
**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, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer	<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"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 139a) of the Exchange Act.

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

The number of shares outstanding of the Registrant's Common Stock, \$0.001 par value, as of November 1, 2017 was 66,742,123.

IPASS INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED September 30, 2017

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,057	\$ 16,072
Accounts receivable, net of allowance for doubtful accounts of \$113 and \$142, respectively	9,576	12,361
Prepaid expenses	1,640	1,344
Other current assets	89	225
Total current assets	18,362	30,002
Property and equipment, net	1,705	2,485
Other assets	708	688
Total assets	\$ 20,775	\$ 33,175
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,729	\$ 7,069
Accrued liabilities	3,512	3,874
Deferred revenue, short-term	2,714	2,412
Total current liabilities	15,955	13,355
Deferred revenue, long-term	108	67
Other long-term liabilities	1,019	1,123
Total liabilities	17,082	14,545
Stockholders' equity:		
Common stock	68	68
Additional paid-in capital	225,082	223,777
Accumulated deficit	(221,457)	(205,215)
Total stockholders' equity	3,693	18,630
Total liabilities and stockholders' equity	\$ 20,775	\$ 33,175

See Accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 13,399	\$ 15,877	\$ 41,159	\$ 47,105
Cost of revenue and operating expenses:				
Network access costs	10,312	8,452	29,469	24,360
Network operations	1,629	1,838	4,835	5,716
Research and development	1,948	1,628	6,059	5,530
Sales and marketing	2,520	2,651	7,588	8,383
General and administrative	3,427	2,555	8,746	8,310
Restructuring charges and related adjustments	—	—	—	788
Total cost of revenue and operating expenses	19,836	17,124	56,697	53,087
Operating loss	(6,437)	(1,247)	(15,538)	(5,982)
Interest income, net	8	12	36	23
Foreign exchange loss, net	(173)	(45)	(351)	(275)
Loss before provision for income taxes	(6,602)	(1,280)	(15,853)	(6,234)
Provision for income taxes	56	61	389	214
Net loss	\$ (6,658)	\$ (1,341)	\$ (16,242)	\$ (6,448)
Comprehensive loss	\$ (6,658)	\$ (1,341)	\$ (16,242)	\$ (6,448)
Net loss per share - basic and diluted				
Net loss per share	\$ (0.10)	\$ (0.02)	\$ (0.25)	\$ (0.10)
Weighted average shares outstanding - basic and diluted	65,878,405	64,546,665	65,683,241	63,893,371

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,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$ (16,242)	\$ (6,448)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	1,041	776
Depreciation and amortization	1,144	1,989
Provision for doubtful accounts	146	(13)
Changes in operating assets and liabilities:		
Accounts receivable	2,639	(989)
Prepaid expenses and other current assets	(160)	1,361
Other assets	(20)	(18)
Accounts payable	3,033	(382)
Accrued liabilities	(362)	(644)
Deferred revenue	343	11
Other liabilities	(104)	62
Net cash used in operating activities	(8,542)	(4,295)
Cash flows from investing activities:		
Purchases of property and equipment	(737)	(299)
Net cash used in investing activities	(737)	(299)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	264	2,673
Principal payments for vendor financed property and equipment	—	(854)
Stock repurchase	—	(345)
Net cash provided by financing activities	264	1,474
Net decrease in cash and cash equivalents	(9,015)	(3,120)
Cash and cash equivalents at beginning of period	16,072	20,294
Cash and cash equivalents at end of period	\$ 7,057	\$ 17,174
Supplemental disclosures of cash flow information:		
Net cash paid for taxes	\$ 180	\$ 194
Accrued amounts for acquisition of property and equipment	\$ —	\$ 1

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, 2016. The Condensed Consolidated Financial Statements as of and for the year ended December 31, 2016, 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, 2016. The results of operations for the three and nine months ended September 30, 2017 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 loss in a single continuous financial statement within its Condensed Consolidated Statements of Operations and Comprehensive Loss. The Company's comprehensive net loss is equivalent to its total net loss because the Company does not have any transactions that are recorded through other comprehensive loss.

Going Concern

The accompanying financial statements were prepared on a going concern basis in accordance with GAAP. The going concern basis of presentation assumes that the Company will continue in operation for the next twelve months from the date the financial statements are issued and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business and does not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the Company's inability to continue as a going concern. The Company's history of losses, limited liquidity and other factors raise substantial doubt about the Company's ability to continue as a going concern. In order for the Company to continue operations beyond the next twelve months and be able to discharge its liabilities and commitments in the normal course of business, management is considering the need for additional financing or the implementation of additional cost cutting measures. There can be no assurance that the Company will be able to achieve sustainable profitable operations or obtain additional funds when needed or that such funds, if available, will be obtainable on terms satisfactory to management.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations and recognition of revenue as the entity satisfies the performance obligations. Subsequently, the FASB issued the following accounting standard updates related to Topic 606, Revenue Contracts with Customers:

- ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) in March 2016. ASU 2016-08 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on principal versus agent considerations.
- ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing in April 2016. ASU 2016-10 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on identifying performance obligations and the licensing.
- ASUs No. 2016-12 and 2016-20, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. These ASUs do not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on a few narrow areas and adds some practical expedients to the guidance.

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The amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company created an internal implementation team and engaged a third-party advisory firm to assist in the implementation of the new standard. The Company established a two-phase plan and recently completed Phase I which involved a high-level adoption analysis and limited review of contracts with customers and commission agreements. As it begins Phase II, the Company will continue to assess the overall impact the adoption of ASU 2014-09 will have on its consolidated financial statements. At this time, the Company is still determining the best and appropriate method of adoption.

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 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, 2017, and December 31, 2016, respectively:

	As of September 30, 2017				As of December 31, 2016			
	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)								
Financial assets								
Money market funds ⁽¹⁾	\$ 5,661	\$ —	\$ —	\$ 5,661	\$ 14,083	\$ —	\$ —	\$ 14,083
Total financial assets	\$ 5,661	\$ —	\$ —	\$ 5,661	\$ 14,083	\$ —	\$ —	\$ 14,083

(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, 2016 through September 30, 2017. As of September 30, 2017 and December 31, 2016, the carrying amounts of accounts receivable, accounts payable, and accrued liabilities approximated fair value due to their short maturities (refer to Note 5 and Note 6 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, 2017	December 31, 2016
(In thousands)		
Equipment	\$ 10,785	\$ 10,492
Furniture and fixtures	378	378
Computer software	10,719	10,431
Construction in progress	36	303
Leasehold improvements	542	536
	22,460	22,140
Less: Accumulated depreciation and amortization	(20,755)	(19,655)
Property and equipment, net	\$ 1,705	\$ 2,485

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For the three months and nine months ended September 30, 2017, depreciation expense was approximately \$0.3 million and \$1.1 million, respectively. For the three months and nine months ended September 30, 2016, depreciation expense was approximately \$0.6 million and \$2.0 million, respectively.

During the three and nine months ended September 30, 2017, the Company retired less than \$0.1 million gross property and equipment. During the three months ended September 30, 2016, the Company did not retire any property and equipment. During the nine months ended September 30, 2016, the Company retired less than \$0.1 million gross property and equipment.

Note 4. Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2017	December 31, 2016
	(In thousands)	
Accrued tax liabilities	\$ 886	\$ 927
Accrued bonus, commissions and other employee benefits	732	808
Accrued vendor financed software (1)	—	373
Amounts due to customers	831	869
Other accrued liabilities	1,063	897
	<u>\$ 3,512</u>	<u>\$ 3,874</u>

(1) See Note 6 "Vendor Financed Property and Equipment"

Note 5. Accrued Restructuring

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 in 2015 and had less than \$0.1 million of payments remaining as of September 30, 2016 for employees termination costs. As of December 31, 2016, the Company had completed all of the related payments associated with Q2 2015 Plan.

During the first quarter of 2016, the Company announced a restructuring plan (the "Q1 2016 Plan") with the stated purpose to achieve positive Adjusted EBITDA profitability in 2016. The Q1 2016 Plan reduced headcount globally by 57 employees, or 30% of the workforce, and primarily eliminated positions in engineering and network operations groups, including a reduction of personnel in the India team. The Company recorded approximately \$0.8 million of restructuring charges in 2016 and as of September 30, 2016, the Company had completed all of the related payments associated with Q1 2016 Plan.

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

	Three Months Ended September 30,	
	2017	2016
	(In thousands)	
Beginning balance	\$ —	\$ 11
Restructuring charges and related adjustments	—	—
Payments and adjustments	—	(10)
Ending balance	<u>\$ —</u>	<u>\$ 1</u>

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	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
Beginning balance	\$ —	\$ 250
Restructuring charges and related adjustments	—	788
Payments and adjustments	—	(1,037)
Ending balance	\$ —	\$ 1

Note 6. Vendor Financed Property and Equipment

In October 2013, the Company acquired enterprise database software (under a term unlimited license agreement) and infrastructure hardware. This purchase was financed through a vendor and was payable over three years. In April 2014, the Company acquired additional enterprise infrastructure hardware which was financed through the vendor and was payable over two years. The total purchases financed by the vendor were approximately \$3.1 million. All payments were completed in fiscal year 2016.

In October 2016, the Company extended the license related to the previously acquired software for approximately \$0.5 million to be paid over one year. Since October 2016, the Company made approximately \$0.5 million of principal payments, and as of September 30, 2017, all payments were completed.

Note 7. 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, 2017, are as follows:

<u>Year</u>	Operating Leases
	(In thousands)
Remainder of 2017	\$ 414
2018	1,330
2019	1,184
2020	926
	<u>\$ 3,854</u>

The Company has contracts with certain network service and other infrastructure providers which have minimum purchase commitments that expire on various dates through December 2019. Future minimum purchase commitments under these agreements as of September 30, 2017, are as follows:

<u>Year</u>	Minimum Purchase Commitments
	(In thousands)
Remainder of 2017	\$ 8,401
2018	6,926
2019	417
	<u>\$ 15,744</u>

Unclaimed Property Compliance

The Company has received notices from several states stating that they have appointed an agent to conduct an examination of the books and records of the Company to determine whether it has complied with state unclaimed property laws. In addition to seeking the turnover of unclaimed property subject to escheat laws, the states may seek interest, penalties, costs of examinations, and other relief. If the potential loss from any payment claim is considered probable and the amount or

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the range of the loss can be estimated, the Company accrues a liability for the estimated loss. To date, the Company is not able to estimate the possible payment, if any, due to the early stages of this matter.

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 8. Net Loss Per Share

Basic net loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding plus dilutive potential common shares as determined using the treasury stock method for outstanding stock options, restricted stock-based awards and shares issuable under the employee stock purchase plan, unless the result of adding such shares would be anti-dilutive. Unvested participating securities are included in the weighted daily average number of shares outstanding used in the calculation of diluted net income per common share, but are excluded from the calculation of diluted net loss per share. In a net loss position, basic and diluted net loss per common share are equal, since the weighted average number of shares used to compute diluted net loss per common share excludes anti-dilutive securities, including participating securities. As a result of the Company's net loss for the three and nine months ended September 30, 2017 and 2016, the Company has excluded all potential shares of common stock from the diluted net loss per share calculation as their inclusion would have had an anti-dilutive effect.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except share and per share amounts)		(In thousands, except share and per share amounts)	
Numerator:				
Net loss	\$ (6,658)	\$ (1,341)	\$ (16,242)	\$ (6,448)
Denominator:				
Weighted average shares outstanding - basic and diluted	65,878,405	64,546,665	65,683,241	63,893,371
Total loss per share - basic and diluted:				
Total net loss per share	\$ (0.10)	\$ (0.02)	\$ (0.25)	\$ (0.10)

The following weighted average potential shares of common stock have been excluded from the computation of diluted net 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,	
	2017	2016	2017	2016
Options to purchase common stock	9,254,623	4,736,258	6,299,980	6,447,978
Restricted stock awards, including participating securities	202,498	219,164	215,831	265,832
Total	9,457,121	4,955,422	6,515,811	6,713,810

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Note 9. Segment and Geographical Information

The following table presents total Company revenue by country or by geographical region:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
United States	48%	43%	46%	43%
Europe, Middle East and Africa	44%	44%	44%	44%
Asia Pacific	4%	11%	6%	12%
Rest of the World	4%	2%	4%	1%

For the three months and nine months ended September 30, 2017, the United States represented 48% and 46% of revenue, respectively, and Germany represented 16% and 15% respectively. One customer, a channel reseller, represented 10% of total revenues for the nine months ended September 30, 2017.

For the three months and nine months ended September 30, 2016, the United States represented 43% of revenue for both periods, and Germany represented 13% and 14% respectively. One customer, a channel reseller, represented 10% of total revenues for the nine months ended September 30, 2016.

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

Note 10. Stock Repurchase Program

On November 3, 2015, the Company's Board of Directors 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 was 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 ran through December 31, 2016. The number of shares repurchased and the timing of purchases were based on general business and market conditions, and other factors, including legal requirements. During the nine months ending September 30, 2016, the Company repurchased 339,228 shares for \$345,296 under the repurchase program, for an average price of \$1.02. During the nine months ending September 30, 2017, the Company did not repurchase any shares.

Note 11. Subsequent Events

Management has evaluated events subsequent to September 30, 2017, through the date the accompanying consolidated financial statements were filed with the Securities and Exchange Commission for transactions and other events that may require adjustment of and/or disclosure in such financial statements, and noted no additional significant subsequent event that needs to be disclosed.

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 Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2016.

This MD&A is organized as follows:

Overview	Discussion of our business Description of our business and strategy
Business Portfolio and Our Strategy	
Significant Trends and Events	Operating, financial and other material trends and events that affect our company and may reflect our performance
Key Operating Metrics	Discussion of key operating metrics that we use to evaluate our operating performance
Critical Accounting Policies and Estimates	Accounting policies and estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results
Results of Operations	An analysis of our financial results comparing the three and nine months ended September 30, 2017, and September 30, 2016
Liquidity and Capital Resources	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 Quarterly 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 and the iPass Instagram account. These social media channels may be updated from time to time.

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Overview

iPass (NASDAQ: IPAS) is a leading provider of global mobile connectivity, offering simple, secure, always-on Wi-Fi access on any mobile device. Built on a software-as-a-service ("SaaS") platform, the iPass cloud-based service keeps its customers connected by providing unlimited Wi-Fi connectivity on unlimited devices. iPass is the world's largest Wi-Fi network, with more than 62 million hotspots in more than 180 countries, at airports, hotels, train stations, convention centers, outdoor venues, inflight, and more. Using patented technology, the iPass SmartConnect™ platform takes the guesswork out of Wi-Fi, automatically connecting customers to the best hotspot for their needs. Customers simply download the iPass app to experience *UNLIMITED, EVERYWHERE* and *INVISIBLE* Wi-Fi.

Business Highlights

Strategic iPass Assets

We believe iPass has a unique set of global mobile connectivity assets that provide us with competitive advantages. We see our three core assets as follows:

Our Technology Platform: Our application ("app") is an intelligent cloud-based service manager that securely connects users and devices to our global Wi-Fi footprint. The app is built on the backbone of years of iPass' intellectual property and is developed from our own Software Development Kit ("SDK") that allows partners and customers to integrate the same technological advancements into their own applications. Benefits of the technology include:

- iPass SmartConnect™ which is evolving mobile connectivity expectations from "best efforts" to a truly intelligent always-best-connected experience, solving for problems like false positives, network outages, and low connection success rates.
- Last-Mile VPN security to protect user data, even at free Wi-Fi hotspots.
- Veri-Fi™ big data aggregation and analysis intelligence to rate hotspots on critical quality of service criteria, optimize network performance attributes, and provide intelligent data to a variety of partner use cases.
- Hotspot discovery and curation to keep our network growing both organically and commercially in the places our users need to use.

Our Back-end Infrastructure: We have a global authentication fabric of integrated servers, cloud-based virtualized assets, and software that is interconnected with over 160 unique global Wi-Fi networks. 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. This infrastructure makes the over 62 million hotspots we aggregate look and feel like iPass hotspots; there is no need to enter personal data, watch commercials, or spend any nonproductive time logging into these locations, the platform just connects. Between our physical colocation facilities and our growing virtualization of cloud-based infrastructure assets, we have the ability to process millions of data records per day to drive the performance of our aggregated network and the evolving use cases of our big data analyses. The architecture is built on a telecom based transaction and reporting clearing back-end that would be time consuming and expensive to replicate.

Our Wi-Fi Network: We have a Wi-Fi network footprint and supply chain that consists of over 62 million hotspots in over 180 countries and territories, including major airports, convention centers, planes, trains, train stations, hotels, restaurants, retail, and small business locations. In addition, with our embedded curation feature, we continue to identify and provide access to millions more free access hotspots in virtually every country in the world, providing additional connectivity options for our SmartConnect users. As a proponent of the sharing economy, our footprint also includes millions of community and free hotspots, providing the overlay benefits of our iPass SmartConnect technology aggregating all available connection opportunities for the users of our service.

The combination of the above assets allows us to drive three distinct but interconnected monetization streams in the future; technology integration through our SDK, big data intelligence, and our historical mobile connectivity solutions.

Business Portfolio and Go-to-Market Strategy

We have a single reportable operating segment, Mobile Connectivity Services. Our Mobile Connectivity Services offer a standard cloud-based solution allowing our customers and their users access to our global Wi-Fi network to stay

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connected to the people and information that matters most. We categorize our services in two broad go-to-market approaches:

Enterprise (Business to Business or B2B): This go-to-market strategy focuses on providing mobile connectivity solutions to enterprises ranging from large to small. With an easy-to-download application, a user on a variety of platforms (Windows, Mac, iOS, Android) can quickly access our hosted service and connect to our over 62 million Wi-Fi hotspots around the globe. While we continue to have existing customers that procure our services under a variety of pay-as-you go or flat rate pricing plans, in 2015 we introduced our UNLIMITED pricing. Under UNLIMITED, for a set price per subscriber per month, our customers have access to our entire network of hotspots without the worries of throttling usage or running up large overage expenses. UNLIMITED customers generated 20% of total revenue for the quarter ended September 30, 2017.

Strategic Partnerships (Business to Business to Consumer or B2B2C): This strategy is executed through business development deals intended to open channel distributions for our product to reach the consumer market. While the channel customer may use a combination of our platform, technology infrastructure, or network, each deal is negotiated independently based on specific customer needs. Strategic Partnerships include global OEMs (Original Equipment Manufacturers), loyalty programs like credit card companies, software product and service providers, and communication companies. With the advent of our SDK and big data generated from iPass SmartConnect, we envision additional monetization streams in the future with our strategic partners.

Our Corporate Strategy

We intend to leverage our unique set of assets across our go-to-market strategies to drive growth in new customer acquisition, subscribed users, and devices accessing our services. As part of our Mobile Connectivity Services strategy, we have rebuilt our product and service delivery across three main value creation initiatives.

UNLIMITED - Wi-Fi without boundaries

For a flat monthly per user rate, users have UNLIMITED access to our global network. Using our iPass SmartConnect technology and big data intelligence, we maximize the user experience while effectively optimizing our network cost structure.

EVERYWHERE - World's largest Wi-Fi network

Users have access to EVERYWHERE in our global network. We continue to add strategic partners, bolstering our footprint in planes, trains, hotels, airports, restaurants, and cafes. And with our business development activities and B2B2C channel expansion, our services are proliferating on user devices around the globe.

INVISIBLE - Wi-Fi as easy as cellular

Our platform is an artificial intelligence network sniffer, finding, categorizing, rating, and optimizing networks and connections. It provides last mile VPN tunnel security and is designed to maximize connection success rates. For customers looking to leverage our intellectual property and platform functionality into their customized products, we launched our SDK in the first quarter of 2016. INVISIBLE also incorporates the iPass big data initiative, branded as Veri-Fi, to aggregate, analyze, and provide intelligent insight on a variety of potential use case applications.

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, 2016.

Significant Trends and Events

The following describes recent significant trends and events of our business.

Product Evolution

While we have and will continue to sell and support customers on our pay-as-you-go usage and varying flat rate price plans, we continue to focus primarily on selling our UNLIMITED subscriptions to new or renewal customers. Our product is being optimized for UNLIMITED, providing always-on, secure connectivity to users, without any usage restrictions. While iPass SmartConnect is optimized for UNLIMITED customers, it can have unintended impacts on our legacy pay-per-use customers and associated revenues as it is designed to optimize the user quality of service attributes, such as connection success rates, often over purely connecting a user to any available hotspot, irrespective of the quality of that hotspot connection. During the nine months ended September 30, 2017, our pay-per-use revenue was adversely impacted as we continued to evolve the algorithms that optimize quality of service with always best-connected attributes. In the third quarter, these issues were mostly

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resolved and, despite seasonality that historically makes the third quarter our weakest quarter, third quarter usage actually increased 11% from the second quarter of 2017. This increase was in spite of the September hurricanes that grounded many flights in the southwest United States. Our iPass SmartConnect™ SDK, provides the tools to build adaptive network selection applications for smartphones, tablets, and laptops. Developers can access iPass core technologies to activate, authenticate, connect, and create custom interfaces for presenting and selecting Wi-Fi networks. Applications built using the iPass SDK have instant and secure access to the iPass network. The SDK is designed for enterprises, operators and solution vendors seeking to leverage iPass wireless connectivity technology in their applications.

Network Access Investments

We continue leveraging the power of network curation, community, and strategic partner procurement. And while pure numbers emphasize an element of our EVERYWHERE initiative, more importantly we are enhancing our network through our platform technology to improve the user experience and mitigate issues like “false positives” (a network that broadcasts a signal but is not active in the iPass footprint), failed authentications, poor bandwidth, or other quality issues. To support our UNLIMITED strategy and to meet the needs of our customers' increasing consumption of Wi-Fi, we continue to invest in Network Access through selective investment decisions to lock up additional network capacity and drive the effective cost of data connectivity continually down. While we have not been successful in filling our network capacity purchases, we do continue to drive down the cost per unit of our network access costs (“NAC”), to \$3.65 per hour in the third quarter of 2017, from \$3.74 per hour in the third quarter of 2016, and \$4.02 per hour, \$4.80 per hour, and \$5.12 per hour in full year 2016, 2015, and 2014, respectively. While NAC was \$29.5 million for the nine months ended September 30, 2017, at this point we only have \$6.3 million of committed NAC spend in full year 2018, allowing considerable flexibility in renegotiating supplier agreements next year and optimizing our capacity buys. Our lack of success in filling our network capacity purchases is one of the largest single risks associated with the going concern issue discussed in the “Liquidity and Capital Resources” Section.

Customer Roll-Out Initiatives

One area we struggled with in 2016 was converting committed sales contracts, as reported through our ACV metric, into recognized revenue. We had a significant amount of reported ACV at December 31, 2016 as contracts were delayed due to customer roll-out schedules, difficulties in implementing our SDK technology, and other integration issues. In 2017, we created a dedicated SDK support team and are working closely with new customers and partners to accelerate rollouts and to increase the conversion of ACV into billing and revenue. Through September 30, 2017, we have had only limited success in accelerating the conversion of ACV but continue to refine our efforts, as evidenced by our \$1.2 million incremental conversion over the prior quarter. We believe that our ability to convert backlog to revenue is one of the largest single risks associated with the going concern issue discussed in the “Liquidity and Capital Resources” Section.

Key Operating Metrics

Described below are key metrics that we use to evaluate our operating performance:

Total iPass Wi-Fi Network Users

Total iPass Wi-Fi Network Users (Enterprise and Strategic Partnerships) is the number of our platform users each month in a given quarter that used Wi-Fi network services from iPass. As our UNLIMITED subscriptions ramp and a significant number of our new or renewal customers are billed under UNLIMITED, this metric will likely transform to a SaaS-like benchmark: number of total subscribers.

Total iPass Active Platform Users

Total iPass Active Platform Users is the number of users who were billed platform fees and who have deployed the platform, regardless of whether they have actually used the Wi-Fi network services. Similar to Total iPass Wi-Fi Network Users, as our UNLIMITED pricing ramps and a significant number of our new or renewal customers are billed under UNLIMITED, this metric will likely transform to a unified SaaS-like benchmark: number of total subscribers. This metric excludes UNLIMITED subscribers unless they have actively accessed network during the period.

Hours Consumed

Hours Consumed represent the average number of network hours consumed by our customers each month in a given quarter. This operating metric is an indicator of the improvement of our technology performance, our customers' satisfaction, and the expansion of our network.

The following table summarizes the number of active users of iPass services as well as the hours consumed (in thousands). Each number of users below is calculated as the average number of active users per month, during a given quarter, for which a fee billed by iPass for either Wi-Fi or Platform service. Hours represent the monthly average hours consumed by

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our Wi-Fi Network Users during a given quarter. The slight decline in active platform users from the second quarter of 2017 to the third quarter of 2017 is due to customer churn and seasonality as the third quarter historically has less usage.

	For the Quarter Ended				
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Wi-Fi Network Users:					
Enterprise	68	74	76	81	77
Strategic Partnerships	69	65	48	47	56
Total Wi-Fi Network Users	137	139	124	128	133
Total Active Platform Users	742	786	752	732	738
Network Hours Consumed:					
Unlimited and Strategic Partnerships	645	521	407	402	371
Other Pricing Plans	298	327	363	393	383
Total Network Hours Consumed	943	848	770	795	754

Gross Margin

Gross Margin represents Total Revenue less Network Access Costs less Network Operations costs divided by Total Revenue and is comprehensive and insightful to the overall performance of the business, incorporating our overall costs to acquire, support, maintain, and provide network and network related services. Gross margin by quarter over the last five quarters was as follows:

	For the Quarter Ended				
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Gross Margin	10.9%	17.5%	21.2%	34.9%	35.2%

Deferred revenue (Short-term plus Long-term)

Deferred Revenue represents the sales invoiced in advance of recognition under our revenue recognition policy. The fluctuation of deferred revenue is primarily driven by upfront payments received from our customers for annual subscriptions and fluctuations in number of devices shipped by an OEM strategic partner. Under the OEM agreement, we bill upfront on devices shipped and recognize revenue over the future obligation period to deliver related Wi-Fi services. The following table represents balances (in thousands) as of the period end date:

	For the Quarter Ended				
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Total Deferred Revenue	\$ 2,822	\$ 2,859	\$ 3,217	\$ 2,479	\$ 2,563

Annual Contract Value ("ACV")

Annual Contract Value represents the annualized sales value committed under contract for newly acquired customers or significant upsell, in total across our Enterprise and Strategic Partnership go-to-market strategies, in the period. While ACV does not represent current revenue, we believe it is a lead indicator of future revenue, especially as we migrate to a more SaaS-like recurring monthly subscription model under UNLIMITED pricing. Because ACV is not an alternative measure for GAAP revenue, but only an operational metric to provide insight on the health and progress of our sales pipeline and revised go-to-market strategy, the signing of committed contract value should not be assumed to have met our entire revenue recognition criteria. For example, while persuasive evidence of an arrangement always exists before reporting ACV, service may not yet have been provided to the customer or collections may not yet be determined to be reasonably assured. We make reasonable efforts to substantiate the viability of all reported ACV, but future events could change that conclusion. As an example, when a previously reported ACV customer fails to perform under the committed contract, such remaining calculated ACV will be reversed in the current period reported ACV. In the second quarter of 2017, we reversed \$1.9 million of previously reported ACV due to contract terminations or significant delays in roll out schedules. The following table represents ACV (in thousands):

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	For the Quarter Ended				
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Annual Contract Value	\$ 933	\$ (991)	\$ 780	\$ 4,771	\$ 3,667

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 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 nine months ended September 30, 2017, 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, 2016.

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 differentiate and analyze our revenue generation streams as follows:

Enterprise revenues consist of Wi-Fi, platform, and other fees charged to enterprise customers of the iPass service. Revenues are generated by customers that purchase our service on a per user per month subscription basis ("Unlimited Customers") or under a variety of other pricing models which may include pay-as-you-go usage, flat rate pricing per active user, separate platform fees, and other ancillary services such as consulting or platform customization.

Strategic Partnership revenues consist of Wi-Fi, platform, and other fees charged to our strategic partnership customers. In contrast to Enterprise revenue, pricing on these deals is negotiated specific to the customer needs and can include per device charges, platform only charges (including SDK), cost-plus or pay-as-you-go arrangements on Wi-Fi usage, and various other pricing mechanisms.

Legacy iPC revenues consist of Dial-up and 3G network, our iPC platform, and related platform services, as well as iPC driven network usage, including iPC user driven Wi-Fi and minimum commit shortfall.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Revenue Mobile Connectivity Services	\$ 13,399	\$ 15,877	\$ 41,159	\$ 47,105
Enterprise	9,724	11,885	31,723	37,003
<i>Unlimited Customers</i>	2,729	1,824	7,113	3,610
<i>Other Pricing Plan Customers</i>	6,995	10,061	24,610	33,393
Strategic Partnerships	3,263	3,457	8,152	8,401
Legacy iPC	412	535	1,284	1,701

For the three months ended September 30, 2017, revenue decreased \$2.5 million or 15.6% as compared to the same period in 2016. This was due to lower Enterprise revenue from Other Pricing Plan Customers of \$3.0 million due to churn, partially offset by migration and increases of Unlimited Customers of \$0.9 million, in addition to a \$0.3 million out of period adjustment recording the cumulative effect of a major supplier converting from a one-month lag to current month billings, and lower strategic and legacy revenue of \$0.2 million each.

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For the nine months ended September 30, 2017, revenue decreased \$5.9 million or 12.6% as compared to the same period in 2016. This was due to lower Enterprise revenue from Other Pricing Plan Customers of \$8.7 million which included a \$0.3 million out of period adjustment discussed in the previous paragraph, partially offset by an increase of unlimited price plan of \$3.5 million, in addition to lower revenue from strategic of \$0.2 million and legacy revenue of \$0.5 million, respectively.

[Table of Contents](#)**Gross Margin**

We use gross margin as a metric to assist us in assessing the profitability of our various network and network related services. This Gross margin is defined as Total Revenue less Network Access Costs less Network Operations costs divided by total revenue.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Gross Margin (%)	10.9%	35.2%	16.7%	36.2%

For the three and nine months ended September 30, 2017, gross margin decreased by 24.3 and 19.5 percentage points, respectively, as compared to the same period in 2016 which is primarily due to the increase of our network access costs as a result of the investment in additional network capacity, as well as a decrease in total revenue. We have purchased additional capacity to support our go to market initiatives on UNLIMITED and Strategic partners, and drive down our cost per unit of network consumed. While our unit costs to acquire network have declined, revenue decreases have been steeper resulting in declining gross margin.

Cost of Revenue and Operating Expenses*Network Access Costs (NAC)*

NAC consists of charges for network access which we pay to our network service providers and other direct cost of sales. We purchase NAC in a combination of pay-as-you-go and fixed-price-for-capacity arrangements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Network access costs	\$ 10,312	\$ 8,452	\$ 29,469	\$ 24,360
As a percentage of total revenue	77.0%	53.2%	71.6%	51.7%

For the three and nine months ended September 30, 2017, network access costs increased by approximately \$1.9 million or 22.0% and \$5.1 million or 21.0%, as compared to the same period in 2016. This was mainly due to the purchasing strategy to commit spend to acquire additional network capacity as well as a significant increase in network hours consumed.

For the three and nine months ended September 30, 2017, network access costs as a percentage of total revenue increased 23.8 and 19.9 percentage points, respectively, as compared to the same period in 2016. This was primarily due to the increase in commit spend to acquire additional network capacity and a decrease in our Enterprise revenue.

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,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Network operations costs	\$ 1,629	\$ 1,838	\$ 4,835	\$ 5,716
As a percentage of total revenue	12.2%	11.6%	11.7%	12.1%

For the three and nine months ended September 30, 2017, network operations expense decreased \$0.2 million or 11.4% and \$0.9 million or 15.4%, as compared to the same period in 2016, mainly due to a decrease in depreciation expense.

Research and Development

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Research and development expense	\$ 1,948	\$ 1,628	\$ 6,059	\$ 5,530
As a percentage of total revenue	14.5%	10.3%	14.7%	11.7%

For the three months ended September 30, 2017, research and development expense increased by \$0.3 million or 19.7%, as compared to the same period in 2016, mainly due to increase in licenses and fees of \$0.2 million.

For the nine months ended September 30, 2017, research and development expense increased by \$0.5 million or 9.6%, as compared to the same period in 2016, mainly due to increase in licenses and fees.

Sales and Marketing

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Sales and marketing expense	\$ 2,520	\$ 2,651	\$ 7,588	\$ 8,383
As a percentage of total revenue	18.8%	16.7%	18.4%	17.8%

For the three months ended September 30, 2017, sales and marketing expense decreased by \$0.1 million or 4.9%, compared to the same period in 2016, due to a decrease in spending on marketing programs.

For the nine months ended September 30, 2017, sales and marketing expense decreased by \$0.8 million or 9.5%, compared to the same period in 2016, mainly due to a decrease in each of marketing programs and compensation of \$0.4 million.

General and Administrative

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
General and administrative expense	\$ 3,427	\$ 2,555	\$ 8,746	\$ 8,310
As a percentage of total revenue	25.6%	16.1%	21.2%	17.6%

For the three months ended September 30, 2017, general and administrative expense increased by \$0.9 million or 34.1%, as compared to the same period in 2016, due to a charge of \$0.7 million primarily related to legal fees incurred in connection with the investigation of a claim by a former employee, in addition to an increase in consulting services of \$0.2 million.

For the nine months ended September 30, 2017, general and administrative expense increased by \$0.4 million or 5.2%, as compared to the same period in 2016, mainly due to a charge of \$0.7 million primarily related to legal fees incurred in connection with the investigation of a claim by a former employee, an increase in bad debt allowance and consulting of \$0.2 million each, partially offset by a \$0.7 million decrease related to headcount.

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

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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, 2017 and 2016, we did not enter into any hedging contracts. Foreign exchange loss for the three and nine months ended September 30, 2016 was less than \$0.1 million and \$0.3 million, respectively primarily due to the re-measurement of certain assets and liabilities denominated in currencies other than the U.S. Dollar.

Foreign exchange loss for the three and nine months ended September 30, 2017 was approximately \$0.2 million and \$0.4 million, respectively, primarily due to the re-measurement of certain assets and liabilities denominated in currencies other than the U.S. Dollar.

Provision for Income Taxes

Income tax expense for the three and nine months ended September 30, 2017 was approximately \$0.1 million and \$0.4 million, respectively, and is primarily related to foreign taxes on expected profits in the foreign jurisdictions. Income tax expense for the three months and nine months ended September 30, 2016 was approximately \$0.1 million and \$0.2 million, respectively.

Liquidity and Capital Resources

We had cash and cash equivalents of \$7.1 million at September 30, 2017, compared to \$16.1 million at December 31, 2016.

	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
<i>Cash Flows</i>		
Net cash used in operating activities	\$ (8,542)	\$ (4,295)
Net cash used in investing activities	(737)	(299)
Net cash provided by financing activities	264	1,474
Net decrease in cash and cash equivalents	<u>\$ (9,015)</u>	<u>\$ (3,120)</u>

Operating Activities

Net cash used in operating activities increased by approximately \$4.2 million for the nine months ended September 30, 2017 compared to the same period in 2016, mostly by the increase in net loss. Changes in working capital in the 2017 period were favorable by \$6.0 million as a result of timing of payables and receivables. Cash used as a result of net loss, after adjustment for non-cash items, increased by approximately \$10.2 million driven mostly by the increase in net loss.

Investing Activities

Net cash used in investing activities increased by approximately \$0.4 million for the nine months ending September 30, 2017 compared to the same period in 2016. This increase is primarily due to the timing of payments for equipment purchased during the 2016.

Financing Activities

Net cash provided by financing activities decreased by approximately \$1.2 million for nine months ending September 30, 2017 compared to the same period in 2016. The decrease is due to a \$2.4 million decrease in incremental cash collected on option exercises as compared to the 2016 period, offset in part by \$0.3 million paid for the repurchased shares and \$0.9 million paid as principal payment for vendor financed property and equipment in 2016.

Sources of Cash and Future Cash Requirements

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We have historically relied on existing cash and cash equivalents 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 revenue prospects and our anticipated cash flows from operations, our existing cash balances will not be sufficient to meet our working capital and operating resource expenditure requirements for the next twelve months. Achievement of our objectives will be dependent upon the ability to obtain additional capital, to generate revenue from current and planned business operations, or to control our costs. However, there is no assurance that we will be able to achieve these objectives; therefore, substantial doubt about our ability to continue as a going concern exists.

The amount of cash and cash equivalents held by our foreign subsidiaries as of September 30, 2017 and December 31, 2016 was \$0.6 million and \$0.4 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 three months ended September 30, 2017 was for network access, payroll related expenses, payments for vendor financing equipment purchase, and general operating expenses including marketing, office rent, and capital expenditures.

Contractual Obligations

The following are our contractual obligations as of September 30, 2017:

	Total	Less Than 1 Year	1-3 Years	3-5 Years
	(In thousands)			
Operating Lease Obligations	\$ 3,854	\$ 1,428	\$ 2,426	\$ —
Other Purchase Commitments	15,744	13,765	1,979	—
Total Contractual Obligations (1)	\$ 19,598	\$ 15,193	\$ 4,405	\$ —

(1) See Note 7 "Commitments and Contingencies"

Our contractual commitments at December 31, 2016, were \$37.3 million. For information on our contractual commitments at December 31, 2016, 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, 2016.

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, 2017, and December 31, 2016, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

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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 nine months ended September 30, 2017, 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. 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, 2017, we had cash and cash equivalents of \$7.1 million and no short-term investments or restricted cash. As of December 31, 2016, we had cash and cash equivalents of \$16.1 million and no short-term investments or restricted cash. 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, 2017, 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

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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 occur, our business could be harmed.

Our risk factors which are set forth below, have not changed substantively from those set forth in our Annual Report on Form 10-K as of and for the year ended December 31, 2016, filed with the Securities and Exchange Commission on March 14, 2017, other than those marked with an asterisk ().*

**** We may require additional capital to support our business growth, and such capital may not be available.***

We believe that based on our current revenue prospects and our anticipated cash flows from operations, our existing cash balances will not be sufficient to meet our working capital and operating resource expenditure requirements for the next twelve months. We intend to continue to make investments to support business growth and may require additional funds to respond to business challenges, which include the need to develop new solutions and partnerships or enhance existing solutions and partnerships, enhance our operating infrastructure, expand our sales and marketing capabilities, and acquire complementary businesses, technologies or assets. Accordingly, we may need to engage in equity or debt financing to secure funds. Equity and debt financing, however, might not be available when needed or, if available, might not be available on terms satisfactory to us. If we raise additional funds through equity financing, our stockholders may experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. If we are unable to obtain adequate financing or financing on terms satisfactory to us, our ability to continue to support our business growth and to respond to business challenges would be significantly limited as we may have to delay, reduce the scope of or eliminate some or all of our initiatives, which would harm our operating results.

**** 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 agreed to 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 period of time. 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, which has been increasing throughout 2017. 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.

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. Additionally, 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, or encounter technical difficulties 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.

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 many situations we continue to pay our providers based on actual network usage (pay-as-you-go). 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 expenses may increase without a commensurate increase in revenues, and our ability to achieve profitability could be negatively impacted.

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Starting 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 result in our costs exceeding our revenues and could negatively impact our profitability.

If demand for mobile connectivity 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 mobile connectivity services and our ability to capture a higher proportion of this market. If the demand for mobile connectivity 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 profitability. Increased usage of our services depends on numerous factors, including:

- Willingness of enterprises to make additional information technology expenditures;
- Availability of security 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 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.

**** Customer adoption and deployment of our revised, cloud-based platform has been slower than we expect, and if it does not increase, our ability to significantly grow our services business and achieve profitability 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 revised, cloud-based platform and related services, which to date has been slower than we expected. Key risks associated with our platform and services are as follows:

Customer adoption and deployment of our platform may be slow. We believe that the growth of our business is dependent on the timely adoption and deployment of the revised, cloud-based platform by our customers. A material delay in the adoption and deployment of the platform by our customers, will adversely impact our ability to grow revenues and achieve profitability.

Customer deployment of our 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 services increase their usage and network services to validate our value proposition. We believe that the deployment by our customers of our platform 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 platform, there is no guarantee that our customers will use our services more frequently.

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

We rely significantly on information technology to accurately provision, service, and bill our customers and any failure, inadequacy or interruption of that technology could negatively impact our ability to onboard and service our customers or 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. In addition, our information technology infrastructure is designed to process large volumes of users and data, but any unanticipated capacity constraints could harm our ability to onboard and service our customers.

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

If our Strategic Partnership service offerings do not achieve expanded market acceptance, our ability to grow our business could be harmed.

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

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 revenue from providing Wi-Fi access in certain key venues (e.g., hotels, airports, trains, 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. We are proponents of free Wi-Fi as our service platform overlays benefits for all connectivity; security, ease of use, and broad coverage. And we have engaged partnerships to include free Wi-Fi in our available footprint. As we migrate more of our users to our UNLIMITED offering, pay-as-you-go pricing becomes less relevant to our revenue streams and the risk of free Wi-Fi decreases.

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.

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 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.

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

Our Strategic Partnership revenue stream is characterized by a lengthy sales cycle. Once a contract with a partner is signed there is typically an extended period before the customer or customer's end-users begin to use our services, which is when we begin to realize 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 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.

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 contractual 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.

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 aggregated 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.

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 directly in additional revenues to us, but building and maintaining a large footprint is key to our value proposition. 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 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 Strategic Partners' devices 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.

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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.

If competitive cellular data roaming rates decline precipitously, our ability to grow our business could be adversely impacted.

For our network services to be attractive to our customers, the cost of cellular roaming must be meaningfully greater than the cost of our Wi-Fi network services. Currently, in certain geographies such as Asia, cellular roaming prices are not significantly higher than our rates for Wi-Fi access. In Europe, legislation has enacted mandating the reduction of wholesale cellular roaming prices. If cellular roaming prices do not remain meaningfully higher than our Wi-Fi network prices, then our ability to sell our Mobile Connectivity Services could be impacted and our business harmed. It is our intention to continue to drive the price of Wi-Fi down to insure Wi-Fi connectivity remains an economically viable and customer preferred connectivity option.

We face competition in the market for mobile connectivity services, which could make it difficult for us to succeed.

While we do not believe there are service providers in the mobile connectivity 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 mobile connectivity 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 cellular 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 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 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 platform and services. 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.

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 53% of our revenues for the nine months ended September 30, 2017, of which approximately 44% were generated in the EMEA region, approximately 6% were generated from APAC, and approximately 3% were generated throughout the rest of the world. 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, 2017, 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, and related complexities and changing compliance requirements in some foreign jurisdictions;
- 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.

The June 23, 2016 referendum by British voters to exit the European Union (“Brexit”) adversely impacted global markets, including currencies, and resulted in a decline in the value of the British pound, as compared to the U.S. dollar and other currencies. Volatility in exchange rates is expected to continue in the short term as the United Kingdom (U.K.) negotiates its exit from the European Union. In the longer term, any impact from Brexit on our business, financial results and operations, will depend, in part, on the future terms of the U.K.’s relationship with the E.U., and could create uncertainty surrounding our business, including our relationships with our existing and future customers, suppliers and employees.

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 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.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results and prevent fraud.

The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. During its evaluation of the effectiveness of internal control over financial reporting as of March 31, 2016, management identified a material weakness in our controls around analyzing significant, complex, or unusual arrangements, and the related application of relevant GAAP. Based on the results of management’s internal controls assessment as of December 31, 2016, the material weakness was remediated (in the fourth quarter of 2016). There can be no assurance that additional material weaknesses or other control or significant deficiencies will not be identified in the future. If we fail to maintain improved controls, such circumstances could cause us to fail to meet our periodic reporting obligations or result in material misstatements in our

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financial statements or adversely affect the results of periodic management evaluations and annual auditor attestation reports. We could be required to restate our financial results. Each of the foregoing results could cause stockholders to lose confidence in our reported financial information and lead to a decline in our stock price or to stockholder litigation.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
<u>3.1</u>	<u>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.)</u>
<u>3.2</u>	<u>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.)</u>
<u>3.3</u>	<u>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.)</u>
<u>3.4</u>	<u>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.)</u>
4.1	Reference is made to Exhibits <u>3.1</u> , <u>3.2</u> , <u>3.3</u> and <u>3.4</u>
<u>4.2</u>	<u>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.)</u>
<u>12.1</u>	<u>Computation of Ration of Earnings to Fixed Charges.</u>
<u>31.1</u>	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>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</u>
<u>32.2</u>	<u>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</u>
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

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 8, 2017

iPass Inc.

/s/ Darin R. Vickery

Darin R. Vickery

Chief Financial Officer

(Duly Authorized Officer and Principal Financial and
Accounting Officer)

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 8, 2017

By:

/s/ Gary A. Griffiths

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

**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, 2017, 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 8, 2017

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.

