

IPASS INC  
Form 10-Q  
August 05, 2016  
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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 June 30, 2016

☐ 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 93-1214598

(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

3800 Bridge Parkway

Redwood Shores, California 94065

(Address of principal executive offices, including zip code)

(650) 232-4100

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated filer ☐

Accelerated filer ☒

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

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 July 29, 2016 was 65,613,025.

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IPASS INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED June 30, 2016

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## IPASS INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands)

|  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Current assets:  |                  |                      |
| Cash and cash equivalents  | \$ 16,138        | \$ 20,294            |
| Accounts receivable, net of allowance for doubtful accounts of \$209 and \$241, respectively | 11,446           | 9,746                |
| Prepaid expenses   | 1,585            | 2,762                |
| Other current assets   | 255              | 342                  |
| Total current assets   | 29,424           | 33,144               |
| Property and equipment, net  | 2,771            | 4,009                |
| Other assets   | 708              | 690                  |
| Total assets   | \$32,903         | \$ 37,843            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                      |
| Current liabilities:   |                  |                      |
| Accounts payable   | \$6,824          | \$ 6,291             |
| Accrued liabilities  | 4,015            | 5,356                |
| Deferred revenue, short-term   | 2,114            | 2,321                |
| Total current liabilities  | 12,953           | 13,968               |
| Deferred revenue, long-term  | 186              | 231                  |
| Other long-term liabilities  | 1,088            | 1,043                |
| Total liabilities  | 14,227           | 15,242               |
| Stockholders' equity:  |                  |                      |
| Common stock   | 65               | 65                   |
| Additional paid-in capital   | 221,163          | 219,981              |
| Accumulated deficit  | (202,552)        | (197,445 )           |
| Total stockholders' equity   | 18,676           | 22,601               |
| Total liabilities and stockholders' equity   | \$32,903         | \$ 37,843            |
| See Accompanying Notes to Condensed Consolidated Financial Statements                        |                  |                      |

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## IPASS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE LOSS

(Unaudited; in thousands, except shares and per share amounts)

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2016                           | 2015       | 2016                         | 2015       |
| Revenue   | \$ 16,497                      | \$ 15,595  | \$ 31,228                    | \$ 32,153  |
| Cost of revenue and operating expenses:                 |                                |            |                              |            |
| Network access costs                                    | 8,466                          | 7,038      | 15,908                       | 13,713     |
| Network operations                                      | 1,780                          | 2,510      | 3,878                        | 5,460      |
| Research and development                                | 1,762                          | 2,494      | 3,902                        | 5,492      |
| Sales and marketing                                     | 2,895                          | 2,384      | 5,732                        | 5,566      |
| General and administrative                              | 2,765                          | 3,971      | 5,755                        | 8,207      |
| Restructuring charges and related adjustments           | 30                             | 3,242      | 788                          | 3,263      |
| Total cost of revenue and operating expenses            | 17,698                         | 21,639     | 35,963                       | 41,701     |
| Operating loss  | (1,201 )                       | (6,044 )   | (4,735 )                     | (9,548 )   |
| Interest income (expense), net                          | 6                              | (17 )      | 11                           | (38 )      |
| Foreign exchange gain (loss), net                       | (120 )                         | (118 )     | (230 )                       | 71         |
| Other loss, net   | —                              | (129 )     | —                            | (133 )     |
| Loss before income taxes                                | (1,315 )                       | (6,308 )   | (4,954 )                     | (9,648 )   |
| Provision for income taxes                              | 62                             | 67         | 153                          | 167        |
| Net loss  | \$(1,377 )                     | \$(6,375 ) | \$(5,107 )                   | \$(9,815 ) |
| Comprehensive loss                                      | \$(1,377 )                     | \$(6,375 ) | \$(5,107 )                   | \$(9,815 ) |
| Net loss per share - basic and diluted                  |                                |            |                              |            |
| Net loss per share                                      | \$(0.02 )                      | \$(0.10 )  | \$(0.08 )                    | \$(0.16 )  |
| Weighted average shares outstanding - basic and diluted | 63,452,673                     | 62,894,746 | 63,430,411                   | 62,885,169 |

See Accompanying Notes to the Condensed Consolidated Financial Statements

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IPASS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2016                         | 2015       |
| Cash flows from operating activities:                                       |                              |            |
| Net loss  | \$(5,107 )                   | \$(9,815 ) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                              |            |
| Stock-based compensation expense (benefit)                                  | 492                          | (633 )     |
| Depreciation and amortization   | 1,371                        | 1,477      |
| Loss on disposal of property and equipment                                  | —                            | 4          |
| Provision for (Recovery of) doubtful accounts                               | 36                           | (92 )      |
| Changes in operating assets and liabilities:                                |                              |            |
| Accounts receivable   | (1,736 )                     | (273 )     |
| Prepaid expenses and other current assets                                   | 1,264                        | 291        |
| Other assets  | (18 )                        | 221        |
| Accounts payable  | 531                          | (1,154 )   |
| Accrued liabilities   | (774 )                       | 1,133      |
| Deferred revenue  | (252 )                       | 1,557      |
| Other liabilities   | 45                           | (31 )      |
| Net cash used in operating activities                                       | (4,148 )                     | (7,315 )   |
| Cash flows from investing activities:                                       |                              |            |
| Purchases of property and equipment   | (131 )                       | (467 )     |
| Change in restricted cash   | —                            | 1,400      |
| Net cash (used in) provided by investing activities                         | (131 )                       | 933        |
| Cash flows from financing activities:                                       |                              |            |
| Net proceeds from issuance of common stock                                  | 1,035                        | 66         |
| Principal payments for vendor financed property and equipment               | (567 )                       | (552 )     |
| Stock repurchase  | (345 )                       | —          |
| Net cash provided by (used in) financing activities                         | 123                          | (486 )     |
| Net decrease in cash and cash equivalents                                   | (4,156 )                     | (6,868 )   |
| Cash and cash equivalents at beginning of period                            | 20,294                       | 33,814     |
| Cash and cash equivalents at end of period                                  | \$16,138                     | \$26,946   |
| Supplemental disclosures of cash flow information:                          |                              |            |
| Net cash paid for taxes   | \$108                        | \$42       |
| Accrued amounts for acquisition of property and equipment                   | \$11                         | \$99       |
| See Accompanying Notes to Condensed Consolidated Financial Statements       |                              |            |

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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, 2015. The Condensed Consolidated Financial Statements as of and for December 31, 2015, 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, 2015. The results of operations for the three and six months ended June 30, 2016 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.

##### Recent Accounting Pronouncements

In May 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-12, "Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients." This Update provides clarifying guidance regarding the application of ASU No. 2014-09 - Revenue From Contracts with Customers on assessing the collectability criterion, presentation of sales taxes, measurement date for non-cash consideration and completed contracts at transition. The Update is effective, along with ASU 2014-09, for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating the potential impact of adopting this guidance on its financial statements.

#### 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 June 30, 2016, and December 31, 2015, respectively:

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|                                   | As of June 30, 2016 |         |         |                  |                | As of December 31, 2015 |         |                  |  |
|-----------------------------------|---------------------|---------|---------|------------------|----------------|-------------------------|---------|------------------|--|
|                                   | Fair Value          |         |         | Total<br>Balance | Fair Value     |                         |         | Total<br>Balance |  |
|                                   | Measured Using      |         |         |                  | Measured Using |                         |         |                  |  |
|                                   | Level 1             | Level 2 | Level 3 |                  | Level 1        | Level 2                 | Level 3 |                  |  |
|                                   | (In thousands)      |         |         |                  |                |                         |         |                  |  |
| Financial assets                  |                     |         |         |                  |                |                         |         |                  |  |
| Money market funds <sup>(1)</sup> | \$ 14,048           | \$ —    | \$ —    | \$ 14,048        | \$ 18,021      | \$ —                    | \$ —    | \$ 18,021        |  |
| Total financial assets            | \$ 14,048           | \$ —    | \$ —    | \$ 14,048        | \$ 18,021      | \$ —                    | \$ —    | \$ 18,021        |  |

(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, 2015 through June 30, 2016. As of June 30, 2016 and December 31, 2015, the carrying amounts of accounts receivable, accounts payable, and accrued liabilities approximated fair value due to their short maturities (refer to Note 6 and 7 for discussion related to Accrued Restructuring and Vendor Financed Property and Equipment).

### Note 3. Property and Equipment, net

Property and equipment, net, consisted of the following:

|   | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
|   | (In thousands)   |                      |
| Equipment                                       | \$ 10,473        | \$ 10,431            |
| Furniture and fixtures                          | 378              | 378                  |
| Computer software                               | 9,900            | 9,894                |
| Construction in progress                        | 55               | 10                   |
| Leasehold improvements                          | 536              | 526                  |
|   | 21,342           | 21,239               |
| Less: Accumulated depreciation and amortization | (18,571 )        | (17,230 )            |
| Property and equipment, net                     | \$ 2,771         | \$ 4,009             |

For the three and six months ended June 30, 2016, depreciation expense was approximately \$0.7 million and \$1.4 million, respectively.

For the three and six months ended June 30, 2015, depreciation expense was approximately \$0.7 million and \$1.5 million, respectively.

During the three and six months ended June 30, 2016, the Company retired less than \$0.1 million of gross property and equipment, respectively. During the three and six months ended June 30, 2015, the Company retired approximately \$1.7 million and \$2.2 million of gross property equipment, respectively, all of which were nearly fully depreciated.

### Note 4. Other Assets

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

|                                    | June<br>30,<br>2016 | December<br>31, 2015 |
|------------------------------------|---------------------|----------------------|
|                                    | (In thousands)      |                      |
| Deposits                           | \$ 489              | \$ 470               |
| Long-term deferred tax assets, net | 219                 | 220                  |
|                                    | \$ 708              | \$ 690               |



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## Note 5. Accrued Liabilities

Accrued liabilities consisted of the following:

|  | June 30, 2016  | December 31, 2015 |
|--|----------------|-------------------|
|  | (In thousands) |                   |
| Accrued tax liabilities                                | \$929          | \$ 1,065          |
| Accrued restructuring liabilities (1)                  | 11             | 250               |
| Accrued bonus, commissions and other employee benefits | 1,260          | 1,168             |
| Accrued vendor financed property and equipment (2)     | —              | 572               |
| Amounts due to customers                               | 668            | 728               |
| Other accrued liabilities                              | 1,147          | 1,573             |
|  | \$4,015        | \$ 5,356          |

(1) See Note 6 "Accrued Restructuring"

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

## Note 6. Accrued Restructuring

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

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

During the second quarter of 2015, the Company announced a restructuring plan (the "Q2 2015 Plan") intended to flatten the organization, create a more nimble sales and delivery infrastructure to support a SaaS go to market strategy, and accelerate the cash flow break-even point for the Company. The Q2 2015 Plan reduced headcount globally by approximately 14% and the Company recorded approximately \$4.2 million of restructuring charges in 2015 and had less than \$0.1 million of payments remaining as of June 30, 2016 for employee termination costs.

During the first quarter of 2016, the Company announced a restructuring plan (the "Q1 2016 Plan") with the stated purpose to achieve 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 significant rightsizing of the India team. Both teams have and will continue to automate infrastructure, quality assurance, and agile processes, which should minimize the impact of this event. This resulted in a charge of approximately \$0.8 million in 2016, and had less than \$0.1 million of payments remaining as of June 30, 2016 for employee termination costs.

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

|   |                             |         |
|---|-----------------------------|---------|
|   | Three Months Ended June 30, |         |
|   | 2016                        | 2015    |
|   | (In thousands)              |         |
| Beginning balance                             | \$379                       | \$75    |
| Restructuring charges and related adjustments | 30                          | 3,242   |
| Payments and adjustments                      | (398)                       | (1,484) |
| Ending balance                                | \$11                        | \$1,833 |



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|   | Six Months<br>Ended June 30, |         |
|---|------------------------------|---------|
|   | 2016                         | 2015    |
|   | (In thousands)               |         |
| Beginning balance                             | \$249                        | \$160   |
| Restructuring charges and related adjustments | 788                          | 3,263   |
| Payments and adjustments                      | (1,026)                      | (1,590) |
| Ending balance                                | \$11                         | \$1,833 |

As of June 30, 2016, the balance primarily represents remaining employee termination obligations, the majority of which are expected to be paid in the third quarter of 2016. There is no long-term restructuring liability as of June 30, 2016.

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

In October 2013, the Company acquired enterprise database software and infrastructure hardware. This purchase was financed through a vendor and is payable over three years. In April 2014, the Company acquired additional enterprise infrastructure hardware which was financed through the vendor and is payable over two years. The total purchases financed by the vendor were approximately \$3.1 million. Since October 2013, the Company made approximately \$2.8 million of principal payments, and as of June 30, 2016, approximately \$0.3 million were recorded to accounts payable. The Company expects to make principal payments of \$0.3 million in the remainder of fiscal year 2016.

#### Note 8. Commitments and Contingencies

##### Lease and Purchase Commitments

The Company leases facilities under operating leases that expire at various dates through October 2020. Future minimum lease payments under these operating leases as of June 30, 2016, are as follows:

| Year              | Operating<br>Leases<br>(In thousands) |
|-------------------|---------------------------------------|
| Remainder of 2016 | \$ 849                                |
| 2017              | 1,486                                 |
| 2018              | 1,096                                 |
| 2019              | 1,082                                 |
| 2020              | 926                                   |
|                   | \$ 5,439                              |

The Company has contracts with certain network service providers which have minimum purchase commitments that expire on various dates through August 2018.

Future minimum purchase commitments as of June 30, 2016, under all agreements are as follows:

| Year              | Minimum<br>Purchase<br>Commitments<br>(In thousands) |
|-------------------|--|
| Remainder of 2016 | \$ 5,166   |
| 2017              | 8,170  |
| 2018              | 1,848  |
|                   | \$ 15,184  |

During the three months ended June 30, 2016, the Company engaged in two new contracts from network service providers totaling an increase of \$7.5 million in minimum commitments.



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## 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 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 9. 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 months ended June 30, 2016 and 2015, we have 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 income (loss) per share:

|   | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2016                        | 2015       | 2016                      | 2015       |
| (In thousands, except share and per share amounts)      |                             |            |                           |            |
| Numerator:  |                             |            |                           |            |
| Net loss  | \$(1,377)                   | \$(6,375)  | \$(5,107)                 | \$(9,815)  |
| Denominator:  |                             |            |                           |            |
| Weighted average shares outstanding - basic and diluted | 63,452,678                  | 62,894,746 | 63,430,410                | 62,885,169 |
| Total loss per share - basic and diluted:               |                             |            |                           |            |
| Total net loss per share                                | \$(0.02)                    | \$(0.10)   | \$(0.08)                  | \$(0.16)   |

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:

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|   | Three Months<br>Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|-----------------------------------|-----------|------------------------------|-----------|
|   | 2016                              | 2015      | 2016                         | 2015      |
| Options to purchase common stock                            | 9,211,366                         | 7,108,287 | 8,772,610                    | 6,400,939 |
| Restricted stock awards, including participating securities | 245,832                           | 2,642,500 | 265,832                      | 1,907,500 |
| Total   | 9,457,198                         | 9,750,787 | 9,038,442                    | 8,308,439 |

## Note 10. Segment and Geographical Information

The following table presents comparative percent of Company revenue by country or by geographic region.

|                   | Three<br>Months<br>Ended<br>June 30, |      | Six<br>Months<br>Ended<br>June 30, |      |
|-------------------|--------------------------------------|------|------------------------------------|------|
|                   | 2016                                 | 2015 | 2016                               | 2015 |
| Mobility Services |                                      |      |                                    |      |
| United States     | 44 %                                 | 40 % | 43 %                               | 39 % |
| EMEA              | 43 %                                 | 52 % | 44 %                               | 51 % |
| Asia Pacific      | 12 %                                 | 7 %  | 12 %                               | 9 %  |
| Rest of the World | 1 %                                  | 1 %  | 1 %                                | 1 %  |

For the three and six months ended June 30, 2016, the countries that accounted for 10% of more of our total revenues on a geographical basis were the United States and Germany. Revenues in Germany represented 14% for both of the three and six months period ended June 30, 2016 and the US represented 44% and 43%, respectively. One customer, a channel reseller, represented 11% of total revenues for the three and six months ended June 30, 2016.

For the three months ended June 30, 2015, the United States, Germany and the United Kingdom represented 40%, 15% and 10% of total revenue, respectively. For the six months ended June 30, 2015, the United States, Germany and the United Kingdom represented 39%, 15% and 10% of total revenue, respectively. One customer, a channel reseller, represented 10% for the three months ended June 30, 2015.

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

## Note 11. 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 is authorized to repurchase shares through open market purchases, in accordance with applicable federal securities laws, including through trading plans under Rule 10b5-1 of the Securities and Exchange Act of 1934. The repurchase program shall run through December 31, 2016, unless earlier completed or terminated by the Board of Directors. The number of shares to be purchased and the timing of purchases are based on general business and market conditions, and other factors, including legal requirements. No shares had been repurchased under the repurchase program during the fourth quarter of 2015. On February 25, 2016, the Company established a 10b5-1 plan for repurchases under the repurchase program and started acquiring stock under this plan. During the six months ending June 30, 2016, the Company repurchased 339,228 shares for \$345,296 under the repurchase program, for an average price of \$1.02 per share.

## Note 12. Subsequent Events

Management has evaluated events subsequent to June 30, 2016 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.



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

Management’s Discussion and Analysis of Financial Condition and Results of Operations (or “MD&A”) is provided in addition to the condensed consolidated financial statements and notes, included elsewhere in this report, to assist readers in understanding our results of operations, financial condition, and cash flows. The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and with the MD&A in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015.

This MD&A is organized as follows:

|   |  |
|---|--|
| Overview  | Discussion of our business   |
| Business Portfolio and Our Strategy                   | Description of our business and 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 and Non-GAAP Financial Measures | Discussion of key operating metrics and non-GAAP financial measures 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 six months ended June 30, 2016, and June 30, 2015   |
| 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” or 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 the 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 over 57 million hotspots in more than 120 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 Platform:** Our platform is a cloud-based service manager that securely connects users and devices to our global Wi-Fi footprint. In its most simple form, it is an application (app), downloaded by the customer's users to their laptop, tablet, or smartphone that will identify an iPass hotspot, connect seamlessly, secure the connection, and allow users to have full access to their other cloud-based apps and internet needs. It is compatible with Automatic Credential Assignment (ACA) that simplifies the onboarding process of new users and makes forgotten passwords a thing of the past.

**Our Technology Infrastructure:** We have a global authentication fabric of integrated servers 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 hotspots we aggregate look and feel like iPass hotspots.

**Our Wi-Fi Network:** We have a Wi-Fi network footprint and supply chain that consists of over 57 million hotspots in over 120 countries and territories, including major airports, convention centers, planes, trains, train stations, hotels, restaurants, retail, and small business locations.

We continue to partner with Wi-Fi operators around the world to improve performance and reduce the cost of connectivity, focused on making and keeping Wi-Fi the preferred option for potentially billions of connected devices.

#### 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 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):** Previously referred to as OME (Open Mobile Enterprise), this go-to-market strategy focuses on providing mobile connectivity solutions to enterprises, from large to small.

**Strategic Partnerships (Business to Business to Consumer or B2B2C):** Previously referred to as OMX (Open Mobile Exchange), this strategy is executed through business development deals intended to open channel distributions for our product to reach the consumer market.

#### 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.

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### EVERYWHERE - World's largest Wi-Fi 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 a software development kit (SDK) in the first quarter of 2016.

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, 2015.

### 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. We introduced iPass SmartConnect™ SDK providing 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. Since introducing the SDK, sixteen partners have obtained access and are in development.

#### Network Enhancements

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. We gather data on every hotspot within range of our users' Wi-Fi radio signal, analyze the hotspots for a variety of quality characteristics, and crunch the numbers through our big data engine. As a result, we can overlay heat maps of coverage areas, identify good and bad hotspots, and determine where and how we should add additional hotspots to satisfy our users' behavior patterns and demands.

#### Growth in Install Base

We have expanded our global network to 57 million hotspots and continued product improvements, which have increased user connectivity success rates, have fueled usage growth in our enterprise accounts and consumers using iPass services through our strategic partnerships. The result is growth in our install customer base as evidenced by the growth in Wi-Fi network users. The increase in Wi-Fi Network users translated to 30% increase in consumption of our network in hours over the prior quarter and 38% over the same quarter in 2015.

#### Cost Containment Initiative

On February 17, 2016, we announced a reduction in force that impacted 57 employees and reduced headcount globally by 30% primarily as a cost-cutting measure, which eliminated positions in engineering and network operations groups, including a significant rightsizing of the India team. Financial results for the three months ended June 30, 2016, include the full impact of this cost containment initiative with operating expense declining \$1.6 million, or 15% reduction, sequentially. The three months ended March 31, 2016 included \$0.7 million of restructuring costs.

#### Key Operating Metrics

Described below are key metrics that we use to evaluate our operating performance. As our legacy business is no longer significant to our overall revenue or key operating metrics, we have dropped the designation of “OM” (Open Mobile) from these metrics and are just reporting total users.

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## 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 used or deployed the platform. 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.

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

|                                       | For the Quarter Ended |                |                   |                    |               |
|---------------------------------------|-----------------------|----------------|-------------------|--------------------|---------------|
|                                       | June 30, 2016         | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
| Wi-Fi Network Users:                  |                       |                |                   |                    |               |
| Enterprise (formerly OME)             | 83                    | 77             | 79                | 78                 | 84            |
| Strategic Partnerships (formerly OMX) | 42                    | 24             | 21                | 23                 | 11            |
| Total iPass Wi-Fi Network Users       | 125                   | 101            | 100               | 101                | 95            |
| Total iPass Active Platform Users     | 794                   | 807            | 830               | 839                | 849           |

The average monthly Wi-Fi network users grew 24,000 or 24% over the prior quarter and 30,000 or 32% over the same quarter in 2015 due to product enhancements, ramping customers, and install base growth.

## 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 |                |                   |                    |               |
|--------------|-----------------------|----------------|-------------------|--------------------|---------------|
|              | June 30, 2016         | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
| Gross Margin | 37.9%                 | 35.2 %         | 36.9 %            | 37.6 %             | 38.8 %        |

## 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 a strategic partnership with an OEM as the number of devices shipped fluctuates during the year. Under this 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 |                |                   |                    |               |
|-------------------------------|-----------------------|----------------|-------------------|--------------------|---------------|
|                               | June 30, 2016         | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 |
| Total Deferred Revenue        | \$2,300               | \$ 2,348       | \$ 2,552          | \$ 2,517           | \$ 2,109      |
| 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, it is a lead indicator of future revenue, especially as we migrate to a more SaaS-like recurring monthly subscription model under UNLIMITED pricing. The following table represents ACV (in thousands):

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|                       | For the Quarter Ended |                |                   |                    |
|-----------------------|-----------------------|----------------|-------------------|--------------------|
|                       | June 30, 2016         | March 31, 2016 | December 31, 2015 | September 30, 2015 |
| Annual Contract Value | \$2,287               | \$ 2,116       | \$ 724            | \$ 1,558           |
|                       |                       |                |                   | \$ 1,257           |

## Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”)

Adjusted EBITDA is used by our management as a measure of operating efficiency, financial performance and as a benchmark against our peers and competitors. In addition, we also use this metric as a factor in our incentive compensation payouts. Management also believes that Adjusted EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to understand our performance excluding the impact of items which may obscure trends in our core operating performance. Furthermore, the use of Adjusted EBITDA facilitates comparisons with other companies in our industry which may use similar financial measures to supplement their GAAP (accounting principles generally accepted in the United States) results. We define Adjusted EBITDA as net loss adjusted for interest, income taxes, depreciation and amortization, stock-based compensation, restructuring charges, CEO exit costs, proxy contest costs and non-recurring legal costs. We adjust for these excluded items because we believe that, in general, these items possess one or more of the following characteristics: their magnitude and timing is largely outside of our control; they are unrelated to the ongoing operation of the business in the ordinary course; they are unusual or infrequent and we do not expect them to occur in the ordinary course of business; or are non-cash expenses involving stock option grants and restricted stock issuances. Adjusted EBITDA is not a measure determined in accordance with GAAP and should not be considered in isolation or as a substitute for operating income (loss), net income (loss) or any other measure determined in accordance with GAAP.

The following table reconciles GAAP net loss to Adjusted EBITDA loss (in thousands):

|   | Three Months Ended June 30, 2016 |           | Six Months Ended June 30, 2016 |           |
|---|----------------------------------|-----------|--------------------------------|-----------|
|   | 2016                             | 2015      | 2016                           | 2015      |
| GAAP Net loss                                 | \$(1,377)                        | \$(6,375) | \$(5,107)                      | \$(9,815) |
| Interest (income) expense                     | (6 )                             | 17        | (11 )                          | 38        |
| Income tax expense                            | 62                               | 67        | 153                            | 167       |
| Depreciation of property and equipment        | 665                              | 731       | 1,371                          | 1,477     |
| Stock-based compensation expense (benefit)    | 304                              | (271 )    | 492                            | (633 )    |
| Restructuring charges and related adjustments | 30                               | 3,242     | 788                            | 3,263     |
| CEO exit costs                                | —                                | —         | —                              | 621       |
| Proxy contest costs                           | —                                | 446       | —                              | 446       |
| Nonrecurring legal costs                      | —                                | 129       | —                              | 129       |
| Adjusted EBITDA loss                          | \$(322 )                         | \$(2,014) | \$(2,314)                      | \$(4,307) |

## Critical Accounting Policies and Estimates

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

There have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2016 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, 2015.

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## 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

Within our Mobile Connectivity Services, we differentiate and analyze our revenue generation streams as follows:

Enterprise (formerly Open Mobile Enterprise or OME) 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 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 (formerly Open Mobile Exchange or OMX) 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 developer fees), 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<br>Ended<br>June 30,<br>2016 |          | Six Months<br>Ended<br>June 30,<br>2015 |          |
|------------------------------|---|----------|---|----------|
|                              | 2016                                      | 2015     | 2016                                    | 2015     |
|                              | (In thousands)                            |          |   |          |
| Mobile Connectivity Services | \$16,497                                  | \$15,595 | \$31,228                                | \$32,153 |
| Enterprise                   | 12,897                                    | 13,273   | 25,118                                  | 27,463   |
| Strategic Partnerships       | 3,035                                     | 1,240    | 4,944                                   | 2,363    |
| Legacy iPC                   | 565                                       | 1,082    | 1,166                                   | 2,327    |

For the three months ended June 30, 2016, overall Mobility Services revenue increased \$0.9 million or 6% as compared to the same period in 2015. This was due to a combination of lower Enterprise revenue of \$0.4 million and lower Legacy iPC revenue of \$0.5 million, offset by higher Strategic Partnership revenue of \$1.8 million driven by ramping customers usage and new logo additions.

For the six months ended June 30, 2016, overall Mobility Services revenue decreased \$0.9 million or 3% as compared to the same period in 2015. This was due to a combination of lower Enterprise revenue of \$2.3 million and lower Legacy iPC revenue of \$1.2 million, partially offset by higher Strategic Partnership revenue of \$2.6 million.

Enterprise revenue was lower principally due to churn or writedown of customers, including renegotiated contracts with large carriers that resulted in lower monthly Platform fee commitments. Legacy iPC revenue was lower as a result of the expected reduction in usage for our Legacy and Dial-up services. Strategic Partnership revenue was higher and has expanded quarter over quarter as we build out our business model surrounding this product offering, open new channels for product distribution and see customers begin to ramp.

## Gross Margin

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

|                  | Three Months<br>Ended<br>June 30,<br>2016 |       | Six Months<br>Ended<br>June 30,<br>2015 |       |
|------------------|---|-------|---|-------|
|                  | 2016                                      | 2015  | 2016                                    | 2015  |
| Gross Margin (%) | 37.9%                                     | 38.8% | 36.6%                                   | 40.4% |

For the three months and six months ended June 30, 2016, gross margin decreased by 0.9 and 3.7 percentage points, respectively, as compared to the same period in 2015 which is primarily due to the decline in high margin Platform revenue and

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the growth of Inflight revenue in our product mix, which has a lower margin. This was offset in part by lower network operations costs due primarily to the reduction in headcount.

## 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 June 30, |        | Six Months Ended June 30, |          |
|----------------------------------|-----------------------------|--------|---------------------------|----------|
|                                  | 2016                        | 2015   | 2016                      | 2015     |
|                                  | (In thousands)              |        |                           |          |
| Network access costs             | 8,466                       | 7,038  | 15,908                    | \$13,713 |
| As a percentage of total revenue | 51.3 %                      | 45.1 % | 50.9 %                    | 42.6 %   |

For the three months and six months ended June 30, 2016, network access costs increased \$1.4 million or 20% and \$2.2 million or 16%, respectively, as compared to the same period in 2015. This was mainly due to the increase in Wi-Fi Network Users consuming Wi-Fi services.

For the three months and six months ended June 30, 2016, network access costs as a percentage of total revenue increased 6.2 and 8.3 percentage points, respectively, as compared to the same period in 2015. This was primarily due to the decrease in platform revenue as there are no network access costs associated with our platform revenues and the increased mix of lower margin Inflight revenues.

## Network Operations

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

|                                  | Three Months Ended June 30, |        | Six Months Ended June 30, |         |
|----------------------------------|-----------------------------|--------|---------------------------|---------|
|                                  | 2016                        | 2015   | 2016                      | 2015    |
|                                  | (In thousands)              |        |                           |         |
| Network operations costs         | 1,780                       | 2,510  | 3,878                     | \$5,460 |
| As a percentage of total revenue | 10.8 %                      | 16.1 % | 12.4 %                    | 17.0 %  |

For the three months and six months ended June 30, 2016, network operations expense decreased \$0.7 million or 29% and \$1.6 million or 29%, respectively, as compared to the same period in 2015, primarily due to decreases in headcount-related expenses as a result of our Q2 2015 and Q1 2016 restructuring plans.

## Research and Development

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

|                                  | Three Months Ended June 30, |        | Six Months Ended June 30, |         |
|----------------------------------|-----------------------------|--------|---------------------------|---------|
|                                  | 2016                        | 2015   | 2016                      | 2015    |
|                                  | (In thousands)              |        |                           |         |
| Research and development expense | 1,762                       | 2,494  | 3,902                     | \$5,492 |
| As a percentage of total revenue | 10.7 %                      | 16.0 % | 12.5 %                    | 17.1 %  |

For the three months and six months ended June 30, 2016, research and development expense decreased by \$0.7 million or 29% and \$1.6 million or 29%, respectively, as compared to the same period in 2015, mainly due to decreases in headcount related expenses as a result of our Q2 2015 and Q1 2016 restructuring plans.



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

|                                  | Three Months Ended June 30, |        | Six Months Ended June 30, |         |
|----------------------------------|-----------------------------|--------|---------------------------|---------|
|                                  | 2016                        | 2015   | 2016                      | 2015    |
|                                  | (In thousands)              |        |                           |         |
| Sales and marketing expense      | 2,895                       | 2,384  | 5,732                     | \$5,566 |
| As a percentage of total revenue | 17.5 %                      | 15.3 % | 18.4 %                    | 17.3 %  |

For the three months and six months ended June 30, 2016, sales and marketing expense increased by \$0.5 million or 21% and \$0.2 million or 3%, respectively, as compared to the same period in 2015, primarily due to the increase in stock based compensation expense due to termination of employees and cancellation of their stock options in 2015.

**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 June 30, |        | Six Months Ended June 30, |         |
|------------------------------------|-----------------------------|--------|---------------------------|---------|
|                                    | 2016                        | 2015   | 2016                      | 2015    |
|                                    | (In thousands)              |        |                           |         |
| General and administrative expense | 2,765                       | 3,971  | 5,755                     | \$8,207 |
| As a percentage of total revenue   | 16.8 %                      | 25.5 % | 18.4 %                    | 25.5 %  |

For the three months ended June 30, 2016, general and administrative expense decreased \$1.2 million or 30% as compared to the same period in 2015, mainly due to the decrease related to proxy contest costs of \$0.4 million incurred in 2015, the decrease in rent expense of \$0.3 million after lease renewal, the decrease in professional services and recruiting expenses of \$0.3 million and the decrease in headcount related costs of \$0.2 million as a result of our Q2 2015 and Q1 2016 restructuring plans.

For the six months ended June 30, 2016, general administrative expense decreased \$2.5 million or 30% as compared to the same period in 2015, due to decrease in headcount related cost of \$1.5 million as a result of our Q2 2015 and Q1 2016 restructuring plans, a decrease related to proxy contest costs by \$0.4 million incurred in 2015, and a decrease in CEO exit costs by \$0.6 million.

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

Foreign exchange gains and losses primarily include realized and unrealized gains and losses on foreign currency transactions. Foreign currency exchange rate fluctuations impact the re-measurement of certain assets and liabilities denominated in currencies other than the U.S. Dollar and generate unrealized foreign exchange gains or losses. In addition, some of our network access costs are invoiced in currencies other than the U.S. Dollar. The transactional settlement of these outstanding invoices and other cross-currency transactions generate realized foreign exchange gains or losses depending on the fluctuation of exchange rates between the date of invoicing and the date of payment. For the three and six months ended June 30, 2016 and 2015, we did not enter into any hedging contracts.

Foreign exchange loss for the three and six months ended June 30, 2016 was \$0.1 million and \$0.2 million, respectively due to weakening of the U.S. dollar against Euro. Foreign exchange loss for the three months ended June 30, 2015 was \$0.1 million and foreign exchange gain for the six months ended June, 2015 was \$0.1 million primarily due to weakening and strengthening, respectively, of the U.S. dollar against British Pound and Euro.

**Provision for Income Taxes**

Income tax expense for each of the three months and six months ended June 30, 2016 was approximately \$0.1 million and \$0.1 million, and is primarily related to foreign taxes on expected profits in the foreign jurisdictions. Income tax

expense for the three months and six months ended June 30, 2015 was approximately \$0.1 million and \$0.2 million, respectively.

#### Liquidity and Capital Resources

We had cash and cash equivalents of \$16.1 million at June 30, 2016, compared to \$20.3 million at December 31, 2015.

|  | Six Months Ended |      |
|--|------------------|------|
|  | June 30,         |      |
|  | 2016             | 2015 |
|  | (In thousands)   |      |

#### Cash Flows

|   |           |           |
|---|-----------|-----------|
| Net cash used in operating activities               | \$(4,148) | \$(7,315) |
| Net cash (used in) provided by investing activities | (131)     | 933       |
| Net cash provided by (used in) financing activities | 123       | (486)     |
| Net decrease in cash and cash equivalents           | \$(4,156) | \$(6,868) |

#### Operating Activities

Net cash used in operating activities decreased by approximately \$3.2 million for the six months ended June 30, 2016 over the same period in 2015. Cash used as a result of net loss, after adjustment for non-cash items, decreased by approximately \$5.9 million driven by the decrease in net loss and the stock based compensation expense adjustment related to the termination of employees during the first quarter of 2015 whose grants were canceled. Changes in working capital were unfavorable \$2.7 million as a result of timing of payables, receivables and flattening of the 2015 deferred revenue build.

#### Investing Activities

Net cash provided by investing activities decreased by approximately \$1.1 million for the six months ending June 30, 2016 over the same period in 2015. This decrease is primarily a result of the release of restricted cash during the second quarter of 2015 offset in part by lower purchases of property and equipment during 2016.

#### Financing Activities

Net cash provided by financing activities increased by approximately \$0.6 million for six months ending June 30, 2016 over the same period in 2015. The increase is related to the \$0.9 million of incremental cash collected on option exercises during the first and second quarter of 2016, offset by \$0.3 million paid for the repurchased shares.

#### Sources of Cash and Future Cash Requirements

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

The amount of cash and cash equivalents held by our foreign subsidiaries as of each of June 30, 2016, and December 31, 2015, was \$0.4 million. 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

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Our principal use of cash during the six months ended June 30, 2016 was for network access costs, payroll related expenses, payments for vendor financing equipment purchase, reduction in force severance payments and the stock repurchase program.

**Contractual Obligations**

The following are our contractual obligations as of June 30, 2016:

|                                   | Total          | Less Than<br>1 Year | 1-3 Years | 3-5 Years |
|-----------------------------------|----------------|---------------------|-----------|-----------|
|                                   | (In thousands) |                     |           |           |
| Operating Lease Obligations       | \$5,439        | \$ 1,665            | \$ 3,399  | \$ 375    |
| Other Purchase Commitments        | 15,184         | 5,166               | 10,018    | —         |
| Total Contractual Obligations (1) | \$20,623       | \$ 6,831            | \$ 13,417 | \$ 375    |

(1) See Note 8 "Commitments and Contingencies"

Our contractual commitments at December 31, 2015, were \$14.0 million. For information on our contractual commitments at December 31, 2015, 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, 2015.

**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 June 30, 2016, and December 31, 2015, 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 three and six months ended June 30, 2016, were the Euro, the British Pound, and the Indian Rupee. We are primarily exposed to foreign currency fluctuations related to network access costs and other operating expenses denominated in currencies other than the U.S. Dollar. As such, we benefit from a stronger U.S. Dollar and may be adversely affected by a weaker U.S. Dollar relative to each foreign currency. Currently, we do not enter into currency forward exchange or option contracts to hedge foreign currency exposures. The impact of foreign currency fluctuations is also discussed in “Foreign Exchange Gains and Losses” under Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Interest Rate Risk

As of June 30, 2016, we had cash and cash equivalents of \$16.1 million and no short-term investments or restricted cash. As of December 31, 2015, we had cash and cash equivalents of \$20.3 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 not effective because of the material weakness in our internal controls described below. In light of the material weakness described below, iPass performed additional analysis and other post-closing procedures to ensure our interim consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”). Accordingly, management concluded that the financial statements included in this report present fairly in all material respects our financial condition, results of operations, and cash flows for the period presented.

As disclosed in our Quarterly Report on Form 10-Q for the first quarter of 2016, we identified a material weakness in our controls around analyzing significant, complex, or unusual arrangements, and the related application of relevant GAAP. We determined our review and approval controls around these arrangements lacked proper segregation of duties between the process owner and the control owner. The material weakness could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. We have initiated remediation efforts, and over the past quarter, we have started to implement several measures including hiring a seasoned Corporate Controller that is responsible for all technical accounting analysis, implementing additional reviews of complex and unusual arrangements and engaging third party experts when and if additional significant, complex, or unusual arrangements arise. Our remediation efforts will continue throughout our fiscal year

2016. We expect that the material weakness will be remediated during fiscal year 2016 once the controls in place have been operational for a sufficient period of time to allow management to conclude that these controls are operating effectively.

**Changes in Internal Control over Financial Reporting**

During the quarter ended June 30, 2016, except as noted above, 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.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors

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

Our risk factors 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, 2015, which are set forth below, other than the deletion of the risk factor regarding meeting the listing requirements of the Nasdaq Stock Market, as on March 23, 2016, we received a letter from Nasdaq stating that we had regained compliance with the Nasdaq bid price rule and Nasdaq's previous notification of non-compliance with the Nasdaq bid price rule has been closed.

If customer adoption and deployment of our revised, cloud-based platform is slower than we expect, 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. 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.

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

Our Strategic Partnership (previously referred to as OMX) service offerings were introduced in 2011 and 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 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.

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

We derive a significant portion of our network revenue from providing Wi-Fi access in certain key venues (e.g., hotels, airports, 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.

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 ability to achieve profitability could be negatively impacted.

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.

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.

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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.

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

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

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

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

We face competition in the market for 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.

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

If our 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 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.

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

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

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

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

We generate a substantial portion of our revenues from international customers. Revenues from customers domiciled outside of the United States were approximately 57% of our revenues for the six months ended June 30, 2016, of which approximately 44% were generated in the EMEA region and approximately 13% 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 six months ended June 30, 2016, 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.

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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.

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

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

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

Our 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 actually 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 into a contract, we may have incurred substantial sales-related expenses well before we recognize any related revenues. If the expenses associated with sales efforts increase and, we are not successful in our sales efforts, or we are unable to generate associated offsetting revenues in a timely manner, our operating results could be harmed.

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

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

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

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

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

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

degradations or delays in our services until substitute technologies, if available, are developed or identified, licensed and successfully integrated into our services.

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

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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. To compete we must attract and retain key employees, and our failure to do so could harm our results of operations. To compete we must attract and retain executives, sales representatives, engineers and other key employees. Hiring and retaining qualified executives, sales representatives and engineers are critical to our business, and competition for experienced employees in our industry can be intense. If we experience an unexpected significant turnover of our executives, sales representatives, engineers and other key employees it will be difficult to achieve our business objectives and could adversely impact our results of operations. If we fail to develop and effectively market our brand, our operating results may be harmed. We believe that expanding awareness of the iPass brand is important to growing and achieving acceptance of our 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.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes acquisitions of shares of our common stock during the second quarter of fiscal year 2016 .

| Period                           | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value<br>of Shares that<br>May Yet be<br>Repurchased<br>Under the<br>Repurchase<br>Program<br><br>(in<br>thousands) |
|----------------------------------|---|---------------------------------------|--|---|
| April 1, 2016, to April 30, 2016 | 1,600                                     | \$ 1.10                               | 1,600  | \$ 2,727  |
| May 1, 2016 to May 31, 2016      | 66,100                                    | \$ 1.10                               | 66,100   | \$ 2,655  |
| June 1, 2016 to June 30, 2016    | —   | \$ —                                  | —  | \$ 2,655  |
| Total                            | 67,700                                    |                                       | 67,700   |   |

On November 4, 2015, we announced that our Board of Directors authorized a share repurchase program of up to \$3.0 million of our common. The repurchase program will run through the end of 2016, unless terminated earlier. See Note 11 of our Notes to Condensed Consolidated Financial Statements for information regarding our repurchase program.

## Item 6. Exhibits

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



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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.

iPass Inc.

Date: August 5, 2016     /s/ Darin R. Vickery  
Darin R. Vickery  
Chief Financial Officer  
(Duly Authorized Officer and Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

| Exhibit<br>Number | Description   |
|-------------------|---|
| 3.1               | Amended and Restated Certificate of Incorporation. (Filed as Exhibit 3.1 to our Form 10-Q (SEC File No. 000-50327), filed on November 13, 2003, and incorporated by reference herein.)                          |
| 3.2               | Certificate of Amendment to Amended and Restated Certificate of Incorporation. (Filed as Exhibit 3.2 to our Form 10-Q (SEC File No. 000-50327), filed on August 7, 2009, and incorporated by reference herein.) |
| 3.3               | Certificate of Change to Amended and Restated Certificate of Incorporation. (Filed as Exhibit 3.1 to our Form 8-K (SEC File No. 000-50327), filed on February 3, 2010, and incorporated by reference herein.)   |
| 3.4               | Amended and Restated By-Laws. (Filed as Exhibit 3.4 to our Form 10-Q (SEC File No. 000-50327), filed on November 7, 2013, and incorporated by reference herein.)  |
| 4.1               | Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4   |
| 4.2               | Specimen stock certificate. (Filed as Exhibit 4.2 to our Registration Statement on Form S-1/A (SEC File No. 333-102715), filed on July 1, 2003, and incorporated by reference herein.)                          |
| 10.1              | Description of 2016 Management Compensation Bonus Plan (Described in Item 5.02 of our Form 8-K (SEC File No. 000-50327), filed on May 2, 2016, and incorporated by reference herein.)                           |
| 10.2              | iPass Inc. 2003 Equity Incentive Plan, as amended.  |
| 31.1              | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2              | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1              | Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2              | Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101.INS           | XBRL Instance Document  |
| 101.SCH           | XBRL Taxonomy Extension Schema Document   |
| 101.CAL           | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF           | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB           | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE           | XBRL Taxonomy Extension Presentation Linkbase Document  |

