**Note 3. Property and Equipment, net**

Property and equipment, net, consisted of the following:

	September 30, 2015	December 31, 2014
(In thousands)		
Equipment	\$ 10,426	\$ 10,242
Furniture and fixtures	322	1,923
Computer software	9,884	9,356
Construction in progress	—	306
Leasehold improvements	460	912
	21,092	22,739
Less: Accumulated depreciation and amortization	(16,510)	(16,526)
Property and equipment, net	\$ 4,582	\$ 6,213

For the three and nine months ended September 30, 2015, depreciation expense for continuing operations was approximately \$0.7 million and \$ 2.2 million, respectively.

For the three and nine months ended September 30, 2014, depreciation expense for continuing operations was approximately and \$0.8 million and \$2.4 million respectively. Depreciation expense for discontinued operations was less than \$0.1 million for each of three and nine months ended September 30, 2014.

During the three and nine months ended September 30, 2015, the Company retired gross property and equipment related to continuing operations of approximately \$0 and \$2.2 million, respectively, and during the three and nine months ended September 30, 2014 approximately \$0.9 million and \$2.2 million, respectively, all of which was nearly fully depreciated. In connection with the sale of discontinued operations, the Company sold approximately \$2.0 million of gross property and equipment related to discontinued operations.

[Table of Contents](#)

**Note 4. Other Assets**

Other assets (non-current) consisted of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Deposits	\$ 478	\$ 563
Long-term deferred tax assets, net	134	134
Restricted cash	—	150
	<u>\$ 612</u>	<u>\$ 847</u>

**Note 5. Accrued Liabilities**

Accrued liabilities consisted of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Accrued tax liabilities	\$ 1,287	\$ 1,300
Accrued restructuring liabilities (1)	952	160
Accrued bonus, commissions and other employee benefits	1,330	2,043
Accrued vendor financed property and equipment (2)	854	832
Amounts due to customers	833	1,016
Other accrued liabilities	1,517	1,837
	<u>\$ 6,773</u>	<u>\$ 7,188</u>

(1) See Note 6 "Accrued Restructuring"

(2) See Note 7 "Vendor Financed Property and Equipment"

**Note 6. Accrued Restructuring**

During the year ended December 31, 2009, the Company announced restructuring plans (the "2009 Plans") to reduce operating costs and focus resources on key strategic priorities, which resulted in a workforce reduction of 146 positions across all functional areas and abandonment of certain facilities and termination of a contract obligation. As of September 30, 2015, the Company completed all of the related payments associated with the 2009 Plans.

During the third quarter of 2014, the Company announced a restructuring plan (the "Q3 2014 Plan") to re-align its cost structure as a result of the divestiture of its Unity business, which resulted in workforce reduction of approximately 20 employees worldwide and the termination of lease contracts for certain leased facilities. The Company recorded approximately \$0.7 million of restructuring charges at the third quarter of 2014, and as of September 30, 2015 the Company has completed all of the related payments associated with the Q3 2014 Plan.

During the second quarter of 2015, the Company announced a restructuring plan (the "Q2 2015 Plan") intended to flatten the organization, create a more nimble sales and delivery infrastructure to support a SaaS go to market strategy, and accelerate the cash flow break-even point for the Company. The Q2 2015 Plan reduced headcount globally by approximately 14% and the Company recorded approximately \$4.2 million of restructuring charges, which included an additional \$0.9 million in the third quarter of 2015 related to severance obligations for certain international employees.

The following is a rollforward of restructuring liability for the Plans:

	Three Months Ended September 30,	
	2015	2014
	(In thousands)	
Beginning balance	\$ 1,833	\$ 181
Restructuring charges and related adjustments	916	715
Payments and adjustments	(1,797)	(544)
Ending balance	<u>\$ 952</u>	<u>\$ 352</u>

[Table of Contents](#)

	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
Beginning balance	\$ 160	\$ 317
Restructuring charges and related adjustments	4,179	745
Payments and adjustments	(3,387)	(710)
Ending balance	<u>\$ 952</u>	<u>\$ 352</u>

As of September 30, 2015, the balance primarily represents remaining employee termination obligations, the majority of which are expected to be paid in the fourth quarter of 2015. There is no long-term restructuring liability as of September 30, 2015.

**Note 7. Vendor Financed Property and Equipment**

In October 2013, the Company acquired enterprise database software and infrastructure hardware. This purchase was financed through a vendor and is payable over three years. In April 2014, the Company acquired additional enterprise infrastructure hardware which was financed through the vendor and is payable over two years. The total purchases financed by the vendor were approximately \$3.1 million. Since October 2013, the Company made approximately \$2.2 million of principal payments, and as of September 30, 2015, approximately \$0.9 million was recorded to accrued liabilities. The Company expects to pay principal payments of \$0.3 million and \$0.6 million during fourth quarter 2015 and in fiscal year 2016, respectively.

**Note 8. Commitments and Contingencies****Lease and Purchase Commitments**

The Company leases facilities under operating leases that expire at various dates through October 2020. Future minimum lease payments under these operating leases as of September 30, 2015, are as follows:

<u>Year</u>	<u>Operating Leases</u>
	(In thousands)
Remainder of 2015	\$ 452
2016	1,671
2017	1,494
2018	1,091
2019	1,082
Thereafter	1,017
	<u>\$ 6,807</u>

The Company has contracts with certain network service providers which have minimum purchase commitments that expire on various dates through October 2017.

Future minimum purchase commitments as of September 30, 2015, under all agreements are as follows:

<u>Year</u>	<u>Minimum Purchase Commitments</u>
	(In thousands)
Remainder of 2015	\$ 2,665
2016	4,431
2017	1,851
	<u>\$ 8,947</u>

Included above, the Company has a future minimum purchase commitment of approximately \$0.2 million related to an annual support fee for acquired enterprise infrastructure hardware to be paid over the next year, plus vendor financed property and equipment payments of \$0.3 million and \$0.6 million for the remainder of fiscal year 2015 and fiscal year 2016, respectively.

[Table of Contents](#)

**Legal Proceedings**

The Company is involved in legal proceedings and claims arising in the ordinary course of business. While there can be no assurances as to the ultimate outcome of any litigation involving the Company, management does not believe any such pending legal proceeding or claim will result in a judgment or settlement that would have a material adverse effect on the Company's financial position, results of operations or cash flows.

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third-parties. Certain indemnification agreements may not be subject to maximum loss clauses. If the potential loss from any indemnification claim is considered probable and the amount or the range of the loss can be estimated, the Company accrues a liability for the estimated loss. To date, claims under such indemnification provisions have not been significant.

**Note 9. Net Income (Loss) Per Share**

Basic net income (loss) per share is computed by dividing net income (loss) available to shareholders by the weighted average number of shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) available to shareholders by the weighted average number of diluted shares outstanding. Unvested participating securities that vest based on service are included in the weighted daily average number of shares outstanding used in the calculation of basic net income per share and excluded in the calculation of basic net loss per share.

When an entity has a loss from continuing operations, including potential shares in the denominator of diluted per-share computations for continuing operations will generally be antidilutive, even if the entity has net income after adjusting for discontinued operations. That is, including potential shares in the denominator of the earnings per share calculation for a loss-making entity will generally decrease the loss per share and therefore those shares should be excluded from calculations of diluted earnings per share. Accordingly, for all periods presented, basic weighted-average shares outstanding were used in calculating the diluted net income (loss) per share.

The following table sets forth the computation of basic and diluted net income (loss) per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(In thousands, except share and per share amounts)				
<b>Numerator:</b>				
Net loss from continuing operations	\$ (3,428)	\$ (3,113)	\$ (13,245)	\$ (9,774)
Net income (loss) from discontinued operations	—	(1,296)	—	20,693
Net income (loss)	\$ (3,428)	\$ (4,409)	\$ (13,245)	\$ 10,919
<b>Denominator:</b>				
Weighted average shares outstanding - basic and diluted	62,979,830	62,696,930	62,862,144	62,507,683
<b>Total income (loss) per share - basic and diluted:</b>				
Continuing operations	\$ (0.05)	\$ (0.05)	\$ (0.21)	\$ (0.16)
Discontinued operations	—	(0.02)	—	0.33
Total net income (loss) per share	\$ (0.05)	\$ (0.07)	\$ (0.21)	\$ 0.17

The following weighted average potential shares of common stock have been excluded from the computation of diluted net income (loss) per share because the effect of including these shares would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Options to purchase common stock	6,778,265	4,926,571	5,498,476	4,830,072
Restricted stock awards, including participating securities	1,657,500	1,838,500	1,907,500	2,195,750
Total	8,435,765	6,765,071	7,405,976	7,025,822

**Note 10. Segment and Geographical Information**

The Company sold its iPass Unity Network Services business segment during the second quarter of 2014 and has subsequently managed the business as a single reportable segment which it refers to as Mobility Services.

The following table presents comparative percent of revenue from continuing operations by country or by geographic region.

Mobility Services	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
United States	43%	35%	40%	35%
EMEA	48%	49%	50%	48%
Asia Pacific	8%	14%	9%	15%
Rest of the World	1%	2%	1%	2%

For the three months ended September 30, 2015, the United States and Germany accounted for 43% and 15% of total revenues, respectively. For nine months ended September 30, 2015, the United States, Germany and the United Kingdom represented 40%, 15% and 10% of total revenues, respectively. No other country represented 10% or more of total revenue during those periods. One customer represented 10% and 11% of total revenues for the three and nine months ended September 30, 2015, respectively, and no other individual customer accounted for 10% or more of total revenues during those periods.

For the three months ended September 30, 2014, the United States, Germany and the United Kingdom represented 35%, 12% and 11% of total revenue, respectively. For the nine months ended September 30, 2014, the United States, Germany and the United Kingdom represented 35%, 11% and 12% of total revenue, respectively. No other country represented 10% or more of total revenue for those periods. No individual customer represented 10% or more of total revenue for the three months and nine months ended September 30, 2014.

Substantially all of the Company's long-lived assets are located in the United States.

**Note 11. Divestiture of Business Segment**

During the second quarter of 2014, the Company entered into an agreement and completed the sale of its Unity business segment for gross cash proceeds of approximately \$28.1 million and accrued approximately \$2.2 million of transaction costs which were fully paid in 2014. The Company recorded a gain on sale of approximately \$25.0 million. In accordance with ASC 205-20, the results of operations for the Unity business segment have been reported as discontinued operations in the Company's condensed consolidated financial statements.

The gross cash proceeds of the sale included \$1.4 million placed in escrow as of June 30, 2014 to cover any contingent claims made by the buyer against iPass through June 30, 2015, which was recorded in Prepaid Expenses and Other Current Assets. There were no claims made against the escrow and the cash proceeds were released to the Company effective June 30, 2015.

Tax provision expense of approximately \$1.3 million and \$5.8 million was recorded to discontinued operations for the three and nine months ended September 30, 2014, respectively. This primarily reflects tax provision expense from discontinued operations for the three and nine months ended September 30, 2014, offset by tax provision benefit from continuing operations of \$1.4 million and \$5.8 million, respectively, which represents the Company's ability to utilize net operating losses to offset tax associated with the gain on the sale of the Unity business.

[Table of Contents](#)

The following table presents revenues and the components of discontinued operations, net of tax.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenue	\$ —	\$ —	\$ —	\$ 15,458
Income from discontinued operations before income taxes	\$ —	\$ —	\$ —	\$ 1,506
Gain on sale of discontinued operations before income taxes	—	—	—	25,014
Provision for income taxes	—	(1,296)	—	(5,827)
Income (loss) from discontinued operations, net of tax	\$ —	\$ (1,296)	\$ —	\$ 20,693

The table above excludes certain shared overhead costs and transfer pricing adjustments that were previously allocated to the Unity business segment in the historical iPass consolidated financial statements that were filed with the Securities and Exchange Commission ("SEC") as ASC 205-20 prohibits the allocation of general overhead costs to the discontinued operation. The provisions for income taxes primarily reflect tax expense on discontinued operations including the gain on sale, which is mostly offset by benefit in continuing operations.

**Note 12. Subsequent Events**

On November 3, 2015, the Board authorized a share repurchase program of up to \$3.0 million of the Company's Common Stock beginning in the fourth quarter of 2015. Under the repurchase program, the Company is authorized to repurchase shares through open market purchases, in accordance with applicable federal securities laws, including through trading plans under Rule 10b5-1 of the Securities and Exchange Act of 1934. The repurchase program shall run through December 31, 2016, unless earlier completed or terminated by the Board. The number of shares to be purchased and the timing of purchases will be based on general business and market conditions, and other factors, including legal requirements.

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations (or “MD&A”) is provided in addition to the condensed consolidated financial statements and notes, included elsewhere in this report, to assist readers in understanding our results of operations, financial condition, and cash flows. The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and with the MD&A in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014.

We announced on July 1, 2014, that we signed and closed the sale of our Unity Managed Network Services business unit (“Unity business”) on June 30, 2014. All prior applicable 2014 comparative periods have been recast to reflect the Unity business as a discontinued operation, and our MD&A focuses primarily on our continuing operations.

This MD&A is organized as follows:

<b>Overview</b>	Discussion of our business Description of our business and strategy
<b>Business Portfolio and Our Strategy (Continuing Operations)</b>	
<b>Significant Trends and Events</b>	Operating, financial and other material trends and events that affect our company and may reflect our performance
<b>Key Operating Metrics and Non-GAAP Financial Measures</b>	Discussion of key operating metrics and non-GAAP financial measure that we use to evaluate our operating performance
<b>Critical Accounting Policies and Estimates</b>	Accounting policies and estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results
<b>Results of Operations</b>	An analysis of our financial results comparing the three and nine months ended September 30, 2015, and September 30, 2014
<b>Liquidity and Capital Resources</b>	An analysis of changes in our balance sheet and cash flows, and discussion of our financial condition, potential sources of liquidity and other required disclosures

*The various sections of this MD&A contain forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expect,” “will,” “anticipate,” “intend,” “believe,” “estimate,” variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements which refer to projections of our future financial performance, our anticipated trends in our business, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified in “Risk Factors” in Part II, Item 1A of this Current Report on Form 10-Q, for factors that may cause actual results to be different from those expressed in these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and, except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.*

*Investors and others should note that we announce material financial information to our investors using our investor relations website, SEC filings, press releases, public conference calls and webcasts. We also use social media to communicate with our customers and the public about our company, our products and services and other matters relating to our business and market. It is possible that the information we post on social media could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on the U.S. social media channels including the iPass Twitter Feed, the iPass LinkedIn Feed, the iPass Google+ Feed, the iPass Facebook Page, the iPass Blog, the iPass Instagram, and the iPass Pinterest. These social media channels may be updated from time to time.*

## [Table of Contents](#)

### Overview

iPass delivers global, mobile connectivity as a hosted cloud service, connecting its customers with the people and information that matter the most on all of the devices they choose to carry: smartphones, tablets and laptops. iPass (NASDAQ: IPAS) is the world's largest Wi-Fi network, approaching 50 million hotspots in airports, hotels, airplanes and public areas in more than 120 countries across the globe. In the rapidly changing technology of Internet connectivity, iPass is the industry pioneer in ensuring businesses have unlimited access to unlimited content.

#### *Strategic Mobility Assets*

We believe iPass has a unique set of mobility assets that provides us with competitive advantages. We see our three core assets as follows:

**Open Mobile Platform:** Our Open Mobile ("OM") platform is a cloud-based mobility management platform that securely manages network connectivity and subscribers across a wide variety of computing and mobile devices and provider networks. We believe this scalable subscriber management, billing and reporting platform is unique in the industry and would be time consuming and expensive to replicate. This platform is the gateway that allows users to access our hotspots around the globe.

**Integrated Authentication Fabric:** We have a global authentication fabric of integrated servers and software that is interconnected with over 150 global Wi-Fi networks as of September 30, 2015. This infrastructure allows us to provide secure, highly-available and seamless four-party global authentication, clearing and settlement of Wi-Fi users for our partners and customers.

**Global Wi-Fi Footprint:** We have a Wi-Fi network footprint that is approaching 50 million hotspots in more than 120 countries, including major airports, convention centers, airplanes, trains, train stations, hotels, restaurants, retail, and small business locations. In the second quarter of 2014 we began including both commercial grade venues and public access and community locations that are accessible in the iPass network. Our technology integration across multiple global network providers forms the basis of our network services and we believe creates a unique cost advantage for our customers. We typically contract with network service providers, integrate their networks into our global infrastructure, and monitor their performance to ensure that our customers have a consistent and reliable end user experience.

### Business Portfolio and Our Strategy (Continuing Operations)

#### *Mobility Services*

We provide iPass Open Mobile Enterprise Services ("iPass OME") to enterprises to deliver enhanced network mobility services, addressing enterprises' needs to manage their mobility economics, high speed network connectivity requirements and proliferation of mobile devices, including the "bring-your-own-device" trend. We also provide our iPass Open Mobile Exchange services ("iPass OMX") to strategic partners that incorporate iPass OMX into their core products and services, geared for the mass market. iPass OMX strategic partners include global OEMs or Original Equipment Manufacturers, premium brand partners, software product and service providers, and telecom carriers.

Our growth strategy for Mobility Services includes:

- Launching of iPass UNLIMITED – Targeting sales to small and medium enterprises ("SME") with a per-user-per-month fixed fee subscription service that includes unlimited usage.
- Expansion of both our network footprint and our delivery channels – We continue to aggressively acquire access to new networks to enhance the iPass brand and offer ubiquitous connectivity. We call this iPass EVERYWHERE and are targeting end users by bundling our product into consumer-facing companies offerings such as Hewlett Packard devices, Huawei Smart Phones, and Microsoft software.
- Enhancements to our products and applications – We call this iPass INVISIBLE with the intent to optimize the user experience and make Wi-Fi connectivity seamless, always on, and secure.

For a detailed discussion regarding our mobility business, including our strategy and our service offerings, see "Item 1. Business" included in our Annual Report on Form 10-K for the year ended December 31, 2014.

## Significant Trends and Events

The following describes significant trends and events of our business during the third quarter of 2015.

### *Continue to Focus on our Open Mobile Business*

We measure average users during a quarter as a key metric for our operation's performance. Our Open Mobile Platform had 823,000 average users in the third quarter of 2015 as compared to 770,000 average users in the third quarter of 2014, an increase of 53,000 average users, and 829,000 average users in the second quarter of 2015, a decrease of 6,000 average users. The year over year increase is due to our expansion in new accounts and new bookings including migrating our legacy users to our new network platform. The decrease from the prior quarter's average users reflects the impact of our European users taking their traditional summer vacations during third quarter, resulting in lower traffic through our platform, which is similar to the seasonality we experienced in the prior year.

Our OME Wi-Fi Network average users is 76,000 in the third quarter of 2015 as compared to 78,000 in the third quarter of 2014, a decrease of 2,000 average users, and 83,000 average users in the second quarter of 2015, a decrease of 7,000 average users. The year over year decrease in average users reflects the impact of customer attrition. The decrease from the prior quarter's average users reflects the impact of our European users taking their traditional summer vacations during third quarter, resulting in lower traffic through our platform, which is similar to the seasonality we experienced in the prior year.

Historically our OME revenue growth has been driven by a combination of organic customer user and usage ramps, legacy platform customer migrations, and new enterprise customer acquisition. We are now focused on growing our OME revenues by addressing new markets for SME and aggressively acquiring new customers under our UNLIMITED offerings. See "Key Operating Metrics" below for a full discussion of our user metrics.

### *Continue to Broaden our Wholesale OMX Distribution Channels*

Our OMX business was originally developed as a wholesale product for our carrier partners to resell Wi-Fi network access to their end-users. We continue to focus on this market and have expanded our wholesale distribution to a variety of other reseller partners including OEM. As a result, we grew iPass OMX revenues by 121% and 86% for the three and nine months ended September 30, 2015, respectively as compared to the same periods in 2014. In addition, deferred revenue (short-term plus long-term) at September 30, 2015 and December 31, 2014 was \$2.5 million and \$0.6 million, respectively. The increase in deferred revenue was primarily driven by a strategic OEM deal that was signed in late 2014.

Our OMX Wi-Fi Network average users is 24,000 in the third quarter of 2015 as compared to 9,000 in the third quarter of 2014, an increase of 15,000 average users, and 11,000 average users in second quarter of 2015, an increase of 13,000 average users. The increases are driven by new customer acquisitions and ramping of strategic partnerships.

### *Contested Proxy*

A group of stockholders led by Maguire Asset Management, Francis Capital Management, and Foxhill Opportunity Fund (collectively "the Maguire Group"), initiated a proxy contest with respect to the matters to be voted upon at our 2015 Annual Meeting of Stockholders. On May 28, 2015, we entered into an agreement pursuant to which we settled the proxy contest (see our Form 8-K filed with the Securities and Exchange Commission on May 29, 2015). In the quarter ended June 30, 2015, we expensed \$446,000 related to the proxy contest.

### *Restructuring*

On May 7, 2015, we announced a restructuring plan (the "Q2 2015 Plan") intended to flatten the organization, to create a more nimble sales and delivery infrastructure to support a subscription based SaaS go to market strategy, and to accelerate our cash flow break-even point. The restructuring plan reduced our global workforce by approximately 14% and we recorded approximately \$4.2 million of restructuring charges, which included an additional \$0.9 million in the third quarter of 2015 related to severance obligations for certain international employees.

## Key Operating Metrics

Described below are key metrics that we use to evaluate our operating performance and our success in transforming our business and driving future growth.

### *OM Wi-Fi Network Users*

OME and OMX Wi-Fi Network Users are the number of our platform users each month in a given quarter that paid for Wi-Fi network services from iPass.

**OM Platform Active Users**

OME Platform Active Users is the number of users who were billed Open Mobile platform fees and who have used or deployed Open Mobile.

The following table summarizes the number of active users of iPass OME and OMX services. Each user metric below is calculated as the average number of active users per month, during a given quarter, for which a fee was billed by iPass for either Wi-Fi or Platform services (in thousands):

	For the Quarter Ended				
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
OME Wi-Fi Network Users	76	83	83	84	78
OMX Wi-Fi Network Users	24	11	9	9	9
<b>Total Wi-Fi Network Users</b>	<b>100</b>	<b>94</b>	<b>92</b>	<b>93</b>	<b>87</b>
OME Active Platform Users	823	829	815	814	770

**Deferred Revenue (Short-term plus Long-term)**

Deferred Revenue represents sales invoiced in advance of recognition under our revenue recognition policy. As noted above, deferred revenue more than quadrupled from \$0.6 million as of December 31, 2014 to \$2.5 million as of September 30, 2015. The increase in deferred revenue was primarily driven by a new OEM deal that was signed in late 2014, as billings continue to out-pace revenue being recognized.

**Annual Contract Value ("ACV")**

Annual Contract Value represents the annualized sales value under contract for newly acquired customers or significant upsell and is made up of unbilled deferred revenue. For the third quarter 2015, ACV was \$1.6 million up from \$1.3 million in the second quarter of 2015, and from \$0.4 million in the first quarter of 2015. We believe ACV will be a key reporting metric as we migrate sales efforts to a more SaaS-like recurring monthly subscription model.

**Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"), a Non-GAAP Financial Measure**

Adjusted EBITDA is used by our management as a measure of operating efficiency, financial performance and as a benchmark against our peers and competitors. In addition, we also use this metric as a factor in our incentive compensation payouts. Management also believes that Adjusted EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to understand our performance excluding the impact of items which may obscure trends in our core operating performance. We define Adjusted EBITDA as net income (loss) adjusted for interest, income taxes, depreciation and amortization, stock-based compensation, restructuring charges, net income (loss) from discontinued operations, CEO exit costs – severance, proxy contest costs, non-recurring legal costs, and collection of previously written off bad debt expense from bankruptcy proceedings. We adjust for these excluded items because we believe that, in general, these items possess one or more of the following characteristics: their magnitude and timing is largely outside of our control; they are unrelated to the ongoing operation of the business in the ordinary course; they are unusual or infrequent and we do not expect them to occur in the ordinary course of business; or non-cash expenses involving stock option grants and restricted stock issuances. Adjusted EBITDA is not a measure determined in accordance with GAAP and should not be considered in isolation or as a substitute for operating income (loss), net income (loss) or any other measure determined in accordance with GAAP. Further, other companies may calculate Adjusted EBITDA differently than we do and, accordingly, Adjusted EBITDA may not be comparable to Adjusted EBITDA as calculated by other companies.

[Table of Contents](#)

The following table reconciles Adjusted EBITDA to GAAP Total Net Income (Loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
<b>Adjusted EBITDA</b>	<b>\$ (1,623)</b>	<b>\$ (3,128)</b>	<b>\$ (5,932)</b>	<b>\$ (11,368)</b>
Interest expense	(12)	(29)	(50)	(95)
Income tax (expense) benefit	(29)	1,355	(196)	5,538
Depreciation of property and equipment	(737)	(812)	(2,214)	(2,363)
Stock-based compensation benefit (expense)	(111)	(129)	522	(1,086)
Restructuring charges and related adjustments	(916)	(715)	(4,179)	(745)
CEO exit costs – severance	—	—	(621)	—
Proxy contest costs	—	—	(446)	—
Nonrecurring legal costs	—	—	(129)	—
Collection of previously written off bad debt expense from bankruptcy proceeding	—	345	—	345
Net income (loss) from discontinued operations	—	(1,296)	—	20,693
<b>GAAP Total Net Income (Loss)</b>	<b>\$ (3,428)</b>	<b>\$ (4,409)</b>	<b>\$ (13,245)</b>	<b>\$ 10,919</b>

In the table above, Adjusted EBITDA for prior periods has been recast to exclude net income from discontinued operations and related changes to adjustment items such as tax, depreciation and stock based compensation.

#### ***Critical Accounting Policies and Estimates***

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on our historical experience, knowledge of current conditions and our belief of what could occur in the future considering available information, including assumptions that we believe to be reasonable under the circumstances. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty and actual results could differ materially from the amounts reported based on these policies. On an ongoing basis, we evaluate our estimates and judgments.

There have been no significant changes in our critical accounting policies and estimates during the three months ended September 30, 2015, as compared to the critical accounting policies and estimates disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2014.

#### ***Recent Accounting Pronouncements***

See Note 1 “Basis of Presentation and Recent Accounting Pronouncements” included in Part I, Item 1, of this report for information regarding recent accounting pronouncements.

#### **Results of Operations**

##### ***Sources of Revenue***

We operate as a single reportable operating segment: Mobility Services, which we analyze based on revenue from continuing operations. Within Mobility Services, we differentiate between Open Mobile and Legacy iPC generated revenue.

Open Mobile revenue consists of:

[Table of Contents](#)

- Network—Wi-Fi and minimum customer commitments based on the number of network users sourced from the Open Mobile platform.
- Platform—Fees based on the number of Active Open Mobile monetized platform users and other fees specific to providing additional value add services to Open Mobile customers.
- Open Mobile Exchange—Revenue generated from our iPass OMX customers that incorporate our unique infrastructure offerings into their core products and services for the mass market.

Legacy iPC revenue consists of:

- Dial-up and 3G network,
- iPC platform and related services, as well as iPC driven network usage relating to iPC user driven Wi-Fi and minimum commit shortfall.

Mobility Services	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
<b>Revenue</b>	\$ 14,985	\$ 17,250	\$ 47,138	\$ 52,649
<b>Open Mobile</b>	\$ 14,198	\$ 14,611	\$ 44,023	\$ 42,533
<b>Open Mobile Enterprise (OME)</b>	\$ 12,466	\$ 13,827	\$ 39,928	\$ 40,329
Network	10,169	9,819	31,158	28,176
Platform	2,297	4,008	8,770	12,153
<b>Open Mobile Exchange (OMX)</b>	\$ 1,732	\$ 784	\$ 4,095	\$ 2,204
<b>Legacy iPC</b>	\$ 787	\$ 2,639	\$ 3,115	\$ 10,116

For the three months ended September 30, 2015, overall Mobility Services revenue decreased \$2.3 million or 13% as compared to the same period in 2014. This was due to a combination of lower Platform revenue of \$1.7 million and lower Legacy iPC revenue of \$1.9 million, partially offset by higher Network revenue of \$0.3 million and higher iPass OMX revenue of \$1.0 million. Platform revenue was lower principally due to renegotiated contracts with large carriers that resulted in lower monthly commitments. Legacy iPC revenue was lower as a result of the expected reduction in usage for our 3G and Dial-up services as well as the expected continued migrations to OM. Network revenue was higher as a result of continued growth of in-flight wireless usage. iPass OMX revenue was higher and continues to expand quarter over quarter as we build out our business model surrounding this product offering and open new channels for product distribution.

For the nine months ended September 30, 2015, overall Mobility Service revenue decreased \$5.5 million or 10%. This was a combination of lower Platform revenues of \$3.4 million and lower Legacy iPC revenue of \$7.0 million, partially offset by higher Network revenues of \$3.0 million and higher iPass OMX revenues of \$1.9 million. Platform revenue was lower principally due to renegotiated contracts with carrier partners that resulted in lower monthly commitments. Legacy iPC revenue was lower as a result of the expected reduction in usage for our 3G and Dial-up services as well as the expected continued migrations to OM. Network revenue was higher as a result of continued growth of in-flight wireless usage. iPass OMX revenue was higher and continued to expand nine months over nine months as we built out our business model surrounding this product offering and opened new channels for product distribution.

**Network Gross Margin**

We use network gross margin as a metric to assist us in assessing the profitability of our various network services. Our overall network gross margin is defined as network revenue less network access costs divided by network revenue.

Network Gross Margin (%)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	41.1%	38.6%	43.3%	40.1%

For the three and nine months ended September 30, 2015, network gross margin increased by 2.5 and 3.2 percentage points, respectively, as compared to the same periods in 2014 which is primarily due to the strengthening of the US dollar against currencies in which we buy network access and benefit from supplier initiatives to reduce our effective buy rates.

[Table of Contents](#)**Cost of Revenue and Operating Expenses***Network Access Costs (NAC)*

NAC consist of charges for network access which we pay to our network service providers and other direct cost of sales.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Network access costs	\$ 7,186	\$ 7,584	\$ 20,899	\$ 22,462
As a percentage of total revenue	48.0%	44.0%	44.3%	42.7%

For the three months ended September 30, 2015, network access costs decreased by \$0.4 million or 5% as compared to the same period in 2014. This was primarily due to the decrease in 3G network access costs of \$0.4 million from the expected decline in 3G legacy customers.

For the three months ended September 30, 2015, network access costs as a percentage of total revenue increased 4 percentage points as compared to the same period in 2014. This was primarily due to the decrease in platform revenue of \$1.7 million as there are no network access costs associated with our platform revenues.

For the nine months ended September 30, 2015, network access costs decreased \$1.6 million or 7% as compared to the same period in 2014. This was primarily due to the decrease in 3G network access costs of \$1.5 million from the expected decline in 3G legacy customers.

For the nine months ended September 30, 2015, network access costs as a percentage of total revenue increased 1.6 percentage points as compared to the same period in 2014. This was primarily due to the decrease in platform revenue of \$3.4 million as there are no network access costs associated with our platform revenues.

*Network Operations*

Network operations expenses consist of compensation and benefits for our network engineering, customer support and network access quality personnel, outside consultants, transaction center fees, network equipment depreciation, and allocated overhead costs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Network operations costs	\$ 2,169	\$ 3,093	\$ 7,629	\$ 10,146
As a percentage of total revenue	14.5%	18.0%	16.2%	19.3%

For the three months ended September 30, 2015, network operations expense decreased \$0.9 million or 30% as compared to the same period in 2014, primarily due to decreases in headcount-related expenses.

For the nine months ended September 30, 2015, network operations expense decreased \$2.5 million or 25% as compared to the same period in 2014, primarily due to decreases in headcount-related expenses of \$2.1 million, decreases in network service cost of \$0.2 million, and decreases in maintenance expenses of \$0.2 million.

*Research and Development*

Research and development expenses consist of compensation and benefits for our research and development personnel, consulting, and allocated overhead costs.

[Table of Contents](#)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Research and development expense	\$ 2,456	\$ 2,853	\$ 7,948	\$ 9,114
As a percentage of total revenue	16.4%	16.5%	16.9%	17.3%

For the three months ended September 30, 2015, research and development expense decreased \$0.4 million or 14% as compared to the same period in 2014, mainly due to decreases in headcount related expenses.

For the nine months ended September 30, 2015, research and development expense decreased \$1.2 million or 13% as compared to the same period in 2014, mainly due to decreases in headcount related expenses.

*Sales and Marketing*

Sales and marketing expenses consist of compensation, benefits, advertising and promotion costs, and allocated overhead costs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Sales and marketing expense	\$ 2,506	\$ 3,548	\$ 8,072	\$ 12,325
As a percentage of total revenue	16.7%	20.6%	17.1%	23.4%

For the three months ended September 30, 2015, sales and marketing expense decreased \$1.0 million or 29% as compared to the same period in 2014, primarily due to decreases in headcount-related costs of \$0.9 million and decreases in marketing expense of \$0.1 million.

For the nine months ended September 30, 2015, sales and marketing expense decreased \$4.2 million or 34% as compared to the same period in 2014, primarily due to decreases in headcount-related costs of \$3.7 million, and decreases in marketing expenses of \$0.5 million.

*General and Administrative*

General and administrative expenses consist primarily of compensation and benefits for general and administrative personnel, legal and accounting expenses.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
General and administrative expense	\$ 3,067	\$ 4,286	\$ 11,274	\$ 13,287
As a percentage of total revenue	20.5%	24.8%	23.9%	25.2%

For the three months ended September 30, 2015, general and administrative expense decreased \$1.3 million or 29% as compared to the same period in 2014, due to decreases in headcount related costs of \$1.0 million and rent expense of \$0.3 million due to lower rent on a lease renewal.

For the nine months ended September 30, 2015, general and administrative expense decreased \$2.0 million or 15% as compared to the same period in 2014, due to decreases in headcount related costs of \$1.8 million and rent expense of \$0.4 million due to lower rent on a lease renewal.

**Other Income and Expenses****Foreign Exchange Gains and Losses**

Foreign exchange gains and losses primarily include realized and unrealized gains and losses on foreign currency transactions. Foreign currency exchange rate fluctuations impact the re-measurement of certain assets and liabilities denominated in currencies other than the U.S. Dollar and generate unrealized foreign exchange gains or losses. In addition, some of our network access costs are invoiced in currencies other than the U.S. Dollar. The transactional settlement of these outstanding invoices and other cross-currency transactions generate realized foreign exchange gains or losses depending on the fluctuation of exchange rates between the date of invoicing and the date of payment.

For the three and nine months ended September 30, 2015 and 2014, we did not enter into any hedging contracts. Foreign exchange loss for the three months ended September 30, 2015 was \$72,000 and foreign exchange gain for the nine months ended September 30, 2015 was effectively break even.

**Provision for Income Taxes**

Income tax provision for the three and nine months ended September 30, 2015 was approximately \$29,000 and \$0.2 million, respectively. Income tax benefit for the three and nine months ended September 30, 2014 was approximately \$1.4 million and \$5.5 million, respectively.

The income tax provision recorded for the three and nine months ended September 30, 2015, primarily relates to foreign taxes on expected profits in foreign jurisdictions. The income tax benefit recorded for the three and nine months ended September 30, 2014, primarily related to the utilization of tax losses from continuing operations against discontinued operations gains in accordance with intraperiod tax allocation under ASC 740 *Income Taxes*.

**Divestiture of Business Segment**

On July 1, 2014, we announced that we had completed the sale of our Unity business for \$28.1 million to Tolt Solutions, and accrued approximately \$2.2 million of transaction costs which were fully paid in 2014. The purchase agreement was signed and the sale was completed on June 30, 2014 resulting in a before tax gain of \$25.0 million during the second quarter of 2014. The gross cash proceeds of the sale included \$1.4 million placed in escrow as of June 30, 2014 to cover any contingent claims made by the buyer against iPass through June 30, 2015, which was recorded in Prepaid Expenses and Other Current Assets. There were no claims made against the escrow and the cash proceeds were released to us and are included in Cash and Cash Equivalents as of June 30, 2015. See Note 11 "Divestiture of Business Segment" included in Part I, Item 1, of this report for further discussion.

**Liquidity and Capital Resources**

We had cash and cash equivalents of \$24.2 million at September 30, 2015, compared to \$33.8 million at December 31, 2014.

	Nine Months Ended September 30,	
	2015	2014
(In thousands)		
<b>Cash Flows</b>		
Net cash used in operating activities	\$ (9,774)	\$ (12,234)
Net cash provided by investing activities	908	25,738
Net cash used in financing activities	(705)	(406)
Net (decrease) increase in cash and cash equivalents	<u>\$ (9,571)</u>	<u>\$ 13,098</u>

**Operating Activities**

Net cash used in operating activities decreased by approximately \$2.5 million for the nine months 2015 over 2014. Cash used as a result of net loss, after adjustment for non-cash items, was unfavorable \$1.0 million driven by payments on the 2015 restructuring. Changes in working capital were favorable \$3.5 million on cash collected on a ramping deferred revenue balance and timing on other receivables and payables.

## [Table of Contents](#)

### *Investing Activities*

Net cash provided by investing activities decreased by approximately \$24.8 million for the nine months 2015 over 2014. This decrease is primarily a result of the one-time proceeds of \$26.8 million from the sale of the Company's Unity business in the third quarter of 2014, partially offset in 2015 by the release of cash held in escrow of \$1.4 million related to the sale of the Unity business, lower purchases of property and equipment by \$0.5 million and the release of restricted cash of \$0.1 million.

### *Financing Activities*

Net cash used for financing activities increased by approximately \$0.3 million for the nine months 2015 over 2014 related to payments for vendor financed property and equipment.

### ***Sources of Cash and Future Cash Requirements***

We have historically relied on existing cash and cash equivalents and cash flow from operations for our liquidity needs. We use a professional investment management firm to manage a large portion of our cash which is invested primarily in money market accounts. We believe that based on our current business plan and revenue prospects and our anticipated cash flows from operations, our existing cash balances will be sufficient to meet our working capital and operating resource expenditure requirements for at least the next twelve months.

The amount of cash and cash equivalents held by our foreign subsidiaries as of September 30, 2015, and December 31, 2014, was \$0.4 million and \$0.9 million, respectively. We currently do not intend to distribute any of our cumulative earnings by our foreign subsidiaries to the parent company in the U.S.

### ***Primary Uses of Cash***

Our principal use of cash during the nine months ended September 30, 2015 was for network access costs, payroll related expenses, CEO exist costs, payments for vendor financing equipment purchase, reduction in force severance costs, and general operating expenses including marketing, office rent, and capital expenditures.

### ***Contractual Obligations***

The following are our contractual obligations as of September 30, 2015:

	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>
	<b>(In thousands)</b>			
Operating Lease Obligations	\$ 6,807	\$ 1,718	\$ 3,799	\$ 1,290
Other Purchase Commitments	8,947	5,203	3,744	—
<b>Total Contractual Obligations (1)</b>	<b>\$ 15,754</b>	<b>\$ 6,921</b>	<b>\$ 7,543</b>	<b>\$ 1,290</b>

(1) See Note 8 "Commitments and Contingencies"

Included above, we have a future minimum purchase commitment of approximately \$0.2 million related to an annual support fee for acquired enterprise infrastructure hardware to be paid over the next year.

Our contractual commitments at December 31, 2014, were \$14.1 million. For information on our contractual commitments at December 31, 2014, see "Contractual Obligations" in Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2014.

### ***Off-Balance Sheet Arrangements***

As part of our ongoing business, we do not participate in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. We did not have any off-balance sheet arrangements at September 30, 2015, and December 31, 2014, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Exchange Rate Risk**

We are exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to our operations for the three and nine months ended September 30, 2015, were the Euro, the British Pound, and the Indian Rupee. We are primarily exposed to foreign currency fluctuations related to network access costs and other operating expenses denominated in currencies other than the U.S. Dollar. As such, we benefit from a stronger U.S. Dollar and may be adversely affected by a weaker U.S. Dollar relative to each foreign currency. Currently, we do not enter into currency forward exchange or option contracts to hedge foreign currency exposures. The impact of foreign currency fluctuations is also discussed in “Foreign Exchange Gains and Losses” under Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

#### **Interest Rate Risk**

As of September 30, 2015, we had cash and cash equivalents of \$24.2 million and no short-term investments or restricted cash. As of December 31, 2014, we had cash and cash equivalents of \$33.8 million, restricted cash of \$1.6 million and no short-term investments. Our cash balances are held primarily in bank deposits and money market accounts with a remaining maturity of three months or less at the time of purchase. As a result, we do not believe we are exposed to material interest rate risk.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

As of the end of the period covered by this report, management of iPass conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at a reasonable assurance level, as of the end of the period covered by this report, to ensure that information required to be disclosed was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to provide reasonable assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

During the quarter ended September 30, 2015, there have been no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Inherent Limitations of Disclosure Control and Procedures and Internal Control over Financial Reporting**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within iPass have been detected.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

*In addition to the factors discussed elsewhere in this report and our other reports filed with the Securities and Exchange Commission, the following are important factors that could cause actual results or events to differ materially from those contained in any forward-looking statements made by us or on our behalf. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we deem immaterial also may impair our business operations. If any of the following risks or such other risks actually occurs, our business could be harmed.*

*We have marked with an asterisk (\*) the risk factors below that reflect additional risk facing us from the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 13, 2015.*

***If customer adoption and deployment of our Open Mobile Platform is slow, especially on smartphone and tablet devices, our ability to grow our Mobility Services business could be harmed.***

The future success of our business will depend in large part on our current and prospective customers' timeliness of adoption and deployment of our Open Mobile Platform. Key risks associated with our Open Mobile Platform and services are as follows:

*Customer adoption and deployment of our Open Mobile Platform, especially on smartphone and tablet devices, may be slow.* We believe that the growth of our business is dependent on the timely adoption and deployment of the Open Mobile Platform by our customers. In particular, smartphone and tablet devices are becoming more relied upon by our customers for their mobile computing needs and may cause our users to stop using laptops while traveling, or to use them less often. We believe it is critical for our business that our services for smartphone and tablet devices achieve market acceptance and that our customers rapidly adopt and deploy our services on smartphone and tablet devices. A material delay in the adoption and deployment of the Open Mobile Platform by our customers, on smartphone and tablet devices in particular, will adversely impact our ability to grow revenues and achieve profitability.

*Customer deployment of our Open Mobile Platform may not result in increased use of our services.* We believe it is important to the future success of our business that users of our Mobility Services increase their usage of our platform and network services. We believe that the deployment by our customers of our Open Mobile Platform, especially on smartphone and tablet devices, will lead to increased usage of our platform services and correspondingly, our network services, which will lead to an increase in our revenue. However, even if a significant portion of our customers deploy our Open Mobile Platform, there is no guarantee that our customers will use our services more frequently.

*Our Open Mobile Platform may have technical limitations that cause our customers to delay adoption or deployment.* There is risk that the Open Mobile Platform may contain technological limitations, bugs or errors that would cause our customers to not adopt or delay the adoption of the Open Mobile Platform. If some or all of these risks associated with our Open Mobile Platform were to occur, adoption and deployment of our Open Mobile Platform may not occur and our business could be harmed.

*Customers must be willing to continue to pay for our platform or our revenue growth may slow.* We believe that it is important that the value proposition of our Open Mobile Platform is accepted by our customers such that they are willing to pay for their users to use our mobility services. If our customers are willing to adopt our Open Mobile Platform but are not willing to pay for the platform, our ability to grow revenues and achieve profitability could be adversely impacted.

***If our OMX service offerings do not achieve expanded market acceptance our ability to grow our business could be harmed.***

Our OMX service offerings were introduced in 2011 and incorporate our Open Mobile Platform, global authentication fabric, and global Wi-Fi network to provide reseller, wholesale, and carrier partners around the world with the infrastructure to offer their customers new mobility services. We have entered into contracts with a number of customers for our OMX services, but ramping revenues takes time to develop. We have devoted significant resources to building our OMX service line of business. If OMX service offerings do not achieve expanded market acceptance and generate meaningful revenues our financial condition may be harmed.

***If Global 3G/4G data roaming rates decline precipitously, our ability to grow our business could be harmed.***

For our network services to be attractive to our customers, the cost of 3G/4G roaming must be meaningfully greater than the cost of our Wi-Fi network services. Currently, in certain geographies such as Asia, 3G/4G roaming prices are not significantly higher than our rates for Wi-Fi access. In Europe, legislation has been enacted mandating the reduction of wholesale 3G/4G roaming prices. If 3G/4G roaming prices do not remain meaningfully higher than our Wi-Fi network prices then our ability to sell our Mobility Services could be impacted and our business harmed.

***Our decision to “End-of-Life” our legacy iPC platform product has and will continue to impact our total revenues.***

As of July 1, 2012 our iPC or legacy platform reached end-of-life. While the iPC platform continues to function for existing customers, we only provide basic support and only for customers that pay extended support fees. While we believe that the end-of-life of iPC will encourage our customers to migrate to our Open Mobile platform, iPC customers may decide to instead terminate their service with us. If the number of iPC customers who decide to terminate their service with us is greater than expected, our results of operations could be negatively impacted.

***If key global Wi-Fi venues offer “no charge” Internet access to all users, our network revenues could be negatively affected.***

We derive a significant portion of our network revenue from providing Wi-Fi access in certain key venues (e.g., hotels, airports and cafes). In general, these venues charge their customers for Wi-Fi access. If these venues begin offering Wi-Fi access at no charge, the amount we can charge our customers for Wi-Fi access at these venues will likely decrease or we may not charge our customers for Wi-Fi access at these venues. For example, Starbucks and certain airports in the United States have ceased charging their customers for Wi-Fi access and we have experienced reduced revenues as a result. If this trend continues at other key Wi-Fi venues, our network revenues and overall profitability may be negatively impacted.

***\*If we do not accurately predict network usage for our Flat Rate or iPass UNLIMITED price plans, our costs could increase without a corresponding increase in network revenue.***

A significant number of our customers have purchased our Flat Rate network price plans, and we are signing new customers to our iPass UNLIMITED plan. In these plans, our customers pay a flat rate price to access our network services. However, in the majority of situations we continue to pay our providers based on actual network usage. The rate we charge in these plans is based on statistical predictions of usage across a pool of users within a customer. If actual usage is higher than expected our ability to achieve profitability could be negatively impacted.

In 2014, we implemented certain fixed rate buying structures with some providers to mitigate this risk. However, buying network access at a fixed rate creates additional risk if our customers were to use less Wi-Fi in the future, which could negatively impact our profitability.

***If demand for mobility services does not grow or grows in ways that do not require use of our services, we may experience a decline in revenues and profitability.***

The growth of our business is dependent, in part, upon the increased use of mobility services and our ability to capture a higher proportion of this market. If the demand for mobility services does not continue to grow, or grows in ways that do not require use of our services, then we may not be able to grow our business, or achieve or maintain profitability. Increased usage of our Mobility Services depends on numerous factors, including:

- Willingness of enterprises to make additional information technology expenditures;
- Availability of Securities and Exchange Commissionurities and Exchange Commissionurity services necessary to ensure data privacy over a variety of networks;
- Quality, cost and functionality of our services and competing services;
- Increased adoption of wireless broadband access methods and our ability to support these new methods;
- Proliferation of smartphones, tablets and mobile handheld devices and related applications, and our ability to provide valuable services and support for those devices;
- Our ability to partner with mobile network operators and service providers that are willing to stimulate consumer awareness and adoption of our Mobility Services; and
- Our ability to timely implement technology changes to our services to meet evolving industry standards for mobile devices, Wi-Fi network access and customer business requirements.

***If we are unable to meet the challenges posed by Wi-Fi access, our ability to profitably grow our business may be impaired.***

A substantial portion of the growth of our business has depended, and will continue to depend, in part upon our ability to expand our global Wi-Fi network. Such an expansion may not result in additional revenues to us. Key challenges in expanding our Wi-Fi network include:

*The Wi-Fi access market continues to develop at a rapid pace.* We derive a significant portion of our revenues from wireless broadband “hotspots,” such as certain airports, hotels and convention centers. The Wi-Fi access market continues to develop rapidly, in particular: the market for enterprise connectivity services through Wi-Fi is characterized by evolving industry standards and specifications and there is currently no uniform standard for Wi-Fi access. Furthermore, although the use of wireless frequencies generally does not require a license in the United States and abroad, if Wi-Fi frequencies become subject to licensing

## [Table of Contents](#)

requirements, or are otherwise restricted, this would substantially impair the growth of Wi-Fi access. Some large telecommunications providers and other stakeholders that pay large sums of money to license other portions of the wireless spectrum may seek to have the Wi-Fi spectrum become subject to licensing restrictions. If the Wi-Fi access market develops in ways that limit access growth, our ability to generate substantial revenues from Wi-Fi access could be harmed.

*The Wi-Fi service provider market is highly fragmented.* There are currently many Wi-Fi service providers that provide coverage in only one or a small number of hotspots. We have entered into contractual relationships with numerous Wi-Fi service providers. These contracts generally have an initial term of two years or less. We must continue to develop relationships with many providers on terms commercially acceptable to us to provide adequate coverage for our customers' mobile workers and to expand our Wi-Fi coverage. We may also be required to develop additional technologies to integrate new wireless broadband services into our service offering. If we are unable to develop these relationships or technologies, our ability to grow our business could be impaired.

*Consolidation of large Wi-Fi service providers may impair our ability to expand network service coverage, negotiate favorable network access terms, and deliver consistent service in our network.* The telecommunications industry is rapidly evolving and highly competitive. These factors may cause large Wi-Fi network service providers to consolidate, which would reduce the number of network service providers from which we are able to obtain network access in key locations. If significant consolidation occurs, we will have a smaller number of network service providers to acquire Wi-Fi network access from and we may not be able to provide additional or sufficient redundant access points in some geographic areas, which could diminish our ability to provide broad, reliable, redundant coverage. Further, our ability to negotiate favorable access rates from Wi-Fi network service providers could be impaired, which could increase our network access expenses and harm our operating results.

*Wi-Fi service provider actions may restrict our ability to sell our services.* Some Wi-Fi network providers restrict our ability to sell access to their networks to our resellers whom they consider competitive with them. This can reduce our revenue by limiting the footprint our partners can make available to their customers.

### ***Significant dependency on key network providers could negatively affect our revenues.***

There are certain venues (hotels, airports, airplanes, cafes, etc.) globally where we depend on key providers for network access in those venues. In addition, in certain geographies we depend on a small number of providers for a large portion of network access. If such a provider were to go out of business, terminate their agreement with us, encounter technical difficulty such that network access was not available to our customers for an extended period of time, it could have a negative impact on our revenues and profitability if we cannot find an alternative provider to enable network access in those venues or geographies.

### ***We face competition in the market for mobility services, which could make it difficult for us to succeed.***

While we do not believe there are service providers in the mobility services market that offer a platform or range of services in an integrated offering as we do, we compete with a variety of service providers, including facilities-based carriers, cloud-based platform operators and mobility management solution providers. Some of these providers have substantially greater resources, larger customer bases, longer operating histories and/or greater name recognition than we have. In addition, we face the following challenges:

*Many of our competitors can compete on price.* Because many of our facilities-based competitors own and operate physical networks they may be able to provide additional hotspot access at little incremental cost to them. As a result, they may offer network access services at a lower cost, and may be willing to discount or subsidize network access services to capture other sources of revenue. In contrast, we have traditionally purchased network access from facilities-based network service providers to enable our network access service and in these cases, may not be able to compete aggressively on price. In addition, new cloud-based platform operators may enter the mobility services market and compete on price. In either case, we may lose business or be forced to lower our prices to compete, which could reduce our revenues.

*Many of our competitors offer additional services that we do not, which enables them to bundle these services and compete favorably against us.* Some of our competitors provide services that we do not, such as 3G/4G data roaming, local exchange and long distance services, voicemail and digital subscriber line, or DSL, services. Potential customers that desire these services on a bundled basis may choose to subscribe to network access from a competitor that provides these additional services.

*Our potential customers may have unrelated business relationships with our competitors and consider those relationships when deciding between our services and those of our competitors.* Many of our competitors are large facilities-based carriers that purchase substantial amounts of services or provide other services or goods unrelated to network access services. As a result, if a potential customer is also a supplier to one of our large competitors, or purchases unrelated services or goods from our competitor, the potential customer may be motivated to purchase its network access services from our competitor to maintain or enhance its business relationship with that competitor. In addition, our current or potential carrier customers may already have or

## [Table of Contents](#)

may consider buying services from mobility management solution providers which may impact our ability to sell our services to those customers as well as drive market prices down for the services that we offer.

*Users may take advantage of free Wi-Fi networks for Internet and corporate access.* Telecommunications providers may offer free Wi-Fi as part of a home broadband or other service contract, which may force down the prices which the market will bear for our services and could reduce our revenues.

***If our carrier and channel partners do not successfully market our services to their customers, then our ability to grow our revenues could be impaired.***

We sell our services directly through our sales force and indirectly through our channel partners, which include telecommunication carriers, systems integrators and value-added resellers. A large percentage of our sales outside the United States are made through our carrier and channel partners. Our business depends on the efforts and the success of these carrier and channel partners in marketing our services to their customers. Our own ability to promote our services directly to our carrier and channel partners' customers is often limited. Many of our carrier and channel partners may offer services to their customers that may be similar to, or competitive with, our services. Therefore, these channel partners may not actively promote our services. If our channel partners fail to market our services effectively, our ability to grow our revenue could be reduced and our business may be impaired.

***Our revenue and overall profitability may be adversely impacted by material reductions in existing customer and partner purchase commitments.***

Our customers and partners have traditionally entered into contractual provisions that require them to pay the greater of the fees generated from the use of our services or a minimum committed amount over a pre-determined time period. Minimum commitments are negotiated by customers to improve their unit pricing, effectively guaranteeing a certain volume to achieve a reduced unit price. Recent global economic conditions in certain cases caused our customers and partners to generate fees from the use of our services that are significantly less than their minimum committed amounts. Consequently this shortfall has caused some partners and customers upon renewal of their contracts with us, to renew with a lower minimum commitment and in some cases with no minimum commitment. Additionally, in some cases partners and customers are requesting a re-evaluation of their minimum commitments on a prospective basis during the term of their existing contract; to maintain these commercial relationships, we have addressed these requests on a contract by contract basis. The reduction or elimination of minimum purchase commitments could result in lower future revenues.

***Our software is complex and may contain errors that could damage our reputation and decrease usage of our services.***

Our software may contain errors that interrupt network access or have other unintended consequences. If network access is disrupted due to a software error, or if any other unintended negative results occur, such as the loss of billing information, a security breach, unauthorized access to our cloud-based platform or the introduction of a virus by our software onto our customers' computers or networks, our reputation could be harmed and our business may suffer. Our contracts generally limit our exposure to incidental and consequential damages and to the extent possible, we further limit our exposure by entering into insurance policies that are designed to protect our customers and us from these and other types of losses. If these contract provisions are not enforced or enforceable, or if liabilities arise that are not effectively limited or insured, our operating results and financial condition could be harmed.

***Because a meaningful portion of our business is international, we encounter additional risks, which may impact our revenues and profitability.***

We generate a substantial portion of our revenues from international customers. Revenues from customers domiciled outside of the United States were approximately 60% of our revenues for the nine months ended September 30, 2015, of which approximately 50% and 9% were generated in the EMEA and Asia Pacific regions, respectively, and 65% of our revenues for the nine months ended September 30, 2014, of which approximately 48% and 15% were generated in the EMEA and Asia Pacific regions, respectively. The functional currency of our foreign subsidiaries is the U.S. Dollar and we currently bill nearly all of our services in U.S. Dollars. However, we pay certain expenses in local currencies. During the nine months ended September 30, 2015, and years ended December 31, 2014, 2013 and 2012, we have not entered into any hedging contracts to manage foreign currency exposure. Our international operations subject our business to specific risks that could negatively impact our business, including:

- Generally longer payment cycles for foreign customers;
- The impact of changes in foreign currency exchange rates on both the attractiveness of our USD-based pricing and our operating results, particularly upon the re-measurement of assets, liabilities, revenues and expenses and the transactional settlement of outstanding local currency liabilities;
- High taxes in some foreign jurisdictions;

## [Table of Contents](#)

- Difficulty in complying with Internet and data privacy related regulations in foreign jurisdictions;
- Difficulty enforcing intellectual property rights and weaker laws protecting these rights; and
- Ability to efficiently deploy capital and generate returns in foreign jurisdictions.

### ***We may be exposed to credit risk, collection risk and payment delinquencies on our accounts receivable.***

A substantial majority of our outstanding accounts receivables are not secured. Our standard terms and conditions permit payment within a specified number of days following the receipt of our services. While we have procedures to monitor and limit exposure to credit risk on our receivables, there can be no assurance such procedures will effectively limit our collection risk and avoid losses. In addition, under poor global economic conditions, certain of our customers have faced and may face liquidity concerns and have delayed and may delay or may be unable to satisfy their payment obligations, which may have a material adverse effect on our financial condition and operating results.

### ***Our sales cycles are lengthy and could require us to incur substantial costs that may not result in related revenues.***

Our business is characterized by a lengthy sales cycle. Once a contract with a customer is signed there is typically an extended period before the customer or customer's end-users actually begin to use our services, which is when we begin to realize network revenues. As a result, we may invest a significant amount of time and effort in attempting to secure a customer which may not result in any revenues in the near term. Even if we enter into a contract, we may have incurred substantial sales-related expenses well before we recognize any related revenues. If the expenses associated with sales efforts increase and, we are not successful in our sales efforts, or we are unable to generate associated offsetting revenues in a timely manner, our operating results could be harmed.

### ***Cyber security risks and privacy concerns related to Internet-based services could reduce demand for our services.***

The secure transmission of confidential information and mission critical data when using Internet-based services is extremely important to our customers. A key component of our ability to attract and retain customers is the security measures that we have engineered into our network for the authentication of the end-user's credentials. These measures are designed to protect against unauthorized access to our customers' networks. Because techniques used to obtain unauthorized access or to sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures against unauthorized access or sabotage. If an actual or perceived breach of network security occurs, that is attributable to our services, the market perception of the effectiveness of our cyber security measures could be harmed resulting in a negative impact to our business.

As part of providing our services, we collect certain information about the users of our service. As such we must comply with evolving laws and regulations regarding the protection and disclosure of such user information. While we have taken steps to comply with applicable privacy laws and regulations and to protect user information, any well-publicized compromises of our users' data may reduce demand for our services and harm our business.

### ***We rely significantly on information technology to accurately bill our customers and any failure, inadequacy or interruption of that technology could negatively impact our ability to report on our financial performance on a timely basis.***

A key component of our ability to attract and retain customers is the timely and accurate furnishing of monthly detail billing records of activity on our network, rated for the agreements in place with both our customers and our suppliers. Our ability to meet these billing requirements, as well as to effectively manage and maintain our books and records and internal reporting requirements, depends significantly on our internal information technology.

### ***If licenses to third party technologies do not continue to be available to us at a reasonable cost, or at all, our business and operations may be adversely affected.***

We license technologies from several software providers that are incorporated into our services. We anticipate that we will continue to license technology from third parties in the future. Licenses to third party technologies may not continue to be available to us at a reasonable cost, or at all. The loss of the right to use these technologies or other technologies that we license could have an adverse effect on our services and increase our costs or cause interruptions, degradations or delays in our services until substitute technologies, if available, are developed or identified, licensed and successfully integrated into our services.

### ***Litigation arising out of intellectual property infringement could be expensive and disrupt our business.***

We cannot be certain that our services do not, or will not, infringe upon patents, trademarks, copyrights or other intellectual property rights held by third parties, or that other parties will not assert infringement claims against us. Any claim of infringement of proprietary rights of others, even if ultimately decided in our favor, could result in substantial costs and diversion

## [Table of Contents](#)

of our resources. Successful claims against us may result in an injunction or substantial monetary liability, which in either case could significantly impact our results of operations or materially disrupt the conduct of our business. If we are enjoined from using a technology, we will need to obtain a license to use the technology, but licenses to third-party technology may not be available to us at a reasonable cost, or at all.

*To compete we must attract and retain key employees, and our failure to do so could harm our results of operations.*

To compete we must attract and retain executives, sales representatives, engineers and other key employees. Hiring and retaining qualified executives, sales representatives and engineers are critical to our business, and competition for experienced employees in our industry can be intense. If we experience an unexpected significant turnover of our executives, sales representatives, engineers and other key employees it will be difficult to achieve our business objectives and could adversely impact our results of operations.

*If we fail to develop and effectively market our brand, our operating results may be harmed.*

We believe that expanding awareness of the iPass brand is important to growing and achieving acceptance of our iPass Open Mobile Platform. We have increased our marketing efforts, including new promotional and marketing activities, to further implement our global marketing objectives. These promotional and marketing activities may not result in any increased revenue. Further, any potential revenue increase as a result of these promotional and marketing activities may not offset the expenses incurred in further promoting the iPass brand.

## **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

### **Issuer Purchases of Equity Securities**

The following table summarizes acquisitions of shares of our common stock during the third quarter of fiscal 2015 from employees. These shares were restricted shares subject to vesting, and for those shares that were not vested as of the date of termination of the respective employee, we required the unvested shares from the employee:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet be Repurchased Under the Plans or Programs</u>
July 1, 2015, to July 31, 2015	170,000	\$ --	--	\$ --
August 1, 2015, to August 31, 2015	5,000	\$ --	--	\$ --
September 1, 2015, to September 30, 2015	--	\$ --	--	\$ --
Total	<u>175,000</u>		<u>--</u>	

## **Item 6. Exhibits**

See the Index to Exhibits which follows the signature page of this Quarterly Report on Form 10-Q, and which is incorporated herein by reference.

**SIGNATURE**

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

Date: November 5, 2015

**iPass Inc.**

/s/ Darin R. Vickery

Darin R. Vickery

Chief Financial Officer

(Principal Financial and Accounting Officer)

**INDEX TO EXHIBITS**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
3.1	Amended and Restated Certificate of Incorporation. (Filed as Exhibit 3.1 to our Form 10-Q (SEC File No. 000-50327), filed on November 13, 2003, and incorporated by reference herein.)
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation. (Filed as Exhibit 3.2 to our Form 10-Q (SEC File No. 000-50327), filed on August 7, 2009, and incorporated by reference herein.)
3.3	Certificate of Change to Amended and Restated Certificate of Incorporation. (Filed as Exhibit 3.1 to our Form 8-K (SEC File No. 000-50327), filed on February 3, 2010, and incorporated by reference herein.)
3.4	Amended and Restated By-Laws. (Filed as Exhibit 3.4 to our Form 10-Q (SEC File No. 000-50327), filed on November 7, 2013, and incorporated by reference herein.)
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4
4.2	Specimen stock certificate. (Filed as Exhibit 4.2 to our Registration Statement on Form S-1/A (SEC File No. 333-102715), filed on July 1, 2003, and incorporated by reference herein.)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

## CERTIFICATION

I, Gary A. Griffiths, certify that:

1. I have reviewed this Form 10-Q of iPass Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 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, 2015

By:

/s/ Gary A. Griffiths

---

**Gary A. Griffiths**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

## CERTIFICATION

I, Darin R. Vickery, certify that:

1. I have reviewed this Form 10-Q of iPass Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 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, 2015

By: /s/ Darin R. Vickery

---

**Darin R. Vickery**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002, 18 U.S.C SECTION 1350**

In connection with the Quarterly Report of iPass Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary A. Griffiths, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2015

By: /s/ Gary A. Griffiths

---

**Gary A. Griffiths**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of iPass Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002, 18 U.S.C SECTION 1350**

In connection with the Quarterly Report of iPass Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Darin R. Vickery, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2015

By: /s/ Darin R. Vickery

---

**Darin R. Vickery**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of iPass Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

