UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2017

or

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

Commission file number 001-34777

BroadSoft, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**52 2130962**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9737 Washingtonian Boulevard, Suite 350 Gaithersburg, MD	**20878**
(Address of principal executive offices)	**(Zip Code)**

(301) 977-9440
Registrant's telephone number, including area code:

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares outstanding of the Registrant's common stock, par value $0.01 per share, on November 2, 2017, was 31,649,386.

BroadSoft, Inc.
Table of Contents

	Page No.
PART I. FINANCIAL INFORMATION	
ITEM 1. Financial Statements:	
Unaudited Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016	3
Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016	4
Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2017 and 2016	5
Unaudited Condensed Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2017 and 2016	6
Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016	7
Notes to Unaudited Condensed Consolidated Financial Statements	8
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	51
ITEM 4. Controls and Procedures	51
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	53
ITEM 1A. Risk Factors	53
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	54
ITEM 3. Defaults Upon Senior Securities	54
ITEM 4. Mine Safety Disclosures	54
ITEM 5. Other Information	54
ITEM 6. Exhibits	54
SIGNATURES	56

PART I. Financial Information

ITEM 1. Financial Statements

BroadSoft, Inc.
Unaudited Condensed Consolidated Balance Sheets

	September 30, 2017	December 31, 2016
	(In thousands, except share and per share data)	
Assets:		
Current assets:		
Cash and cash equivalents	$ 129,546	$ 82,993
Short-term investments	241,521	136,428
Accounts receivable, net of allowance for doubtful accounts of $240 and $108 at September 30, 2017 and December 31, 2016, respectively	109,086	121,817
Other current assets	30,295	17,431
Total current assets	510,448	358,669
Long-term assets:		
Property and equipment, net	29,409	22,626
Long-term investments	25,221	144,159
Intangible assets, net	23,246	27,839
Goodwill	85,559	82,758
Deferred tax assets	31,929	7,042
Other long-term assets	8,354	8,107
Total long-term assets	203,718	292,531
Total assets	$ 714,166	$ 651,200
Liabilities and stockholders' equity:		
Current liabilities:		
Current portion of convertible senior notes	$ 65,787	$ —
Accounts payable and accrued expenses	$ 41,002	$ 33,854
Deferred revenue, current	86,764	97,037
Total current liabilities	193,553	130,891
Convertible senior notes	145,339	201,015
Deferred revenue	10,582	12,152
Other long-term liabilities	9,477	5,908
Total liabilities	$ 358,951	$ 349,966
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 5,000,000 shares authorized at September 30, 2017 and December 31, 2016; no shares issued and outstanding at September 30, 2017 and December 31, 2016	—	—
Common stock, par value $0.01 per share; 100,000,000 shares authorized at September 30, 2017 and December 31, 2016; 31,520,196 and 30,353,127 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively.	315	304
Additional paid-in capital	427,416	383,268
Accumulated other comprehensive loss	(15,047)	(21,845)
Accumulated deficit	(57,469)	(60,493)
Total stockholders' equity	355,215	301,234
Total liabilities and stockholders' equity	$ 714,166	$ 651,200

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

BroadSoft, Inc.
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands, except per share data)			
Revenue:				
License software	$ 30,587	$ 31,486	$ 94,683	$ 95,992
Subscription and maintenance support	43,520	36,509	127,106	106,348
Professional services and other	17,366	16,127	38,112	36,639
Total revenue	91,473	84,122	259,901	238,979
Cost of revenue:				
License software	1,463	1,799	4,655	5,697
Subscription and maintenance support	15,002	11,894	42,085	34,060
Professional services and other	10,226	10,060	30,577	27,340
Total cost of revenue	26,691	23,753	77,317	67,097
Gross profit	64,782	60,369	182,584	171,882
Operating expenses:				
Sales and marketing	30,519	26,112	88,296	75,386
Research and development	20,814	19,931	62,545	58,120
General and administrative	12,880	12,759	40,295	36,675
Total operating expenses	64,213	58,802	191,136	170,181
Income (loss) from operations	569	1,567	(8,552)	1,701
Other expense:				
Interest expense	4,260	3,959	12,471	11,738
Interest income	(855)	(683)	(2,457)	(1,950)
Other, net	316	(207)	93	(533)
Total other expense, net	3,721	3,069	10,107	9,255
Loss before income taxes	(3,152)	(1,502)	(18,659)	(7,554)
Benefit from income taxes	(478)	(897)	(2,466)	(2,545)
Net loss	$ (2,674)	$ (605)	$ (16,193)	$ (5,009)
Net loss per common share:				
Basic and diluted	$ (0.09)	$ (0.02)	$ (0.53)	$ (0.17)
Weighted average common shares outstanding:				
Basic and diluted	31,175	29,878	30,807	29,491
Stock-based compensation expense included above:				
Cost of revenue	$ 2,516	$ 2,225	$ 6,930	$ 6,118
Sales and marketing	6,184	4,973	15,548	13,321
Research and development	3,341	4,249	9,979	11,414
General and administrative	2,589	2,574	7,500	7,454

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

BroadSoft, Inc.
Unaudited Condensed Consolidated Statements of Comprehensive Loss

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Net loss	$ (2,674)	$ (605)	$ (16,193)	$ (5,009)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	2,179	(637)	6,674	(4,171)
Unrealized gain (loss) on investments	155	(172)	124	972
Total other comprehensive income (loss), net of tax	2,334	(809)	6,798	(3,199)
Comprehensive loss	$ (340)	$ (1,414)	$ (9,395)	$ (8,208)

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

BroadSoft, Inc.
Unaudited Condensed Consolidated Statements of Stockholders' Equity
(In thousands)

	Total Stockholders' Equity	Common Stock Par Value $0.01 Per Share		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit
		Shares	Amount			
Balance December 31, 2016	$ 301,234	30,353	$ 304	$ 383,268	$ (21,845)	$ (60,493)
Issuance of common stock on the exercise of stock options and vesting of RSUs, net of effect of withholding tax	3,336	1,167	11	3,325	—	—
Stock-based compensation expense	40,170	—	—	40,823	—	(653)
Cumulative effect adjustment for unrecognized windfall benefits	19,870	—	—	—	—	19,870
Foreign currency translation adjustment	6,674	—	—	—	6,674	—
Unrealized gain on investments	124	—	—	—	124	—
Net loss	(16,193)	—	—	—	—	(16,193)
Balance September 30, 2017	$ 355,215	31,520	$ 315	$ 427,416	$ (15,047)	$ (57,469)
Balance December 31, 2015	$ 257,033	29,080	$ 291	$ 333,153	$ (13,810)	$ (62,601)
Issuance of common stock for exercise of stock options and vesting of RSUs, net of effect of withholding tax	828	990	10	818	—	—
Stock-based compensation expense	38,106	—	—	38,106	—	—
Tax windfall benefits on exercises of stock options	1,409	—	—	124	—	1,285
Foreign currency translation adjustment	(4,171)	—	—	—	(4,171)	—
Unrealized gain on investments	972	—	—	—	972	—
Net loss	(5,009)	—	—	—	—	(5,009)
Balance September 30, 2016	$ 289,168	30,070	$ 301	$ 372,201	$ (17,009)	$ (66,325)

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

BroadSoft, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (16,193)	$ (5,009)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,702	13,293
Amortization of software licenses	2,883	2,423
Stock-based compensation expense	39,957	38,307
Provision for doubtful accounts	143	207
Benefit from deferred income taxes	(4,947)	(6,120)
Non-cash interest expense on convertible senior notes	10,112	9,428
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	12,862	4,788
Other current and long-term assets	(15,258)	(3,493)
Accounts payable, accrued expenses and other long-term liabilities	8,335	3,246
Current and long-term deferred revenue	(11,872)	(9,133)
Net cash provided by operating activities	40,724	47,937
Cash flows from investing activities:		
Additions to property and equipment	(14,996)	(10,377)
Payments for acquisitions, net of cash acquired	—	(21,427)
Purchases of marketable securities	(85,222)	(207,896)
Proceeds from sale of marketable securities	17,077	73,251
Proceeds from maturities of marketable securities	81,990	42,400
Net cash used in investing activities	(1,151)	(124,049)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	17,714	13,866
Taxes paid on vesting of RSUs	(14,378)	(13,038)
Net cash provided by financing activities	3,336	828
Effect of exchange rate changes on cash and cash equivalents	3,644	(526)
Net increase (decrease) in cash and cash equivalents	46,553	(75,810)
Cash and cash equivalents, beginning of period	82,993	175,857
Cash and cash equivalents, end of period	$ 129,546	$ 100,047

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

BroadSoft, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Nature of Business

BroadSoft, Inc. ("BroadSoft" or the "Company"), a Delaware corporation, was formed in 1998. The Company is the leading global provider of software and services that enable telecommunications service providers to deliver hosted, cloud-based Unified Communications, or UC, to their enterprise customers.

On October 20, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Cisco Systems, Inc., a California corporation ("Cisco"), and Brooklyn Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Cisco ("Sub"). See Note 13, Subsequent Events, and the description of the Merger Agreement included under the heading "Overview" in Item 2 below.

2. Financial Statement Presentation

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts and results of operations of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in the accompanying unaudited condensed consolidated financial statements.

Interim Financial Presentation

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification for interim financial information and Article 10 of Regulation S-X issued by the United States Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all the information and footnotes required by U.S. GAAP for annual fiscal reporting periods. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair statement of the financial position, results of operations, comprehensive income, changes in stockholders' equity and cash flows. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of results that may be expected for the year ending December 31, 2017 or any other period. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on February 23, 2017.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

Forward Contracts

From time to time, the Company uses foreign currency forward contracts to hedge certain balance sheet exposures. These forward contracts are not designated as hedges for accounting purposes. Gains and losses resulting from a change in fair value of these derivatives are reflected in income in the period in which the change occurs and are recognized on the consolidated statement of operations in other income (expense). Cash flows from these contracts are classified within net cash used in operating activities on the consolidated statements of cash flows, consistent with the cash flows of the hedged items. The Company recognizes all derivative instruments on the balance sheet at fair value, and its derivative instruments are generally short-term in duration. The Company does not use financial instruments for trading or speculative purposes.

As of September 30, 2017, the Company maintained eight open forward contracts with a total notional amount of $5.9 million. The Company did not maintain any open contracts as of December 31, 2016. All forward contracts have maturities of twelve months or less and were entered into to manage foreign currency exposure on Euro, GBP and JPY denominated accounts receivables. The Company recognized a gain of $0.2 million and a loss of $0.2 million related to the forward contracts for the three and nine months ended September 30, 2017, respectively.

Recent Accounting Pronouncements

Accounting Standards Adopted

Effective January 2017, the Company adopted Accounting Standards Update 2016-09, Compensation-Stock Compensation: Topic 718 ("ASU 2016-09"). As a result of the adoption of this standard, the Company made the following changes to the accounting treatment in accordance with the guidance in ASU 2016-09:

Accounting for Income Taxes: All excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement in the period in which they occur. Excess tax benefits in the amount of $19.6 million were not previously recognized because the related tax deduction had not reduced current taxes payable. The Company recorded previously unrecognized excess tax benefits using a modified retrospective method through a cumulative-effect adjustment to accumulated deficit as of January 1, 2017.

Classification of Excess Tax Benefits on the Statement of Cash Flows: The Company classifies excess tax benefits along with other income tax cash flows as an operating activity. The Company has applied this change using a retrospective transition method. The impact of adopting this change was immaterial to its financial statements.

Forfeitures: The Company has elected to account for forfeitures as they occur. The Company has applied this change using a modified retrospective method through a cumulative-effect adjustment of $0.4 million to accumulated deficit as of January 1, 2017.

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers: Topic 606 ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The standard defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard allows entities to apply either of two methods: (a) retrospective application to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 ("full retrospective method"); or (b) retrospective application with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09 ("modified retrospective method"). In August 2015, the FASB issued Accounting Standards Update 2015-14, Revenue from Contracts with Customers: Topic 606 ("ASU 2015-14"), which defers the effective date for ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

While the Company has not yet completed its final review of the impact of the new standard, it expects that the new standard (a) will impact the timing of revenue recognition for certain license software and professional services contracts and (b) will not have a significant impact on the timing of revenue recognition for subscription and maintenance support contracts. Due to the complexity of certain of the Company's software license and professional services contracts, the actual timing of revenue recognition required under the new standard will be dependent on contract-specific terms. The Company also expects that the new standard will require the capitalization of certain professional services costs related to the on-boarding of SaaS customers. The Company is still in the process of quantifying the impact of the capitalization of the costs, but does not expect the amount to be material. The Company will adopt the new standard on January 1, 2018 using the modified retrospective method. The Company will continue to evaluate the standard, as well as additional changes, modifications or interpretations that may impact its current conclusions.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases: Topic 842 ("ASU 2016-02"), which provides updated guidance on lease accounting. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that annual period, with early adoption permitted. The Company is evaluating the impact of adopting this new standard on its financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-16, Income Taxes: Topic 740: Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16") which requires the recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. The Company is evaluating the impact of adopting this new standard on its financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-01, Business Combinations: Topic 805: Clarifying the Definition of a Business (“ASU 2017-01”), which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new standard is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While the Company continues to assess the potential impact of this standard, the adoption of this standard is not expected to have a material impact on its financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-04, Intangibles - Goodwill and Other: Topic 350: Simplifying the Test for Goodwill Impairment (“ASU 2017-04”), which modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The new standard is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. While the Company continues to assess the potential impact of this standard, the adoption of this standard is not expected to have a material impact on its financial statements.

In May 2017, the FASB issued Accounting Standards Update 2017-09, Compensation-Stock Compensation: Topic 718: Scope of Modification Accounting ("ASU 2017-09"), which provides clarity and reduces diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change in the terms and conditions of a share-based payment award. The new standard is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is evaluating the impact of adopting this new standard on its financial statements.

3. Investments and Fair Value Disclosures

Investments in Marketable Securities

Marketable debt securities that the Company does not intend to hold to maturity are classified as available-for-sale, are carried at fair value and are included on the Company’s consolidated balance sheet as either short-term or long-term investments depending on their maturity. Investments with original maturities greater than three months that mature less than one year from the consolidated balance sheet date are classified as short-term investments. Investments with maturities greater than one year from the consolidated balance sheet date are classified as long-term investments. Available-for-sale investments are marked-to-market at the end of each reporting period, with unrealized holding gains or losses, which represent temporary changes in the fair value of the investment, reflected in accumulated other comprehensive income (loss), a separate component of stockholders’ equity. The transfer from accumulated other comprehensive income into net income is immaterial. The Company’s primary objective when investing excess cash is preservation of principal. The following table summarizes the Company’s investments:

	September 30, 2017	
	Contracted Maturity	**Carrying Value**
		(in thousands)
Money market funds	demand	$ 41,359
Total cash equivalents		$ 41,359
U.S. agency notes	15 - 304 days	$ 144,800
Commercial paper	45 days	4,993
Corporate bonds	5 - 311 days	83,720
Asset-backed securities	138 - 190 days	8,008
Total short-term investments		$ 241,521
U.S. agency notes	396 days	5,960
Corporate bonds	465 - 958 days	19,261
Total long-term investments		$ 25,221

The following table summarizes the Company's investments at September 30, 2017 (in thousands):

BroadSoft, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency notes	$ 150,965	$ —	$ (205)	$ 150,760
Commercial paper	4,993	—	—	4,993
Corporate bonds	103,003	24	(46)	102,981
Asset-backed securities	8,013	—	(5)	8,008
Total investments	$ 266,974	$ 24	$ (256)	$ 266,742

The following table summarizes the Company's investments at December 31, 2016 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency notes	$ 154,272	$ 12	$ (261)	$ 154,023
Commercial paper	1,993	—	—	1,993
Corporate bonds	109,133	10	(120)	109,023
Asset-backed securities	15,545	4	(1)	15,548
Total investments	$ 280,943	$ 26	$ (382)	$ 280,587

Fair Value

The following table summarizes the carrying and fair value of the Company’s financial assets (in thousands):

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash equivalents*	$ 41,359	$ 41,359	$ 44,962	$ 44,962
Short and long-term investments	266,742	266,742	280,587	280,587
Total assets	$ 308,101	$ 308,101	$ 325,549	$ 325,549

* Excludes $78.1 million and $38.0 million of operating cash balances as of September 30, 2017 and December 31, 2016, respectively.

The carrying amounts of the Company’s other financial instruments, accounts receivable, accounts payable and accrued expenses, approximate their respective fair values due to their short-term nature. (See Note 7 *Borrowings* for additional information on the fair value of debt.)

The Company uses a three-tier fair value measurement hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The three tiers are defined as follows:

- **Level 1**. Observable inputs based on unadjusted quoted prices in active markets for identical instruments and include the Company’s investments in money market funds and certificates of deposit;
- **Level 2**. Inputs valued using quoted market prices for similar instruments, nonbinding market prices that are corroborated by observable market data and include the Company’s investments and marketable securities in U.S. agency notes, commercial paper, corporate bonds and asset-backed securities; and
- **Level 3**. Unobservable inputs for which there is little or no market data, which require the Company to develop its own assumptions.

BroadSoft, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Assets Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets subject to fair value measurements on a recurring basis to determine the appropriate level of classification for each reporting period. This determination requires significant judgments to be made. There were no transfers between classification levels during the periods. The following tables summarize the values (in thousands):

	September 30, 2017	Level 1	Level 2	Level 3
Assets:				
Money market funds	$ 41,359	$ 41,359	$ —	$ —
Agency discount bonds	—	—	—	—
U.S. agency notes	150,760	—	150,760	—
Commercial paper	4,992	—	4,992	—
Corporate bonds	102,981	—	102,981	—
Asset-backed securities	8,008	—	8,008	—
Foreign currency forward contracts	5,727	—	5,727	—
Total assets measured at fair value	$ 313,827	$ 41,359	$ 272,468	$ —
Liabilities:				
Foreign currency forward contracts	$ 5,883	$ —	$ 5,883	$ —
Total liabilities measured at fair value	$ 5,883	$ —	$ 5,883	$ —

	December 31, 2016	Level 1	Level 2	Level 3
Assets:				
Money market funds	$ 44,962	$ 44,962	$ —	$ —
U.S. agency notes	154,023	—	154,023	—
Commercial paper	1,993	—	1,993	—
Corporate bonds	109,023	—	109,023	—
Asset-backed securities	15,548	—	15,548	—
Total assets measured at fair value	$ 325,549	$ 44,962	$ 280,587	$ —

* Excludes $78.1 million and $38.0 million of operating cash balances as of September 30, 2017 and December 31, 2016, respectively.

Assets Measured at Fair Value on a Nonrecurring Basis

The Company measures certain assets, including property and equipment, goodwill and intangible assets, at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be impaired. During the nine months ended September 30, 2017 and 2016, there were no assets or liabilities measured at fair value on a nonrecurring basis after initial recognition.

4. Goodwill

The following table provides a summary of the changes in the carrying amounts of goodwill (in thousands):

Balance, December 31, 2016	$ 82,758
Other	2,801
Balance, September 30, 2017	$ 85,559

For the nine months ended September 30, 2017, the change in goodwill resulted from foreign currency translations and is presented as “Other” in the above table.

5. Deferred Revenue

Deferred revenue represents amounts billed to or collected from customers for which the related revenue has not been recognized because one or more of the revenue recognition criteria have not been met. The current portion of deferred revenue is expected to be recognized as revenue within 12 months from the balance sheet date. Deferred revenue consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
License software	$ 10,464	$ 17,662
Subscription and maintenance support	65,804	72,559
Professional services and other	21,078	18,968
Total	$ 97,346	$ 109,189
Current portion	$ 86,764	$ 97,037
Non-current portion	10,582	12,152
Total	$ 97,346	$ 109,189

6. Software Licenses

The Company has entered into an agreement with a third-party that provides the Company the right to distribute its software on an unlimited basis through December 2020.

For the period from June 2012 to May 2016, the Company had a fixed cost associated with these distribution rights of $10.2 million, which was amortized to cost of revenue over the four-year period beginning in June 2012, based on the straight line method.

For the period from June 2016 to December 2020, the Company has a fixed cost associated with these distribution rights of $17.3 million, and if annual billed license software revenue over the extended term exceeds $850 million, the Company will be required to pay additional fees. The $17.3 million is being amortized to cost of revenue over the extended term beginning in June 2016, based on the straight-line method.

Amortization expense related to this agreement was $0.9 million and $0.9 million for the three months ended September 30, 2017 and 2016, respectively and $2.8 million and $2.3 million for the nine months ended September 30, 2017 and 2016, respectively.

7. Borrowings

2022 Convertible Senior Notes

In September 2015, the Company issued $201.3 million aggregate principal amount of 1.00% convertible senior notes due in 2022 (the “2022 Notes”). The 2022 Notes are general unsecured obligations of the Company, with interest payable semi-annually in cash at a rate of 1.00% per annum, and will mature on September 1, 2022, unless earlier converted, redeemed or repurchased.

The 2022 Notes may be converted by the holders at their option on any day prior to the close of business on the business day immediately preceding June 1, 2022 only under the following circumstances: (a) during any calendar quarter commencing after the calendar quarter ended on December 31, 2015 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (b) during the five business day period after any ten consecutive trading day period (the “measurement period”) in which the trading price, as defined in the indenture governing the 2022 Notes (the "2022 Indenture"), per $1,000 principal amount of 2022 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (c) if the Company calls any or all of the 2022 Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the relevant redemption date; or (d) upon the occurrence of specified corporate events. The 2022 Notes will be convertible, regardless of the foregoing circumstances, at any time from, and including, June 1, 2022 through the second scheduled trading day immediately preceding the maturity date.

The initial conversion rate for the 2022 Notes is 25.8249 shares of the Company’s common stock per $1,000 principal amount of 2022 Notes, equivalent to a conversion price of $38.72 per share of common stock. The conversion rate will be subject to

adjustment in some events, but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date or if the Company issues a notice of redemption on or after September 1, 2019 as described below, the Company will increase the conversion rate for a holder who elects to convert its 2022 Notes in connection with such a corporate event or during the related redemption period in certain circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. It is the Company's current intent to settle conversions through combination settlement with a specified dollar amount per $1,000 principal amount of 2022 Notes of $1,000. While the 2022 Notes were not convertible as of September 30, 2017, if the 2022 Notes were convertible, shares would have been distributed upon conversion because the conversion price was below the stock price as of such date. As of September 30, 2017, the if-converted value of the 2022 Notes exceeded the principal amount of the 2022 Notes by $60.2 million.

Holders of the 2022 Notes may require the Company to repurchase some or all of the 2022 Notes for cash upon a fundamental change, as defined in the 2022 Indenture, at a repurchase price equal to 100% of the principal amount of the 2022 Notes being repurchased, plus any accrued and unpaid interest up to, but excluding, the relevant repurchase date.

The Company may not redeem the 2022 Notes prior to September 1, 2019. Beginning September 1, 2019, the Company may redeem for cash all or a portion of the 2022 Notes, at the Company's option, if the last reported sale price of the common stock is equal to or greater than 140% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending within the five trading days immediately preceding the date on which the Company provides notice of redemption, at a redemption price equal to 100% of the principal amount of the 2022 Notes to be redeemed, *plus* accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2022 Notes.

The Company has separately accounted for the liability and equity components of the convertible debt instrument by allocating the gross proceeds from the issuance of the 2022 Notes between the liability component and the embedded conversion option, or equity component. This allocation was done by first estimating an interest rate at the time of issuance for similar notes that do not include the embedded conversion option. This interest rate, estimated at 7.4%, was used to compute the initial fair value of the liability component of $131.3 million. The excess of the gross proceeds received from the issuance of the 2022 Notes over the initial amount allocated to the liability component of $70.0 million was allocated to the embedded conversion option, or equity component. This excess is reported as a debt discount and will be subsequently amortized as interest expense, using the effective interest method, through September 2022, the maturity date of the 2022 Notes. Offering costs, consisting of the initial purchasers' discount and offering expenses payable by the Company, were $6.4 million. These offering costs were allocated to the liability component and the equity component based on the relative valuations of such components. As a result, $4.2 million of the offering costs were classified as debt issuance costs and recorded on the balance sheet as a deduction from the carrying amount of the 2022 Notes liability. The remaining $2.2 million of offering costs were allocated to the equity component.

The fair value of the 2022 Notes as of September 30, 2017 and December 31, 2016 was $282.3 million and $241.5 million, respectively. The carrying amount of the equity component of the 2022 Notes was $52.8 million at September 30, 2017. The unamortized offering costs classified as debt issuance costs and recorded as a direct deduction to the carrying amount of the debt liability at September 30, 2017 were $3.0 million, which are being amortized as interest expense through the September 2022 maturity date of the 2022 Notes.

2018 Convertible Senior Notes

In June 2011, the Company issued $120.0 million aggregate principal amount of 1.50% convertible senior notes due in 2018 (the "2018 Notes"). The 2018 Notes are senior unsecured obligations of the Company, with interest payable semi-annually in cash at a rate of 1.50% per annum, and will mature on July 1, 2018, unless earlier repurchased, redeemed or converted.

The 2018 Notes may be converted by the holders at their option on any day prior to the close of business on the scheduled trading day immediately preceding April 1, 2018 only under the following circumstances: (a) during the five business-day period after any ten consecutive trading-day period (the "measurement period") in which the trading price per Note for each day of that measurement period was less than 98% of the product of the last reported sale price of the common stock and the applicable conversion rate on each such day; (b) during any calendar quarter (and only during such quarter) after the calendar quarter ended September 30, 2011, if the last reported sale price of the common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (c) upon the occurrence of specified corporate events; or (d) if the Company calls the 2018 Notes for redemption. The 2018 Notes will be convertible, regardless of the foregoing circumstances, at any time from, and including, April 1, 2018 through the second scheduled trading day immediately preceding the maturity date.

BroadSoft, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

The initial conversion rate for the 2018 Notes is 23.8126 shares of the Company's common stock per $1,000 principal amount of 2018 Notes, equivalent to a conversion price of $41.99 per share of common stock. The conversion price will be subject to adjustment in some events, but will not be adjusted for accrued interest. In addition, if a make-whole fundamental change, as defined in the indenture governing the 2018 Notes (the "2018 Indenture"), occurs prior to the maturity date, the Company will in some cases increase the conversion rate for a holder that elects to convert its 2018 Notes in connection with such make-whole fundamental change. Upon conversion, the Company will pay cash up to the aggregate principal amount of the 2018 Notes to be converted and deliver shares of the common stock in respect of the remainder, if any, of the conversion obligation in excess of the aggregate principal amount of the 2018 Notes being converted. While the 2018 Notes were not convertible as of September 30, 2017, if the 2018 Notes were convertible, shares would have been distributed upon conversion because the conversion price was below the stock price as of such date. As of September 30, 2017, the if-converted value of the 2018 Notes exceeded the principal amount of the 2018 Notes by $13.7 million.

Holders of the 2018 Notes may require the Company to repurchase some or all of the 2018 Notes for cash, subject to certain exceptions, upon a fundamental change, as defined in the 2018 Indenture, at a repurchase price equal to 100% of the principal amount of the 2018 Notes being repurchased, plus any accrued and unpaid interest up to but excluding the relevant repurchase date.

The Company may redeem for cash all or part of the 2018 Notes (except for the 2018 Notes that the Company is required to repurchase as described above) if the last reported sale price of the common stock exceeds 140% of the applicable conversion price for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day immediately prior to the date of the redemption notice. The redemption price will equal the sum of 100% of the principal amount of the 2018 Notes to be redeemed, plus accrued and unpaid interest, plus a "make-whole premium" payment. The Company must make the make-whole premium payments on all 2018 Notes called for redemption prior to the maturity date, including 2018 Notes converted after the date the Company delivered the notice of redemption.

The Company has separately accounted for the liability and equity components of the convertible debt instrument by allocating the gross proceeds from the issuance of the 2018 Notes between the liability component and the embedded conversion option, or equity component. This allocation was done by first estimating an interest rate at the time of issuance for similar notes that do not include the embedded conversion option. This interest rate, estimated at 8%, was used to compute the initial fair value of the liability component of $79.4 million. The excess of the gross proceeds received from the issuance of the 2018 Notes over the initial amount allocated to the liability component, of $40.6 million, was allocated to the embedded conversion option, or equity component. This excess is reported as a debt discount and subsequently amortized as interest expense, using the effective interest method, through July 2018, the maturity date of the 2018 Notes. Offering costs, consisting of the initial purchasers' discount and offering expenses payable by the Company, were $4.3 million. These offering costs were allocated to the liability component and the equity component based on the relative valuations of such components. As a result, $2.9 million of the offering costs were classified as debt issuance costs and recorded on the balance sheet as a deduction from the carrying amount of the 2018 Notes liability. The remaining $1.4 million of offering costs were allocated to the equity component.

Concurrently with the closing of the 2022 Notes offering, the Company repurchased $50.9 million principal amount of the 2018 Notes in privately negotiated transactions for an aggregate purchase price of $53.4 million. The Company recorded an extinguishment loss of $4.2 million on the repurchase, including $0.5 million associated with unamortized issuance costs. This loss was recorded in other expense within the consolidated statement of operations. The remaining purchase price was allocated between the liability component and the equity component based upon the fair value of the debt immediately prior to the repurchase at $42.4 million and $6.8 million, respectively.

The fair value of the 2018 Notes as of September 30, 2017 and December 31, 2016 was $85.6 million and $80.2 million, respectively. The carrying amount of the equity component of the 2018 Notes was $2.9 million at September 30, 2017. The unamortized offering costs classified as debt issuance costs and recorded as a direct deduction to the carrying amount of the debt liability at September 30, 2017 were $0.2 million, which are being amortized as interest expense through the July 2018 maturity date of the 2018 Notes.

The following table shows the amounts recorded within the Company's financial statements with respect to the combined 2022 Notes and the 2018 Notes (collectively, the "Notes") (in thousands):

	September 30, 2017	December 31, 2016
Convertible debt principal	$ 270,355	$ 270,355
Unamortized debt discount	(56,104)	(65,590)
Unamortized debt issuance costs	(3,125)	(3,750)
Net carrying amount of convertible debt	$ 211,126	$ 201,015

The following table presents the interest expense recognized related to the Notes (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Contractual interest expense	$ 762	$ 762	$ 2,287	$ 2,310
Amortization of debt issuance costs	208	208	625	625
Accretion of debt discount	3,220	2,989	9,485	8,803
Interest expense	$ 4,190	$ 3,959	$ 12,397	$ 11,738

Fair Value of Borrowings

The fair value for the Company's borrowings is estimated using quoted market prices of the Notes at September 30, 2017, quoted market prices for similar instruments and by observable market data. The Company believes its creditworthiness and the financial market in which it operates have not materially changed since entering into the arrangements. If measured at fair value in the financial statements, long-term debt (including the current portion) would be classified as Level 2 in the fair value hierarchy.

The aggregate maturities of borrowings as of September 30, 2017 were as follows (in thousands):

2017	$ —
2018	69,105
2019-2020	—
2021 and thereafter	201,250
	$ 270,355

8. Stock-based Compensation

Equity Incentive Plans

In 1999, the Company adopted the 1999 Stock Incentive Plan (the "1999 Plan"). The 1999 Plan provided for the grant of incentive stock options, nonqualified stock options, restricted stock awards and stock appreciation rights. The 1999 Plan terminated in June 2009 whereby no new options or awards are permitted to be granted. In April 2009, the Company adopted the 2009 Equity Incentive Plan. This plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock awards, restricted stock units ("RSUs") and stock appreciation rights. In June 2010, in connection with the Company's initial public offering ("IPO"), the 2009 Equity Incentive Plan was amended and restated to provide for, among other things, annual increases in the share reserve (as amended and restated, the "2009 Plan").

The term of stock-based grants is up to ten years, except that certain stock-based grants made after 2005 have a term of five years. For grants made under the 2009 Plan prior to January 1, 2015, the requisite vesting period is typically four years and for grants made subsequent to January 1, 2015, the requisite vesting period is typically three years. On each of January 1, 2016 and 2017, 1,250,000 shares were added to the 2009 Plan. At September 30, 2017, the Company had 1,494,723 shares of common stock available for issuance under the 2009 Plan.

Stock-based compensation expense recognized by the Company was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Stock options	$ 1,871	$ 2,009	$ 5,832	$ 6,156
Restricted stock units	11,319	11,365	32,570	30,930
Performance stock units	1,440	647	1,555	1,221
Total recognized stock-based compensation expense	$ 14,630	$ 14,021	$ 39,957	$ 38,307

Stock Options

The following table presents summary information related to stock options:

	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
				(in thousands)
Balance, December 31, 2016	1,984,283	$ 31.15		
Granted	129,400	41.05		
Exercised	(554,782)	32.07		
Forfeited	(82,920)	36.23		
Expired	(7,377)	28.47		
Balance, September 30, 2017	1,468,604	$ 31.40	6.66	$27,753
Vested and exercisable, September 30, 2017	834,936	$ 27.31	5.25	$19,191

During the nine months ended September 30, 2017 and 2016, the Company granted stock options with a weighted-average grant date fair value of $16.27 and $16.14, respectively. For the nine months ended September 30, 2017 and 2016, the intrinsic value of stock options exercised was $5.9 million and $4.3 million, respectively, and cash received from stock options exercised was $17.7 million and $13.9 million, respectively.

At September 30, 2017, unrecognized stock-based compensation expense related to unvested stock options was $8.6 million, which is scheduled to be recognized over a weighted average period of 1.53 years.

Restricted Stock Units

The following table presents a summary of activity for RSUs (excluding RSUs that are subject to performance-based vesting conditions (“PSUs”)):

	Number of RSUs	Weighted Average Grant Date Fair Value
Balance, December 31, 2016	1,859,411	$ 36.63
Granted	1,020,885	39.90
Vested	(892,081)	36.24
Forfeited	(72,802)	37.70
Balance, September 30, 2017	1,915,413	$ 38.62

The RSUs generally vest over three or four years from the vesting commencement date and on vesting the holder receives one share of common stock for each RSU.

At September 30, 2017, unrecognized stock-based compensation expense related to unvested RSUs was $65.8 million, which is scheduled to be recognized over a weighted average period of 1.90 years.

Performance Stock Units

The following table presents a summary of activity for PSUs:

	Number of PSUs	Weighted Average Grant Date Fair Value
Balance, December 31, 2016	404,784	$ 26.44
Granted	160,773	43.91
Vested	(60,401)	34.11
Forfeited	(276,571)	26.41
Balance, September 30, 2017	228,585	$ 37.91

The PSUs generally vest over three or four years from the vesting commencement date, subject to the satisfaction of certain performance conditions, and on vesting the holder receives one share of common stock for each PSU.

During the nine months ended September 30, 2017, the Company granted an aggregate of 158,273 PSUs to certain officers, which vest over three years, subject to the satisfaction of performance criteria based upon the achievement of certain revenue targets.

At September 30, 2017, unrecognized stock-based compensation expense related to unvested PSUs was $0.2 million, which is scheduled to be recognized over a weighted average period of 1.76 years.

Tax Benefits

Prior to the adoption of, ASU 2016-09, the Company elected the alternative transition method (short cut method) provided for calculating the tax effects of stock-based compensation. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (“APIC pool”) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and consolidated statements of cash flows related to the tax effect of employee stock-based compensation awards that are outstanding upon adoption. Effective January 2017, pursuant to the adoption of ASU 2016-09, the APIC pool is no longer applicable.

Prior to January 1, 2017, the Company applied a with-and-without approach in determining its intra-period allocation of tax expense or benefit attributable to stock-based compensation deductions. As of December 31, 2016, prior to the adoption of ASU 2016-09, tax deductions in excess of previously recorded benefits (windfalls) included in net operating loss carryforwards but not reflected in deferred tax assets were $55.5 million. During the first quarter of 2017 and pursuant to the adoption of ASU 2016-09, the tax benefits associated with the windfall net operating loss carryforwards were recorded as a deferred tax asset in the amount of $19.6 million (tax effected) with a corresponding adjustment to retained earnings.

9. Commitments and Contingencies

In the normal course of business, the Company enters into contracts and agreements that may contain representations and warranties and provide for general indemnifications. The Company’s exposure under these agreements is unknown because it involves claims that may be made in the future, but have not yet been made. The Company has not paid any material claims related to indemnification obligations to date.

In accordance with its bylaws and certain agreements, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company’s request in such capacity. There have been no claims to date under these indemnification obligations.

In addition, the Company is involved in litigation incidental to the conduct of its business. The Company is not a party to any lawsuit or proceeding that, in the opinion of management, is probable to have a material adverse effect on its financial position, results of operations or cash flows.

10. Taxes

The Company's provision for income taxes is determined using an estimate of its annual effective tax rate for each of its legal entities in accordance with the accounting guidance for income taxes. Where the Company has entities with losses and does not expect to realize the tax benefits in the foreseeable future, those entities are excluded from the effective tax calculation. Non-recurring and discrete items that impact tax expense are recorded in the period incurred.

The effective tax rate was 13.2% and 33.7% for the nine months ended September 30, 2017 and 2016, respectively the effective tax rate differs from the computed U.S. statutory rate primarily due to non-deductible expenses related to stock-based compensation, other compensation items and losses from certain foreign jurisdiction with no associated tax benefit due to a full valuation allowance, partially offset by research and development and business credits. Included in the effective tax rate for the nine months ended September 30, 2017 is a U.S. discrete expense of $1.9 million related to share base compensation shortfalls per the adoption of ASU 2016-09.

As of September 30, 2017, the Company has not recorded a deferred tax liability for undistributed earnings of $9.4 million of certain foreign subsidiaries, since such earnings are considered to be reinvested indefinitely. If the earnings were distributed, the Company would be subject to federal income and foreign withholding taxes. Determination of an unrecognized deferred income tax liability with respect to such earnings is not practicable.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets in each relevant jurisdiction. The Company provides a valuation allowance against deferred tax assets if, based upon the weight of available evidence, the Company does not believe it is "more-likely-than-not" that some or all of the deferred tax assets will be realized. Realization of deferred tax assets in any jurisdictions depends on various factors, including the expectation of future profitability in that jurisdiction.

Realization of the U.S. deferred tax asset is dependent on generating sufficient taxable income prior to expiration of any U.S. loss carryforwards. During the prior years and currently, the Company experienced losses in its U.S. jurisdiction, driven largely by significant stock based compensation expense recorded in those years. Although realization is not assured, management believes it is more-likely-than-not that the results of U.S. operations will generate sufficient taxable income to support the realization of the existing deferred tax asset and any excess stock option deduction carryforwards prior to the expiration of those losses. The amount of the deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced.

11. Income per share data

Basic income per common share is computed based on the weighted average number of outstanding shares of common stock. Diluted income per common share adjusts the basic weighted average common shares outstanding for the potential dilution that could occur if stock options, RSUs and convertible securities were exercised or converted into common stock.

The following table presents a reconciliation of the numerator and denominator of the basic and diluted earnings per share computation. In the table below, net loss represents the numerator and weighted average common shares outstanding represent the denominator:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
Net loss	$ (2,674)	$ (605)	$ (16,193)	$ (5,009)
Weighted average common shares outstanding, basic and diluted	31,175	29,878	30,807	29,491
Net loss per share, basic and diluted	$ (0.09)	$ (0.02)	$ (0.53)	$ (0.17)

Due to the settlement features of the Notes, the Company only includes the impact of the premium feature in the diluted earnings per common share calculation when the average stock price exceeds the conversion price of the Notes. For the three and nine months ended September 30, 2017 and the three and nine months ended September 30, 2016, the weighted average number of shares outstanding used in the computation of diluted loss per share does not include the effect of the premium feature of the 2022 Notes convertible into 789,947, 461,136 ,686,211 and 167,570 shares, respectively, as the effect would have been anti-dilutive given the Company's losses for these periods. For the three and nine months ended September 30, 2017 and the three months ended September 30, 2016, the weighted average number of shares outstanding used in the computation of diluted loss per share does not include the effect of the premium feature of the 2018 Notes convertible into 132,251, 19,362 and

96,636 shares, respectively, as the effect would have been anti-dilutive given the Company's losses for theses periods. The average stock price did not exceed the conversion price for the 2018 Notes for the nine months ended September 30, 2016.

The weighted average number of shares outstanding used in the computation of diluted loss per share does not include the effect of stock-based awards convertible into 1,017,021 and 923,561 shares for the three months ended September 30, 2017 and 2016, respectively, and into 996,936 and 888,171 shares for the nine months ended September 30, 2017 and 2016, respectively, as the effect would have been anti-dilutive given the Company’s losses for these periods.

The weighted average number of shares outstanding used in the computation of diluted loss per share also does not include the effect of certain additional stock-based awards exercisable into 410,475 and 265,546 shares for the three months ended September 30, 2017 and 2016, respectively, and into 423,932 and 1,090,717 shares for the nine months ended September 30, 2017 and 2016, respectively, as their effect would have been anti-dilutive because their exercise prices exceeded the average market price of the Company's common stock during these periods.

12. Segment and Geographic Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company’s chief operating decision maker is its Chief Executive Officer (the “CEO”). The CEO reviews financial information presented on a consolidated basis, along with information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. Discrete information on a geographic basis, except for revenue, is not provided below the consolidated level to the CEO. The Company has concluded that it operates in one segment and has provided the required enterprise-wide disclosures.

The Company engages in business across three geographic regions: North America; Europe, Middle East and Africa ("EMEA"); and Asia Pacific, Caribbean and Latin America ("Emerging Markets"). Revenue by geographic area is based on the location of the service provider. The following tables present revenue and long-lived assets, net, by geographic area (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
North America	$ 55,664	$ 46,696	$ 148,081	$ 132,545
EMEA	25,977	23,531	78,556	68,000
Emerging Markets	9,832	13,895	33,264	38,434
Total Revenue	$ 91,473	$ 84,122	$ 259,901	$ 238,979

North America includes $52.6 million and $38.3 million of United States revenue for each of the three months ended September 30, 2017 and 2016 and $139.5 million and $119.0 million for each of the nine months ended September 30, 2017 and 2016.

	September 30, 2017	December 31, 2016
Long-Lived Assets, net:		
North America	$ 29,098	$ 22,909
EMEA	3,552	4,683
Emerging Markets	4,941	2,932
Total long-lived assets, net	$ 37,591	$ 30,524

North America includes $28.9 million and $22.6 million of United States long-lived assets as of September 30, 2017 and December 31, 2016.

13. Subsequent Events

Proposed Transaction with Cisco

On October 20, 2017, the Company entered into the Merger Agreement with Cisco and Sub.

Pursuant to the Merger Agreement, Sub will merge with and into the Company (the "Merger"), with the Company to survive the Merger and become a wholly-owned subsidiary of Cisco. As a result of the Merger, each share of the Company's common stock issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") (other than shares held (a) by stockholders of the Company who have validly exercised their dissenters' rights under Delaware law, (b) by the Company as treasury stock immediately prior to the Effective Time or (c) by Cisco or any direct or indirect wholly-owned subsidiary of the Company or subsidiary of Cisco immediately prior to the Effective Time) will be converted into the right to receive $55.00 in cash, without interest (the "Merger Consideration").

At the Effective Time, each outstanding and unexercised vested stock option, vested restricted stock unit and vested performance stock unit granted under the Company's stock plans, including the 1999 Plan and the 2009 Plan (collectively, the "Company Equity Plans") will terminate and be converted into the right to receive from Cisco an amount of cash, without interest, equal to the number of shares subject to such equity award multiplied by the Merger Consideration (or in the case of stock options, the excess, if any, of the Merger Consideration over the exercise price of such option) (the "Cash-Out Amount"), subject to all applicable tax withholding. At the Effective Time, each outstanding and unvested stock option, unvested restricted stock unit and unvested performance stock unit granted under the Company Equity Plans held by the employees and consultants of the Company or its subsidiaries as of the Effective Time will be converted into and substituted for the right to receive from Cisco the applicable Cash-Out Amount, payable in accordance with the original vesting schedule for such equity award (including any applicable terms relating to termination and accelerated vesting of the equity award), subject to all applicable tax withholding, provided that the unvested performance stock units will no longer be subject to performance-based vesting criteria but service-based vesting arrangements only.

The Merger Agreement contains representations and warranties customary for transactions of this type. The Company has agreed to various customary covenants and agreements, including, among others, covenants to conduct its business in the ordinary course in substantially the same manner as previously conducted during the period between the date of the Merger Agreement and the Effective Time and not to engage in certain specified transactions or activities during such period without Cisco's prior consent. In addition, subject to certain exceptions, the Company has agreed not to (a) solicit, initiate or knowingly encourage, facilitate or induce the making, submission or public announcement of any inquiry, indication of interest, proposal or offer that constitutes, or could reasonably be expected to lead to, an "acquisition proposal," (b) enter into, participate in, maintain or continue any communications (except to provide written notice as to the existence of these provisions and to clarify the terms and conditions of any acquisition proposal) or negotiations regarding, or deliver or make available to any person any non-public information with respect to, or knowingly take any other action regarding, any inquiry, indication of interest, proposal or offer that constitutes, or could reasonably be expected to lead to, an acquisition proposal, (c) agree to, accept, approve, endorse or recommend (or publicly propose or announce any intention to agree to, accept, approve, endorse or recommend) any acquisition proposal, (d) enter into any agreement in principle, letter of intent, term sheet or any other agreement, understanding or contract (whether binding or not) contemplating or otherwise relating to any acquisition proposal (other than a customary confidentiality agreement), (e) submit any acquisition proposal to the vote of any securityholders of the Company or any of its subsidiaries, (f) approve any transaction, or any third party becoming an "interested stockholder," under Section 203 of the General Corporation Law of the State of Delaware or (g) resolve, propose or agree to do any of the foregoing. The Company shall prepare and file a proxy statement and cause a special stockholder meeting to be held regarding, among other things, the adoption of the Merger Agreement and the advisory approval of the compensation that the Company's named executive officers may receive in connection with the Merger and, subject to certain exceptions, the board of directors of the Company shall recommend that the stockholders vote in favor of the adoption of the Merger Agreement (the "Company Board Recommendation") and not withdraw, qualify, amend or modify such Company Board Recommendation in a manner adverse to Cisco or Sub.

The completion of the Merger is subject to the satisfaction or waiver of a number of closing conditions, including, among others, (a) adoption of the Merger Agreement by the holders of a majority of the Company's outstanding common stock, (b) the absence of any legal or regulatory restraint or prohibition or actions by any governmental entity preventing the consummation of the Merger, (c) the expiration or termination of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the obtainment of all applicable foreign antitrust approvals, (d) subject to certain materiality qualifications, the continued accuracy of the Company's representations and warranties as of the signing of the Merger Agreement and closing date of the Merger, (e) performance and compliance by the Company in all material respects with all covenants and other agreements in the Merger Agreement required to be performed and complied by it at or prior to the closing of the Merger, (f) the absence of (i) an antitrust related restraint by a governmental entity that would prevent or condition the consummation of the Merger and (ii) any pending legal proceeding brought by any governmental entity seeking

the foregoing, and (g) the absence of any “material adverse effect” on the Company occurring after the date of the Merger Agreement that is then continuing.

The Merger Agreement also includes termination provisions for both the Company and Cisco, including the Company’s right, subject to certain limitations, to terminate the Merger Agreement in certain circumstances to accept a superior proposal from a competing bidder. In addition, either Cisco or the Company may terminate the Merger Agreement if the Merger has not been successfully completed by July 20, 2018, which will be extended for an additional three-month period and, at the Company’s election, for up to another three-month period, if the only closing conditions that have not been satisfied relate to antitrust approval. In connection with a termination of the Merger Agreement under specified circumstances including the failure of the board of directors to include the Company Board Recommendation in the proxy statement, a change in the Company Board Recommendation, entry by the Company into any agreement contemplating or related to an acquisition proposal or certain other triggering events, the Company may be required to pay Cisco a termination fee of $56 million.

For additional information related to the Merger Agreement, refer to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 23, 2017, which includes the full text of the Merger Agreement as Exhibit 2.1.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission, or SEC, on February 23, 2017.

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "believe," "will," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "could," "potentially" or the negative of these terms or other similar expressions. Forward-looking statements in this Quarterly Report on Form 10-Q may include statements about:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement and the inability to complete the proposed merger due to the failure to obtain stockholder approval for the proposed merger or the failure to satisfy other conditions to completion of the proposed merger, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the transaction;
- our dependence on the success of BroadWorks;
- our ability to continue to develop, and to successfully deploy, our BroadCloud SaaS offering, expand this offering geographically and increase the associated recurring service revenue;
- any potential loss of or reductions in orders from certain significant customers;
- our dependence on our service provider customers to sell services using our applications;
- claims that we infringe the intellectual property rights of others;
- our ability to protect our intellectual property;
- competitive factors, including, but not limited to, industry consolidation, entry of new competitors into our market, and new product and marketing initiatives by our competitors;
- our ability to predict our revenue, operating results and gross margin accurately;
- the length and unpredictability of our sales cycles;
- our ability to expand our product offerings;
- our international operations, including foreign currency exchange risk, financial markets risk as well as changes in global trade agreements;
- our significant reliance on distribution partners in certain international markets;
- our ability to manage our growth, including our increased headcount;
- the attraction and retention of qualified employees and key personnel;
- the interoperability of our products with service provider networks;
- our ability to realize the benefits of our recent acquisitions and the successful integration of the personnel, technologies, and customers from such acquisitions;
- the quality of our products and services, including any undetected errors or bugs in our software; and
- our ability to maintain proper and effective internal controls.

The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements, including those factors we discuss in the "Risk Factors" sections of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, this Quarterly Report on Form 10-Q and in our other filings with the SEC. You should read these factors and the other cautionary statements made in this Quarterly Report on Form 10-Q as being applicable to all related forward-looking statements wherever they appear in this Quarterly Report on Form 10-Q. These risks are not exhaustive. Although we believe the expectations reflected in the forward-looking statements are based on reasonable assumptions, we can give no assurance we will attain these expectations or that any deviations will not be material. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations.

Overview

We are the leading global provider of software and services that enable telecommunications service providers to deliver hosted, cloud-based Unified Communications, or UC, to their enterprise customers.

Traditionally, many enterprises have utilized premise-based private branch exchanges, or PBX's, to connect their offices and people to public telephony networks. Hosted UC enables the delivery of PBX features without the need for premise-based equipment. Hosted UC can be delivered through service providers using their own internet protocol, or IP-based networks and their mobile networks, as well as over the public internet (also known as "over the top" or OTT). In addition to voice telephony, UC offers additional features such as full integration with mobile devices, high definition, or HD, voice and video calling and conferencing, instant messaging and presence, or IM&P, team collaboration and desktop sharing.

We believe we are well positioned to enable service providers to capitalize on increasing demand by enterprises for such UC services by enabling them to efficiently and cost-effectively offer a broad suite of services to their end-users. Our service provider customers, who are located in more than 80 countries, are delivering services and have deployed over 16 million UC subscriber lines worldwide using our software.

Proposed Transaction with Cisco

On October 20, 2017, we entered into an Agreement and Plan of Merger, or the Merger Agreement with Cisco Systems, Inc., a California corporation, or Cisco, and Brooklyn Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Cisco, or Sub. Pursuant to the Merger Agreement, Sub will merge with and into us, which refer to herein as the Merger, with us surviving the Merger as a wholly-owned subsidiary of Cisco. As a result of the Merger, each share of our common stock issued and outstanding immediately prior to the effective time of the Merger, subject to certain exceptions, will be converted into the right to receive $55.00 in cash. The transaction is subject to certain conditions, including the adoption of the Merger Agreement and approval of the Merger by BroadSoft stockholders, as well as regulatory approvals.

For additional information related to the Merger Agreement, we refer you to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 23, 2017, which includes the full text of the Merger Agreement as Exhibit 2.1.

BroadSoft Business

Our BroadSoft Business solution is a communications and collaboration offering that enables telecommunications service providers to offer businesses and other enterprises UC features and functionalities on a cloud-delivered basis without the need for traditional premise-based PBX equipment. Our technology is designed to meet service providers' stringent requirements for service availability, network integration and scale and to address the needs of: various business segments, such as micro, small, medium and large enterprises; governmental and educational entities; hospitality, contact centers and healthcare providers; and industries requiring call center functionality.

The capabilities of our BroadSoft Business offering can be accessed through desk phones, smartphones, tablets, laptops and PCs and as a result, BroadSoft Business provides full support for today's distributed workforce and mobile employees. Our solution can also be deployed across multiple access networks and technologies, including fixed line/fiber and traditional mobile 3G networks, as well as voice over LTE, or VoLTE, networks and voice over wifi, or VoWiFi. BroadSoft Business includes our UC-One, Team-One and CC-One applications.

- ***UC-One***: UC-One is our suite of cloud communications and collaboration solutions that provide integrated business, such as phone services, messaging and presence, audio and video conferencing, screen sharing, file sharing and virtual meeting rooms. The features work seamlessly across devices, allowing end-users to utilize the functionalities both in the office and using mobile devices.
- ***Team-One***: Team-One is our collaboration solution that allows users to chat, track notes, share files and organize projects into shareable workspaces. The Team-One solution integrates with more than 50 popular applications, including Google Drive and Salesforce.
- ***CC-One***: CC-One is our contact center solution. CC-One enables enterprises to have omni-channel interactions over web, email, chat and social media with customers, while also providing integrated collaboration between call center agents and the back office through voice, chat and video. CC-One functionality also includes predictive analytics, permitting more efficient routing of calls and analysis of agent and customer behavior.

The benefits of BroadSoft Business to enterprises and end users include:

- ***Solution Breadth and Flexibility***. These applications are scalable and can be used by businesses of varying sizes, from very small businesses of two employees to the largest global enterprises with hundreds of thousands of employees in multiple locations. Capacity can be purchased as needed by enterprises in response to business and operational needs.
- ***Multi-Location and Ease of Use***. Because BroadSoft Business is cloud and IP-based, an enterprise can provide uniform communications functionality across its entire organization, enabling a consistent and simplified user experience. It also provides a single console to manage all the communication and collaboration needs for businesses with geographically dispersed offices and mobile workers, greatly streamlining business operations and reducing operational costs.
- ***Enhanced Mobility***. Our solution provides the flexibility to work from the office, at home or on the move, with the full range of services available irrespective of location or end user device.
- ***Business Continuity***. Because BroadSoft Business is cloud-based, in the event an enterprise has a business interruption issue, the enterprise's core communications and collaboration services would remain unaffected.
- ***Openness***. We have an active ecosystem of development partners who use our open APIs to create complementary offerings designed for specific market segments or industry verticals.
- ***Lower Total Cost of Ownership***. We believe that enterprises will experience a lower total cost of ownership compared to legacy premise-based solutions. Because BroadSoft Business is cloud-based, there are significantly lower capital investment requirements, fewer highly trained personnel required and reduced costs given the inherent flexibility of per-user based costs.

Our UC-One offering is available to service providers either as a BroadWorks software solution or as a BroadCloud software as a service, or SaaS, cloud-delivered solution. Team-One and CC-One are solely offered as SaaS cloud-delivered solutions.

Software. BroadWorks is our application server software offering, with the software generally deployed on industry-standard servers located in the service provider's data centers. With BroadWorks implemented as an application server in its infrastructure, the service provider is responsible for the development and implementation of the overall solution and integration with the service provider's network, operations, support and billing systems. This deployment model gives the service provider the maximum flexibility to define its UC-One offering. In this model, revenue is derived from perpetual software license and annual maintenance and support fees, as well as associated professional services. Since our inception, the majority of our revenue has been derived from such software licensing.

BroadCloud. BroadCloud is our cloud SaaS platform, providing BroadWorks and associated managed services for service providers and other customers. In this model, we have implemented UC-One and other BroadWorks capabilities, as well as Team One and Contact Center One, within our own data centers and provide operations capabilities covering sales and order management, service delivery, device provisioning, customer service and billing. We believe that through BroadCloud, service providers can accelerate their deployments of BroadSoft Business services and reduce their capital expenditures and the internal costs of implementing UC services. Generally, service providers utilizing our BroadCloud offering pay us on a monthly recurring basis based on the total number of subscriber lines the service provider has deployed. We recently made a substantial investment in our BroadCloud platform such that we now offer two deployment models: (a) a fully managed services option where billing, provisioning and direct end user support is provided by us, and (b) a platform as a service, or PaaS, option, which is BroadWorks hosted by us without the associated managed services, for those service providers wanting to deploy their own provisioning systems, customer premise equipment, telephony and user experience. This PaaS service deliver model gives service providers greater control, flexibility and customization over the services and delivery of cloud solution, at a lower price point.

Company

We were incorporated in Delaware in 1998 and we began selling BroadWorks in 2001. We sell our products to service providers both directly and indirectly through distribution partners, such as telecommunications equipment vendors, value-added resellers, or VARs, and other distributors.

Industry

Traditionally, many enterprises have used premise-based PBX's to connect their offices and people to the public telephone network. These PBX offerings were primarily voice communications based. We believe several trends are driving enterprises of all sizes to embrace the change from premise-based to cloud-based delivery of PBX functionality:

- The increasing demand by enterprises to move business applications to the cloud for operational savings, flexibility and expanded services;

- The desire by enterprises to drive greater team collaboration and workplace productivity through communications and collaboration tools;
- The demand by enterprises to offer broader communications services such as HD voice and video calling and conferencing across their organizations;
- The increasingly distributed nature of enterprises' operations and workforces and the desire to provide fully integrated UC to them;
- The proliferation of mobile devices used by employees and other workers; and
- The rapid expansion of high quality IP bandwidth, particularly the expansion of wireless bandwidth such as Wi-Fi and VoLTE.

We believe that service providers are well-positioned to address these market demands. A number of our service provider customers have made significant investments in their IP-based and mobile networks. Many have a long track record of reliably delivering these business critical services. We believe that as UC solutions are increasingly being offered over fixed-line and mobile networks, service providers can achieve significant competitive advantages in delivering such services over their networks. Further, we believe service providers have a significant incentive to offer UC services to their enterprise customers as competitive and regulatory pressures have commoditized their historical revenue streams. In addition, we believe that larger service providers are becoming more focused on implementing transformations of their fixed and mobile networks from traditional circuit switched networks to their IP-based broadband networks. As these service providers embark on such projects, many are incorporating application servers like BroadWorks to enable them to offer enhanced business services that were previously offered over their circuit switched networks.

We believe this trend is evident in both fixed-line transformations and increasingly in service providers' investment in their mobile VoLTE networks. We further believe this trend is a positive development for us, as service providers both replace services to their business users on their traditional networks and provide new business services. We believe we are well-positioned to meet carrier demand for these large network transformation projects, and have won several transformation projects around the world over the past year with Tier 1 service providers. These projects have contributed, and will continue to contribute, significant revenue and billings as we meet project milestones and provide professional services to our customers. We also believe these further enhance our role as a strategic partner to our service provider customers, while providing increased opportunities for license seat growth over a multi-year period with such customers.

Our Strategy

Our goal is to strengthen our position as the leading global provider of software and services that enable service providers to deliver cloud-based UC to their enterprise customers. To achieve this goal, our strategy is to deliver an increasingly feature rich set of services to address the needs of a broader spectrum of business customer types and their end-users. Key elements of our strategy include:

- ***Accelerate the adoption of UC solutions by providing communications centric UC and collaboration capabilities.*** BroadSoft Business is driven by our vision of extending UC to help drive how enterprises and people communicate, interact and collaborate by integrating their communication and collaborative tools with contextual intelligence. We also intend to accelerate UC adoption and our service provider customers' time to market by promoting and expanding our UC and collaboration offerings. Our BroadCloud SaaS solutions enables our service providers to offer UC features and functions through a service offering that we host and manage. We intend to expand the geographic availability of our BroadCloud SaaS offerings beyond the United States, United Kingdom, Germany, Japan and France.
- ***Extend our technology leadership and product depth and breadth.*** We intend to continue to provide industry leading UC and collaboration solutions through product innovation and substantial investment in research and development for new features, applications and services. We believe that we can leverage our market position in UC to provide additional collaboration capabilities to our service provider customers and their end enterprise users.
- ***Improve brand awareness through our "Powered by BroadSoft" campaign.*** Our "Powered by BroadSoft" effort is intended to improve our brand awareness with end-users, and to assist our service provider customers in their selling efforts to end enterprise customers.
- ***Broaden demand by enterprises and assist our service provider customers by developing more market segment directed UC offerings.*** We enable service providers to develop UC offerings targeted towards specific business segments, including small, medium and large enterprises and market segments such as hospitality, government, education, contact center and healthcare.

- ***Drive revenue growth by:***
  - ***Assisting our current service provider customers to sell more of their currently deployed BroadWorks and BroadCloud SaaS offerings.*** We support our service provider customers by regularly offering enhanced and new features to their current applications, as well as providing tools and training to help them market their services to subscribers. We have also launched our "Powered by BroadSoft" initiative which is designed to increase end-user awareness of our products.
  - ***Expanding our BroadCloud SaaS offering.*** We believe that service providers will increasingly find that using our BroadCloud SaaS offering to deliver UC solutions to their customers will accelerate their time to market and product introduction cycles. We have expanded our BroadCloud offerings to include full service offerings where we provide additional services to our service provider customers, such as provisioning and billing, as well as BroadCloud PaaS, a more limited, less expensive option where we provide cloud-based access to BroadWorks without the business support capabilities of BroadCloud.
  - ***Continuing to acquire new customers and increase usage by existing customers.*** Our customers are located around the world and include many of the top telecommunications services providers globally. We believe we are well positioned to continue to acquire new customers, particularly with the addition of our BroadCloud offerings and our focus on developing UC solutions based on enterprise size and vertical market segments. We also believe we will continue to expand our presence within our existing customers through their deployment of more of our offerings.
  - ***Pursuing selected acquisitions and collaborations that complement our strategy***. We intend to continue to pursue acquisitions and collaborations that we believe are strategic to strengthen our industry leadership position, expand our geographic presence or allow us to offer new or complementary products or services.

Executive Summary

We expect revenue growth from our UC and collaboration solutions during 2017, which growth we believe is largely driven by increased market acceptance of hosted UC offerings and our continued market leadership. We believe service providers, including converged and mobile operators, have determined that our UC solutions provide significant product expansions to their enterprise offerings, and help them grow their enterprise customer base and revenue and raise average revenue per user. While we continue to expect revenue growth for 2017, we believe that we will experience a lower rate of revenue growth relative to last year, especially for our SaaS and professional services revenue line items, primarily due to a slower pace for certain large professional services engagements and the timing of deployment of our BroadCloud solution by our service provider customers, respectively. We still believe that our market opportunity remains robust, and our service provider customers continue to make investments in unified communications services.

We believe the adoption of cloud-based unified communications and collaboration capabilities by enterprises will continue and even accelerate over the next several years. We also believe that service providers using our products and services are strongly positioned to take advantage of this demand. We believe that we have positioned, and will expect to continue to position, ourselves to provide our service provider customers with the service and software offerings they need to effectively address this market opportunity and their end-user customer needs.

Our BroadSoft Business solutions, which are either delivered via our BroadCloud SaaS platform or through our BroadWorks server software that resides within the service provider's network, enable service providers to rapidly and efficiently deliver a UC experience regardless of end-user device and whether or not the end-user has fixed-line or wireless access. In addition, we believe that mobile network centric UC offerings will become an increasingly important trend in the UC market, and we believe that our service provider customers are in a strong position to take advantage of this market trend.

We continue to increase our BroadSoft Business capabilities. We enable enterprises and people to be more flexible and dynamically communicate, interact and collaborate by helping them integrate their communication and collaborative tools. We are focused on our efforts to spur demand by our service providers to adopt BroadSoft Business as the centerpiece of their offering for unified communications, collaboration and customer support. BroadSoft Business includes UC-One, our UC offering; Team-One, our enterprise collaboration solution; and CC-One, our contact center offering. We believe that BroadSoft Business is the leading integrated offering of UC, collaboration and contact center capabilities. BroadSoft Business enables us to provide our service provider customers significant growth of their communication and collaboration capabilities and options, driven by demands by these customers for these capabilities increasingly delivered on mobile platforms. During 2017, we expect to continue our strategic investments in, and expansion of, our BroadSoft Business solutions.

During the remainder of 2017, our BroadCloud SaaS offerings will continue to be a particularly important area of investment, marketing focus and geographic expansion for us. Many of our service provider customers are interested in accessing the capabilities of our BroadWorks features and functions through a service offering hosted and managed by us. We believe that service providers choose our SaaS offerings to accelerate their time to market and reduce their capital and implementation costs and that delivering innovative solutions to our customers will drive our revenue growth.

We also believe that we have the potential of achieving increasing software revenue from what we describe as network transformation projects. We have assisted several of our largest service provider customers on projects to begin transforming most, if not all, of their legacy fixed and mobile circuit switched networks to IP-based networks, driven in part by the movement to migrate their wireless networks to VoLTE. Much of our work has been to provide our customers with UC capabilities in these network transformations. In 2016, we gained acceptance from these customers of our initial implementations of certain of these projects, which contributed to our financial results. We expect to see positive revenue impact from these projects during the fourth quarter of 2017, and we believe these existing transformation projects, as well as new opportunities with certain of our major service provider customers, should lead to increased software revenue from these projects beginning in 2018. These projects could drive significant revenue for us over the next several years.

Key Financial Highlights

Some of our key GAAP financial highlights for the quarter ended September 30, 2017 include:

- Total revenue increased by $7.4 million or 9%, to $91.5 million, compared to $84.1 million for the quarter ended September 30, 2016;
- Gross profit was $64.8 million, or 71% of revenue, compared to $60.4 million, or 72% of revenue, for the quarter ended September 30, 2016;
- Income from operations was $0.6 million, compared to income from operations of $1.6 million for the quarter ended September 30, 2016;
- Net loss was $2.7 million, compared to $0.6 million for the quarter ended September 30, 2016;
- Net loss per diluted share was $0.09, compared to $0.02 for the quarter ended September 30, 2016;
- Billings (revenue plus net change in deferred revenue) increased by 14% to $89.6 million, compared to $78.9 million for the quarter ended September 30, 2016;
- Deferred revenue decreased by $1.9 million, compared to a decrease of $5.3 million for the quarter ended September 30, 2016; and
- Cash provided by operating activities was $13.9 million compared to $13.7 million for the quarter ended September 30, 2016.

Some of our key non-GAAP financial highlights for the quarter ended September 30, 2017 include:

- Non-GAAP gross profit increased to $68.9 million, or 75% of revenue, compared to $64.3 million, or 76% of revenue, for the quarter ended September 30, 2016;
- Non-GAAP income from operations decreased to $16.8 million, or 18% of revenue, compared to $17.3 million, or 21% of revenue, for the quarter ended September 30, 2016;
- Non-GAAP net income decreased to $12.4 million, or 14% of revenue, compared to $12.7 million, or 15% of revenue, for the quarter ended September 30, 2016; and
- Non-GAAP net income per diluted share decreased to $0.38 per common share, compared to $0.40 per diluted share for the quarter ended September 30, 2016.

For a discussion of these non-GAAP financial measures and a reconciliation of GAAP and non-GAAP financial results, please refer to “Non-GAAP Financial Measures” included elsewhere in this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Components of Operating Results

Revenue

We derive our revenue primarily from software licenses, subscription and maintenance support and professional services and other. We recognize revenue when all revenue recognition criteria have been met in accordance with revenue recognition guidance. This guidance provides that revenue should be recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collection is probable.

Our total revenue consists of the following:

License software. We derive license software revenue primarily from the sale of perpetual software licenses. We generally price our software based on the packages of features and applications provided and on the number of subscriber licenses sold. These factors impact the average selling price of our licenses and the comparability of average selling prices. Our license software revenue may vary significantly from quarter to quarter or from year to year as a result of long sales and deployment cycles, variations in customer ordering practices and the application of management's judgment in applying complex revenue recognition rules. Our deferred license software revenue balance consists of software orders that do not meet all the criteria for revenue recognition. We are unable to predict with certainty the proportion of orders that will meet all the criteria for revenue recognition relative to those orders that will not meet all such criteria and, as a result, it is difficult to forecast whether recognized license software revenue and deferred license software revenue will continue to increase or decrease in a given period. As of September 30, 2017, our deferred license software revenue balance was $10.5 million, the current portion of which was $9.8 million.

Subscription and maintenance support. Subscription and maintenance support revenue includes recurring revenue from annual maintenance support contracts for our software licenses and from subscriptions related to our SaaS offerings.

Rates for maintenance support, including subsequent renewal rates, are typically established based upon a specific percentage of net license fees as set forth in the contract with the customer. Maintenance support revenue is recognized ratably over the maintenance support period, assuming all other revenue recognition criteria have been met. Our annual maintenance support contracts provide for technical support and software updates and upgrades, on a when and if available basis. Our typical warranty on licensed software is 90 days and, during this period, our customers are entitled to receive maintenance and support without the purchase of maintenance services. After the expiration of the warranty period, our customers must purchase maintenance support services to continue receiving such support.

With respect to our SaaS subscriptions, we are typically paid a recurring fee which is calculated based on the number of seats and type of services purchased or a usage fee based on the actual number of transactions. The recurring fee is typically billed monthly.

Our deferred subscription and maintenance support revenue balance consists of maintenance support and subscription orders that do not meet all the criteria for revenue recognition. As of September 30, 2017, our deferred subscription and maintenance support revenue balance was $65.8 million, the current portion of which was $56.5 million.

Professional services and other. Professional services and other revenue primarily includes revenue from professional service engagements consisting of implementation, training, consulting and design and customization services. Our professional services and other deferred revenue balance consists of orders that do not meet all the criteria for revenue recognition. As of September 30, 2017, our deferred professional services and other revenue balance was $21.1 million, the current portion of which was $20.5 million.

Cost of Revenue

Our total cost of revenue consists of the following:

- *Cost of license software revenue*. A majority of the cost of license software revenue consists of amortization of acquired intangibles, personnel-related expenses and royalties paid to third parties whose technology or products are sold as part of BroadWorks. A significant amount of the royalty fees are for the underlying embedded database technology within BroadWorks for which we currently incur a fixed expense per quarter. Personnel-related expenses include salaries, benefits, bonuses, reimbursement of expenses and stock-based compensation. Such costs are expensed in the period in which they are incurred.

- *Cost of subscription and maintenance support revenue*. Cost of subscription and maintenance support revenue consists primarily of personnel-related expenses and other direct costs associated with support and maintenance obligations to our customers who have licensed our software and BroadCloud SaaS solutions, including maintenance and support expenses due to our use of third party software, amortization of acquired intangibles and operating expenses associated with the delivery of BroadCloud SaaS solutions.
- *Cost of professional services and other revenue*. Cost of professional services and other revenue consists primarily of personnel-related expenses and other direct costs associated with the delivery of our professional services, which are expensed in the period in which they are incurred.

Gross Profit

Gross profit is the calculation of total revenue minus cost of revenue. Our gross profit as a percentage of revenue, or gross margin, has been and will continue to be affected by a variety of factors, including:

- *Mix of license software, subscription and maintenance support and professional services and other revenue*. We generate higher gross margins on license software revenue compared to subscription and maintenance support or professional services and other revenue.
- *Growth or decline of license software revenue*. A significant portion of cost of license software revenue is fixed and is expensed in the period in which it is incurred. This cost consists primarily of royalty fees to our embedded database provider and amortization of acquired technology. If license software revenue increases, these fixed fees will decline as a percentage of revenue. If license software revenue declines, these fixed fees will increase as a percentage of revenue.
- *Impact of deferred revenue*. If any revenue recognition criteria have not been met, the applicable revenue derived from the arrangement is deferred, including license software, subscription and maintenance support, and professional services and other revenue, until all elements of revenue recognition criteria have been met. However, the cost of revenue, including the costs of license software, subscription and maintenance support and professional services and other revenue, is typically expensed in the period in which it is incurred. Therefore, if relatively more revenue is deferred in a particular period, gross margin would decline in that period. Because the ability to recognize revenue on orders depends largely on the terms of the sale arrangement and we are not able to predict with certainty the proportion of orders that will not meet all the criteria for revenue recognition, we cannot forecast whether any historical trends in gross margin will continue.
- *Intangible amortization related to mergers and acquisitions.* Over the last several years, our business combinations resulted in a number of intangibles assets. These intangible assets are amortized over their useful lives, resulting in additional expense impacting gross profit over the applicable period. We may undertake additional strategic transactions in the future that would result in additional intangible amortization expense.

Billings (Revenue Plus Net Change in Deferred Revenue)

We believe billings, which we calculate as revenue plus the net change in our deferred revenue balance for a particular period, is a key measure of our sales activity for that period.

Billings are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Beginning of period deferred revenue balance	$ 99,244	$ 107,305	$ 109,189	$ 111,054
End of period deferred revenue balance	97,346	102,049	97,346	102,049
Decrease in deferred revenue	(1,898)	(5,256)	(11,843)	(9,005)
Revenue	91,473	84,122	259,901	238,979
Billings	$ 89,575	$ 78,866	$ 248,058	$ 229,974

Operating Expenses

We grew our total headcount to 1,733 employees at September 30, 2017 from 1,597 employees at December 31, 2016.

Operating expenses consist of sales and marketing, research and development and general and administrative expenses. Salaries and other personnel costs are the most significant component of each of these expense categories. We expect our operating expenses to increase in 2017 primarily due to increases in headcount and stock-based compensation expense.

Sales and marketing expenses. Sales and marketing expenses consist primarily of salaries and personnel costs for our sales and marketing employees, including stock-based compensation, commissions, benefits and bonuses. Additional expenses include marketing programs, consulting, travel and other related overhead.

Research and development expenses. Research and development expenses consist primarily of salaries and personnel costs for development employees, including stock-based compensation, benefits and bonuses. Additional expenses include costs related to development, quality assurance and testing of new software and enhancement of existing software, consulting, travel and other related overhead. We engage third-party international and domestic consulting firms for various research and development efforts, such as software development, documentation, quality assurance and software support. We intend to continue to invest in our research and development efforts, including by hiring additional development personnel and by using third-party consulting firms for various research and development efforts. We believe continuing to invest in research and development efforts is essential to maintaining our competitive position.

General and administrative expenses. General and administrative expenses consist primarily of salary and personnel costs for administration, finance and accounting, legal, information systems and human resources employees, including stock-based compensation, benefits and bonuses. Additional expenses include consulting and professional fees, travel, insurance and other administrative expenses.

Stock-Based Compensation

We include stock-based compensation as part of cost of revenue and operating expenses in connection with the grant of stock-based awards to our directors, employees and consultants. We apply the fair value method in accordance with authoritative guidance for determining the cost of stock-based compensation. The total cost of the grant is measured based on the estimated fair value of the award at the date of grant. The fair value of service-only awards is recognized as stock-based compensation expense on a straight-line basis over the requisite service period, which is the vesting period, of the award. The fair value of awards with a performance condition is recognized as stock-based compensation on a graded basis over the requisite vesting period of the award. For the three months ended September 30, 2017 and 2016, we recorded stock-based compensation expense of $14.6 million and $14.0 million, respectively, and for the nine months ended September 30, 2017 and 2016, we recorded stock-based compensation expense of $40.0 million and $38.3 million, respectively.

Based on stock-based awards outstanding as of September 30, 2017, we expect to recognize future expense related to the unvested portions of such stock-based awards in the amount of $74.6 million over a weighted average period of approximately 1.86 years.

Other Expense, Net

Other expense, net, consists primarily of interest income, interest expense and foreign currency transaction gains and losses. Interest income represents interest received on our cash and cash equivalents. Interest expense consists primarily of the interest related to our 2018 convertible senior notes, or the 2018 Notes, and our 2022 convertible senior notes, or the 2022 Notes. Foreign currency transaction gains and losses relate to the revaluation of foreign currency denominated trade receivables and forward contracts.

Income Tax Expense

Income tax expense consists of U.S. federal, state and foreign income taxes. We are required to pay income taxes in certain states and foreign jurisdictions. Historically, we have not been required to pay significant U.S. federal income taxes due to our accumulated net operating credits.

Recent Accounting Pronouncements

Accounting Standards Adopted

Effective January 2017, we adopted Accounting Standards Update 2016-09, Compensation-Stock Compensation: Topic 718 ("ASU 2016-09"). As a result of the adoption of this standard, we made the following changes to the accounting treatment:

Accounting for Income Taxes: In accordance with ASU 2016-09, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement in the period in which they occur. Excess tax benefits in the amount of $19.6 million were not previously recognized because the related tax deduction had not reduced current taxes payable. We recorded previously unrecognized excess tax benefits using a modified retrospective method through a cumulative-effect adjustment to accumulated deficit as of January 1, 2017.

Classification of Excess Tax Benefits on the Statement of Cash Flows: In accordance with ASU 2016-09, we classify excess tax benefits along with other income tax cash flows as an operating activity. We have applied this change using a retrospective transition method. The impact of adopting this change was immaterial to our financial statements.

Forfeitures: In accordance with ASU 2016-09, we have elected to account for forfeitures as they occur. We have applied this change using a modified retrospective method through a cumulative-effect adjustment of $0.4 million to accumulated deficit as of January 1, 2017.

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers: Topic 606 ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The standard defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard allows entities to apply either of two methods: (a) retrospective application to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 ("full retrospective method"); or (b) retrospective application with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09 ("modified retrospective method"). In August 2015, the FASB issued Accounting Standards Update 2015-14, Revenue from Contracts with Customers: Topic 606 ("ASU 2015-14"), which defers the effective date for ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

While we have not yet completed our final review of the impact of the new standard, we expect that the new standard (a) will impact the timing of revenue recognition for certain software license and professional services contracts and (b) will not have a significant impact on timing of revenue recognition for subscription and maintenance support contracts. Due to the complexity of certain of our software license and professional services contracts, the actual timing of revenue recognition required under the new standard will be dependent on contract-specific terms. We also expect that the new standard will require the capitalization of certain professional services costs related to the on-boarding of SaaS customers. We are still in the process of quantifying the impact of the capitalization of the costs, but do not expect the amount to be material. We will adopt the new standard on January 1, 2018 using the modified retrospective method. We will continue to evaluate the standard as well as additional changes, modifications or interpretations that may impact our current conclusions.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases: Topic 842 ("ASU 2016-02"), which provides updated guidance on lease accounting. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that annual period, with early adoption permitted. We are evaluating the impact of adopting this new standard on our financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-16, Income Taxes: Topic 740: Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”) which requires the recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. We are evaluating the impact of adopting this new standard on our financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-01, Business Combinations: Topic 805: Clarifying the Definition of a Business (“ASU 2017-01”), which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new standard is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While we continue to assess the potential impact of this standard, the adoption of this standard is not expected to have a material impact on our financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-04, Intangibles - Goodwill and Other: Topic 350: Simplifying the Test for Goodwill Impairment ("ASU 2017-04"), which modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The new standard is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. While we continue to assess the potential impact of this standard, the adoption of this standard is not expected to have a material impact on our financial statements.

In May 2017, the FASB issued Accounting Standards Update 2017-09, Compensation-Stock Compensation: Topic 718: Scope of Modification Accounting ("ASU 2017-09"), which provides clarity and reduces diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change in the terms and conditions of a share-based payment award. The new standard is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. We are evaluating the impact of adopting this new standard on our financial statements.

Results of Operations

Comparison of the Three Months Ended September 30, 2017 and 2016

Revenue

	Three Months Ended September 30,				Period-to-Period Change	
	2017		2016			
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue by Type:						
License software	$ 30,587	33%	$ 31,486	38%	$ (899)	(3)%
Subscription and maintenance support	43,520	48	36,509	43	7,011	19
Professional services and other	17,366	19	16,127	19	1,239	8
Total revenue	$ 91,473	100%	$ 84,122	100%	$ 7,351	9 %
Revenue by Geography:						
North America	$ 55,664	61%	$ 46,696	56%	$ 8,968	19 %
EMEA	25,977	28	23,531	28	2,446	10
Emerging Markets	9,832	11	13,895	16	(4,063)	(29)
Total revenue	$ 91,473	100%	$ 84,122	100%	$ 7,351	9 %

Total revenue for the three months ended September 30, 2017 increased by 9%, or $7.4 million, to $91.5 million as compared to the same period in 2016. This growth was primarily driven by a 19% increase in subscription and maintenance support revenue and an 8% increase in professional services and other revenue, partially offset by a 3% decrease in license software revenue. Deferred revenue decreased by $1.9 million for the three months ended September 30, 2017, compared to a decrease of $5.3 million for the same period in 2016.

North America revenue for the three months ended September 30, 2017 increased by $9.0 million, to $55.7 million as compared to the same period in 2016. The increase in North America revenue for the three months ended September 30, 2017 was due to an increase in license software revenue, subscription and maintenance support revenue and professional services and other revenue.

Europe, Middle East and Africa, or EMEA, revenue for the three months ended September 30, 2017 increased by 10%, or $2.4 million, to $26.0 million as compared to the same period in 2016. The increase in EMEA revenue for the three months ended September 30, 2017 was due to an increase in license software revenue and subscription and maintenance support revenue, partially offset by a decrease in professional services and other revenue.

Asia Pacific, the Caribbean and Latin America, or Emerging Markets, revenue for the three months ended September 30, 2017 decreased by 29%, or $4.1 million, to $9.8 million compared to the same period in 2016. The decrease in Emerging Markets revenue for the three months ended September 30, 2017 was due to a decrease in license software revenue, partially offset by an increase in subscription and maintenance support revenue and professional services and other revenue.

License Software

License software revenue for the three months ended September 30, 2017 decreased by $0.9 million, to $30.6 million, compared to the same period in 2016. The decrease in license software revenue for the three months ended September 30, 2017 reflects a decrease in Emerging Markets license software revenue, partially offset by an increase in North America and EMEA license software revenue. Deferred license software revenue increased by $0.6 million for the three months ended September 30, 2017, compared to a decrease of $7.3 million for the same period in 2016.

Subscription and Maintenance Support

Subscription and maintenance support revenue for the three months ended September 30, 2017 increased by 19%, or $7.0 million, to $43.5 million, compared to the same period in 2016. The increase in subscription and maintenance support revenue

for the three months ended September 30, 2017 was the result of growth in subscription revenue associated with our SaaS platforms, which included contributions from recent acquisitions, and growth in our installed base of customers who purchase maintenance support revenue. Our SaaS subscription revenue for the three months ended September 30, 2017 increased by $3.7 million to $16.4 million, compared to the same period in 2016. Deferred subscription and maintenance support revenue increased by $2.7 million for the three months ended September 30, 2017, compared to a decrease of $2.2 million for the same period in 2016.

Professional Services and Other

Professional services and other revenue for the three months ended September 30, 2017 increased by 8%, or $1.2 million, to $17.4 million, compared to the same period in 2016. The increase in professional services and other revenue for the three months ended September 30, 2017 was primarily due to the timing of revenue recognition associated with certain transformational projects. Deferred professional services and other revenue decreased by $5.3 million for the three months ended September 30, 2017, compared to an increase of $4.3 million for the same period in 2016.

Cost of Revenue and Gross Profit

	Three Months Ended September 30,					
	2017		2016		Period-to-Period Change	
	Amount	Percent of Related Revenue	Amount	Percent of Related Revenue	Amount	Percentage
	(dollars in thousands)					
Cost of Revenue:						
License software	$ 1,463	5%	$ 1,799	6%	$ (336)	(19)%
Subscription and maintenance support	15,002	34	11,894	33	3,108	26
Professional services and other	10,226	59	10,060	62	166	2
Total cost of revenue	$ 26,691	29%	$ 23,753	28%	$ 2,938	12 %
Gross Profit:						
License software	$ 29,124	95%	$ 29,687	94%	$ (563)	(2)%
Subscription and maintenance support	28,518	66	24,615	67	3,903	16
Professional services and other	7,140	41	6,067	38	1,073	18
Total gross profit	$ 64,782	71%	$ 60,369	72%	$ 4,413	7 %

For the three months ended September 30, 2017, our gross margin decreased to 71% of revenue as compared to 72% for the same period in 2016, and our gross profit increased by 7%, or $4.4 million, to $64.8 million. The increase in total gross profit was primarily due to higher revenue growth relative to the growth in cost of revenue.

For the three months ended September 30, 2017, license software gross margin increased to 95% as compared to 94% for the same period in 2016 and license software gross profit decreased by 2% to $29.1 million. License software cost of revenue decreased by 19%, or $0.3 million, to $1.5 million for the three months ended September 30, 2017, compared to the same period in 2016. The decrease in license software cost of revenue was primarily due to a decrease of $0.2 million in personnel-related costs. The decrease in license software gross profit was primarily driven by the decrease in license software revenue.

For the three months ended September 30, 2017, subscription and maintenance support gross margin decreased to 66% as compared to 67% for the same period in 2016 and subscription and maintenance support gross profit increased by 16% to $28.5 million. Subscription and maintenance support cost of revenue increased by 26%, or $3.1 million, to $15.0 million for the three months ended September 30, 2017, compared to the same period in 2016. The increase in subscription and maintenance support cost of revenue was related to our continued investments in our SaaS offerings, including the impact of recent acquisitions. The increase was primarily due to a $1.9 million increase in personnel-related costs and a $1.1 million increase in operational costs associated with hosting our SaaS offerings. The increase in subscription and maintenance support gross profit was driven by higher revenue growth relative to the growth in subscription and maintenance services cost of revenue.

For the three months ended September 30, 2017, professional services and other gross margin increased to 41% as compared to 38% for the same period in 2016 and professional services and other gross profit increased by 18% to $7.1 million. Professional

services and other cost of revenue increased by 2%, or $0.2 million, to $10.2 million for the three months ended September 30, 2017, compared to the same period in 2016. The increase in professional services and other cost of revenue was primarily due to a $0.9 million increase in personnel-related costs, partially offset by a $0.4 million decrease in outside consulting expense. The increase in professional services and other gross profit was driven by an increase in professional services and other revenue relative to growth in professional services and other cost of revenue.

Operating Expenses

	Three Months Ended September 30,				Period-to-Period Change	
	2017		2016			
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percentage
	(dollars in thousands)					
Sales and marketing	$ 30,519	33%	$ 26,112	31%	$ 4,407	17%
Research and development	20,814	23	19,931	24	883	4
General and administrative	12,880	14	12,759	15	121	1
Total operating expenses	$ 64,213	70%	$ 58,802	70%	$ 5,411	9%

Sales and Marketing. Sales and marketing expense increased by 17%, or $4.4 million, to $30.5 million for the three months ended September 30, 2017, compared to the same period in 2016. This increase was primarily due to a $4.7 million increase in personnel-related costs, $0.3 million increase in overhead expense, including but not limited to rent and depreciation on corporate fixed assets partially offset by a $0.4 million decrease in travel expenses.

Research and Development. Research and development expense increased by 4%, or $0.9 million, to $20.8 million for the three months ended September 30, 2017, compared to the same period in 2016. This increase was primarily due to a $0.4 million increase in overhead expense, including but not limited to rent and depreciation on corporate fixed assets, a $0.3 million increase in equipment and software costs and a $0.3 million increase in personnel-related costs.

General and Administrative. General and administrative expense increased by 1%, or $0.1 million, to $12.9 million for the three months ended September 30, 2017, compared to the same period in 2016. This increase was primarily due to a $0.5 million increase in personnel-related costs, a $0.4 million increase in equipment and software costs and a $0.3 million increase in overhead expense, including but not limited to rent and depreciation on corporate fixed assets, partially offset by a $1.1 million decrease in third party legal, accounting and consulting expense, primarily related to insurance reimbursement of certain legal expenses.

Income from Operations

Income from operations was $0.6 million for the three months ended September 30, 2017, as compared to $1.6 million for the same period in 2016.

Other Expense

	Three Months Ended September 30,				Period-to-Period Change	
	2017		2016			
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percentage
	(dollars in thousands)					
Interest expense	$ 4,260	5 %	$ 3,959	5 %	$ 301	8 %
Interest income	(855)	(1)	(683)	(1)	(172)	25
Other, net	316	*	(207)	*	523	(253)
Total other expense, net	$ 3,721	4 %	$ 3,069	4 %	$ 652	21 %

* Less than 1%

Total other expense, net for the three months ended September 30, 2017 increased by $0.7 million compared to the same period in 2016, primarily due to the increase in interest expense related to our Notes and an increase in foreign exchange losses related

to the revaluation of foreign currency denominated trade receivables and losses on intercompany settlements, partially offset by the increase in interest income.

Benefit from Income Taxes

Benefit from income taxes was $0.5 million for the three months ended September 30, 2017, compared to $0.9 million for the same period in 2016. The decrease in our benefit from income taxes is primarily due to results of operations and changes in the projected mix of earnings among jurisdictions, as well as the adoption of ASU 2016-09 and the domestic manufacturing deduction.

Comparison of the Nine Months Ended September 30, 2017 and 2016

Revenue

	Nine Months Ended September 30,					
	2017		2016		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue by Type:						
License software	$ 94,683	36%	$ 95,992	40%	$ (1,309)	(1)%
Subscription and maintenance support	127,106	49	106,348	45	20,758	20
Professional services and other	38,112	15	36,639	15	1,473	4
Total revenue	$ 259,901	100%	$ 238,979	100%	$ 20,922	9 %
Revenue by Geography:						
North America	$ 148,081	57%	$ 132,545	56%	$ 15,536	12 %
EMEA	78,556	30	68,000	28	10,556	16
Emerging Markets	33,264	13	38,434	16	(5,170)	(13)
Total revenue	$ 259,901	100%	$ 238,979	100%	$ 20,922	9 %

Total revenue for the nine months ended September 30, 2017 increased by 9%, or $20.9 million, to $259.9 million as compared to the same period in 2016. This growth was driven by a 20% increase in subscription and maintenance support revenue and a 4% increase in professional services and other revenue, partially offset by a 1% decrease in license software revenue. Deferred revenue decreased by $11.8 million for the nine months ended September 30, 2017, compared to a decrease of $9.0 million for the same period in 2016.

North America revenue for the nine months ended September 30, 2017 increased by 12%, or $15.5 million, to $148.1 million as compared to the same period in 2016. The increase in North America revenue for the nine months ended September 30, 2017 was due to an increase in subscription and maintenance support revenue and professional services and other revenue, partially offset by a decrease in license software revenue.

EMEA revenue for the nine months ended September 30, 2017 increased by16%, or $10.6 million, to $78.6 million as compared to the same period in 2016. The increase in EMEA revenue for the nine months ended September 30, 2017 was due to an increase in license software revenue and subscription and maintenance support revenue, partially offset by a decrease in professional services and other revenue.

Emerging Markets revenue for the nine months ended September 30, 2017 decreased by 13%, or $5.2 million, to $33.3 million compared to the same period in 2016. The decrease in Emerging Markets revenue for the nine months ended September 30, 2017 was primarily due to a decrease in license software revenue and professional services and other revenue, partially offset by an increase in subscription and maintenance support revenue.

License Software

License software revenue for the nine months ended September 30, 2017 decreased by 1%, or $1.3 million, to $94.7 million, compared to the same period in 2016. The decrease in license software revenue for the nine months ended September 30, 2017 reflects a decrease in North America and Emerging Markets license software revenue, partially offset by an increase in EMEA license software revenue. Deferred license software revenue decreased by $7.2 million for the nine months ended September 30, 2017, compared to a decrease of $13.7 million for the same period in 2016.

Subscription and Maintenance Support

Subscription and maintenance support revenue for the nine months ended September 30, 2017 increased by 20%, or $20.8 million, to $127.1 million, compared to the same period in 2016. The increase in subscription and maintenance support revenue for the nine months ended September 30, 2017 was the result of growth in our subscription revenue associated with our SaaS platforms, which included contributions from recent acquisitions, and growth in our installed base of customers who purchase maintenance support revenue. Our SaaS subscription revenue for the nine months ended September 30, 2017 increased by $9.4 million to $46.9 million, compared to the same period in 2016. Deferred subscription and maintenance support revenue decreased by $6.8 million for the nine months ended September 30, 2017, compared to a decrease of $3.2 million for the same period in 2016.

Professional Services and Other

Professional services and other revenue for the nine months ended September 30, 2017 increased by 4%, or $1.5 million to $38.1 million, compared to the same period in 2016. The increase in professional services and other revenue for the nine months ended September 30, 2017 was primarily due to the timing of revenue recognition associated with certain transformational projects. Deferred professional services and other revenue increased by $2.1 million for the nine months ended September 30, 2017, compared to an increase of $8.0 million for the same period in 2016.

Cost of Revenue and Gross Profit

	Nine Months Ended September 30,					
	2017		2016		Period-to-Period Change	
	Amount	Percent of Related Revenue	Amount	Percent of Related Revenue	Amount	Percentage
	(dollars in thousands)					
Cost of Revenue:						
License software	$ 4,655	5%	$ 5,697	6%	$ (1,042)	(18)%
Subscription and maintenance support	42,085	33%	34,060	32%	8,025	24 %
Professional services and other	30,577	80%	27,340	75%	3,237	12 %
Total cost of revenue	$ 77,317	30%	$ 67,097	28%	$ 10,220	15 %
Gross Profit:						
License software	$ 90,028	95%	$ 90,295	94%	$ (267)	*
Subscription and maintenance support	85,021	67%	72,288	68%	12,733	18 %
Professional services and other	7,535	20%	9,299	25%	(1,764)	(19)%
Total gross profit	$ 182,584	70%	$ 171,882	72%	$ 10,702	6 %

* Less than 1%

For the nine months ended September 30, 2017, our gross margin decreased to 70% of revenue as compared to 72% for the same period in 2016, and our gross profit increased by 6%, or $10.7 million, to $182.6 million. Total gross profit increased primarily due to higher revenue growth relative to the growth in cost of revenue.

For the nine months ended September 30, 2017, license software gross margin increased to 95% as compared to 94% for the same period in 2016 and license software gross profit increased to $90.0 million. License software cost of revenue decreased by 18%, or $1.0 million, to $4.7 million for the nine months ended September 30, 2017, compared to the same period in 2016. The decrease in license software cost of revenue was primarily due to a $0.9 million decrease in personnel-related costs. The increase in license software gross profit was primarily driven by the decrease in license software cost of revenue.

For the nine months ended September 30, 2017, subscription and maintenance support gross margin decreased to 67% as compared 68% for the same period in 2016 and subscription and maintenance support gross profit increased by 18% to $85.0 million. Subscription and maintenance support cost of revenue increased by 24%, or $8.0 million, to $42.1 million for the nine months ended September 30, 2017, compared to the same period in 2016. The increase in subscription and maintenance support cost of revenue was related to our continued investments in our product offerings, primarily investments in our SaaS offerings, including the impact of recent acquisitions. The increase was primarily due to a $4.7 million increase in personnel-related costs, a $2.5 million increase in operational costs associated with hosting our SaaS offerings and a $0.5 million increase in third party software maintenance costs. The increase in subscription and maintenance support gross profit was driven by higher revenue growth relative to the growth in subscription and maintenance services cost of revenue.

For the nine months ended September 30, 2017, professional services and other gross margin decreased to 20% as compared to 25% for the same period in 2016 and professional services and other gross profit decreased by 19% to $7.5 million. Professional services and other cost of revenue increased by 12%, or $3.2 million, to $30.6 million for the nine months ended September 30, 2017, compared to the same period in 2016. The increase in professional services and other cost of revenue was primarily due to a $2.9 million increase in personnel-related costs, a $0.5 million increase in equipment and software costs and a $0.2 million increase in consulting expenses, partially offset by a $0.4 million decrease in travel expenses. The decrease in professional services and other gross profit was driven by lower revenue growth relative to growth in professional services and other cost of revenue.

Operating Expenses

	Nine Months Ended September 30,					
	2017		2016		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percentage
	(dollars in thousands)					
Sales and marketing	$ 88,296	34%	$ 75,386	32%	$ 12,910	17%
Research and development	62,545	24%	58,120	24%	4,425	8%
General and administrative	40,295	16%	36,675	15%	3,620	10%
Total operating expenses	$ 191,136	74%	$ 170,181	71%	$ 20,955	12%

Sales and Marketing. Sales and marketing expense increased by 17%, or $12.9 million to $88.3 million for the nine months ended September 30, 2017, compared to the same period in 2016. The increase was primarily due to a $12.3 million increase in personnel-related costs, a $0.9 million increase in overhead expense, including but not limited to rent and depreciation on corporate fixed assets and a $0.5 million increase in outside consulting expense, partially offset by a $0.7 million decrease in recruiting expense.

Research and Development. Research and development expense increased by 8%, or $4.4 million to $62.5 million for the nine months ended September 30, 2017, compared to the same period in 2016. This increase was primarily due to a $2.7 million increase in personnel-related costs, a $1.1 million increase in overhead expense, including but not limited to rent and depreciation on corporate fixed assets, and a $1.0 million increase in equipment and software expenses, partially offset by a $0.6 million decrease in outside consulting expenses.

General and Administrative. General and administrative expense increased by 10%, or $3.6 million, to $40.3 million for the nine months ended September 30, 2017, compared to the same period in 2016. This increase was primarily due to a $2.1 million increase in personnel-related costs, a $1.0 million increase in equipment and software costs and a $0.9 million increase in overhead expense, including but not limited to rent and depreciation on corporate fixed assets, partially offset by a $0.7 million decrease in third party legal expenses, primarily related to insurance reimbursement of certain legal expenses.

Income (loss) from Operations

Loss from operations was $8.6 million for the nine months ended September 30, 2017, as compared to income from operations of $1.7 million for the same period in 2016.

Other Expense

	Nine Months Ended September 30,				Period-to-Period Change	
	2017		2016			
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percentage
	(dollars in thousands)					
Interest expense	$ 12,471	5 %	$ 11,738	5 %	$ 733	6 %
Interest income	(2,457)	(1)%	(1,950)	(1)%	(507)	26 %
Other, net	93	*	(533)	*	626	(117)%
Total other expense, net	$ 10,107	4 %	$ 9,255	4 %	$ 852	9 %

* Less than 1%

Other expense, net for the nine months ended September 30, 2017 increased by $0.9 million compared to the same period in 2016, primarily due to the increase in interest expense related to our Notes and a decrease in the foreign exchange losses related to the revaluation of foreign currency denominated trade receivables and losses on intercompany settlement, partially offset by the increase in interest income.

Benefit from Income Taxes

Benefit from income taxes was $2.5 million for the nine months ended September 30, 2017, compared to $2.5 million for the same period in 2016.

Liquidity and Capital Resources

Resources

We fund our operations principally with cash provided by operating activities. Cash provided by operating activities for the nine months ended September 30, 2017 was $40.7 million compared to $47.9 million for the same period in 2016.

Our 2018 Notes will come due on July 1, 2018. We believe we will have funds available to satisfy the 2018 Notes obligation.

On October 20, 2017, we entered into the Merger Agreement with Cisco pursuant to which Cisco has agreed to acquire us for $55.00 per share in an all-cash transaction. We have agreed to various covenants and agreements, including, among others, agreements to conduct our business in the ordinary course during the period between the execution of the Merger Agreement and the effective time of the Merger. In addition, without the consent of Cisco, we may not take, authorize, agree or commit to do certain actions outside of the ordinary course of business, including acquiring businesses or incurring capital expenditures above specified thresholds, issuing additional debt facilities, and repurchasing shares of our outstanding common stock outside of certain limited exceptions. We do not believe these restrictions will prevent us from meeting our debt obligations, ongoing costs of operations, working capital needs or capital expenditure requirements.

Cash and Cash Equivalents, Accounts Receivable and Working Capital

The following tables present a summary of our cash and cash equivalents, accounts receivable, working capital and cash flows as of the dates and for the periods indicated (in thousands):

	September 30, 2017	December 31, 2016
Cash and cash equivalents	$ 129,546	$ 82,993
Accounts receivable, net	109,086	121,817
Working capital	316,895	227,778

	Nine Months Ended September 30,	
	2017	2016
Cash provided by (used in):		
Operating activities	$ 40,724	$ 47,937
Investing activities	(1,151)	(124,049)
Financing activities	3,336	828

Our cash and cash equivalents at September 30, 2017 were held for working capital and other general corporate purposes and were invested primarily in demand deposit accounts or money market funds. We do not enter into investments for trading or speculative purposes. Our cash and cash equivalents held outside the United States equaled $53.8 million as of September 30, 2017. Cash and cash equivalent balances outside the U.S. may be subject to foreign withholding and U.S. taxation, if repatriated. We intend to reinvest cash outside the U.S. except in instances where repatriating such earnings would result in no additional income tax. Determination of the potential tax impact should we repatriate such funds is not practicable or material.

Operating Activities

Operating activities consist primarily of net income adjusted for changes in other current and long-term assets and liabilities and non-cash items. Non-cash items consist primarily of stock-based compensation expense, depreciation and amortization, provision for deferred income taxes, non-cash interest on convertible debt and amortization of software licenses.

For the nine months ended September 30, 2017, net cash provided by operating activities was $40.7 million, compared to net cash provided by operating activities of $47.9 million for the same period in 2016. This decrease was primarily related to an increase in net loss of $11.2 million and a $1.3 million decrease from the net change in other current and long-term assets and liabilities, partially offset by a $5.3 million increase in the aggregate change in non-cash items.

Investing Activities

Our investing activities have consisted primarily of proceeds from maturities and purchases of marketable securities.

For the nine months ended September 30, 2017, net cash used in investing activities was $1.2 million, compared to net cash used in investing activities of $124.0 million for the same period in 2016. This increase was attributable to a $106.1 million decrease in net purchases of marketable securities and a $21.4 million decrease in payments for acquisitions.

Financing Activities

Our financing activities have consisted primarily of proceeds from the exercises of stock options and taxes paid on the vesting of restricted stock units.

For the nine months ended September 30, 2017, net cash provided by financing activities was $3.3 million, compared to net cash provided by financing activities of $0.8 million for the same period in 2016. Net cash provided by financing activities primarily consisted of proceeds from the exercise of stock options of $17.7 million, partially offset by taxes paid on the vesting of restricted stock units of $14.4 million.

Borrowings and Credit Facilities

2022 Convertible Senior Notes

In September 2015, we issued $201.3 million aggregate principal amount of the 2022 Notes, with net proceeds of $194.8 million. The 2022 Notes are general unsecured obligations, with interest payable semi-annually in cash at a rate of 1.0% per annum, and will mature on September 1, 2022, unless earlier repurchased, redeemed or converted.

The initial conversion price for the 2022 Notes is $38.72 per share. The conversion price is subject to adjustment in some events, but will not be adjusted for accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date or if we issue a notice of redemption on or after September 1, 2019, we will decrease the conversion price for a holder who elects to convert its 2022 Notes in connection with such a corporate event or during the related redemption period in certain circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. It is our current intent to settle conversions through

combination settlement with a specified dollar amount per $1,000 principal amount of 2022 Notes of $1,000. See Note 7, *Borrowings*, contained elsewhere in this Quarterly Report on Form 10-Q for additional details about the 2022 Notes.

2018 Convertible Senior Notes

In June 2011, we issued $120.0 million aggregate principal amount of our 2018 Notes, with net proceeds of $116.0 million. The 2018 Notes are our senior unsecured obligations, with interest payable semi-annually in cash at a rate of 1.50% per annum, and will mature on July 1, 2018, unless earlier repurchased, redeemed or converted.

Concurrently with the closing of the 2022 Notes offering, we repurchased $50.9 million principal amount of the 2018 Notes in privately negotiated transactions for an aggregate purchase price of $53.4 million.

The initial conversion price for the 2018 Notes is approximately $41.99 per share. The conversion price will be subject to adjustment in some events, but will not be adjusted for accrued interest. In addition, if a make-whole fundamental change, as defined in the indenture governing the 2018 Notes (the "2018 Indenture"), occurs prior to the maturity date, we will in some cases decrease the conversion price for a holder that elects to convert its 2018 Notes in connection with such make-whole fundamental change. Upon conversion, we will pay cash up to the aggregate principal amount of the 2018 Notes to be converted and deliver shares of our common stock in respect of the remainder, if any, of the conversion obligation in excess of the aggregate principal amount of the 2018 Notes being converted. See Note 7, *Borrowings*, contained elsewhere in this Quarterly Report on Form 10-Q for additional details about the 2018 Notes.

Operating and Capital Expenditure Requirements

We believe that the cash generated from operations, our current cash, cash equivalents and short-term and long-term investment balances and interest income we earn on these balances will be sufficient to meet our anticipated cash requirements through at least the next 12 months. In the future, we expect our operating and capital expenditures to grow, through organic growth and acquisitions, as we increase headcount, expand our business activities, grow our customer base and implement and enhance our information technology systems. As sales grow, we expect our accounts receivable balance to increase. Any such increase in accounts receivable may not be completely offset by increases in accounts payable and accrued expenses, which would likely result in greater working capital requirements.

If our available cash resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or convertible debt securities or enter into a credit facility. The sale of equity and convertible debt securities may result in dilution to our stockholders and those securities may have rights senior to those of our common shares. If we raise additional funds through the issuance of convertible debt securities, these securities could contain covenants that would restrict our operations. We may require additional capital beyond our currently anticipated amounts. Additional capital may not be available on reasonable terms, or at all.

Contractual Obligations

We have contractual obligations for non-cancelable office space, notes payable and other short-term and long-term liabilities. The following table discloses aggregate information about our contractual obligations as of September 30, 2017 and periods in which payments are due (in thousands):

	Payments Due by Year				
	Total	Remainder of 2017	2018 - 2019	2020 - 2021	After 2021
Convertible Senior Notes, including interest * ^	$ 281,454	$ 518	$ 73,648	$ 4,025	$ 203,263
Operating lease obligations	61,763	2,033	17,973	14,297	27,460
Total	$ 343,217	$ 2,551	$ 91,621	$ 18,322	$ 230,723

* Contractual interest obligations related to our Notes totaled $11.1 million at September 30, 2017 including $0.5 million, $4.5 million, $4.0 million and $2.0 million due in the remainder of 2017, and years 2018-2019, 2020-2021 and after 2021, respectively.

^ Principal payment obligations for the 2018 Notes are $69.1 million, due in July 2018, and principal payment obligations for the 2022 Notes are $201.3 million, due in September 2022.

As of September 30, 2017, we had unrecognized tax benefits of $9.6 million, including interest and penalties of $0.5 million. We do not expect any material benefits to be recognized in 2017. Furthermore, we are not able to provide a reliable estimate of the timing of future payments relating to these unrecognized benefits.

Non-GAAP Financial Measures

In addition to our U.S. GAAP operating results, we use certain non-GAAP financial measures when planning, monitoring, and evaluating our performance. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of certain non-cash expenses, such as stock-based compensation expense, amortization of acquired intangibles expense, non-cash interest expense on our convertible senior notes and non-cash tax benefit or expense included in our tax provision, so management and investors can compare our core business operating results over multiple periods. While we believe that these non-GAAP financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute for operating results in accordance with U.S. GAAP. In addition, other companies, including companies in our industry, may calculate such measures differently, which reduces its usefulness as a comparative measure. We believe that these non-GAAP measures reflect our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business, as they exclude certain expenses.

The presentation of non-GAAP net income, non-GAAP net income per basic and diluted share, non-GAAP cost of revenue, non-GAAP gross profit, non-GAAP income from operations, Non-GAAP operating expenses and other non-GAAP financial measures in this Quarterly Report on Form 10-Q is not meant to be a substitute for “net income,” “net income per share,” “cost of revenue,” “gross profit,” “income from operations”, "operating expenses" or other financial measures presented in accordance with GAAP, but rather should be evaluated in conjunction with such data. Our definition of “non-GAAP net income,” “non-GAAP net income per share,” "non-GAAP cost of revenue," “non-GAAP gross profit,” “non-GAAP income from operations”, "non-GAAP operating expenses" and other non-GAAP financial measures may differ from similarly titled non-GAAP measures used by other companies and may differ from period to period. In reporting non-GAAP measures in the future, we may make other adjustments for expenses and gains we do not consider reflective of core operating performance in a particular period and may modify “non-GAAP net income,” “non-GAAP net income per share,” "non-GAAP cost of revenue," “non-GAAP gross profit,” “non-GAAP income from operations” and such other non-GAAP measures by excluding these expenses and gains.

Non-GAAP cost of revenue, license software cost of revenue, subscription and maintenance cost of revenue and professional services and other cost of revenue. We define non-GAAP cost of revenue as a cost of revenue less stock-based compensation expense and amortization expense for acquired intangible assets. We consider non-GAAP cost of revenue to be a useful metric for management and our investors because it excludes the effect of certain non-cash expenses so management and investors can compare our cost of revenue over multiple periods.

Non-GAAP gross profit, license software gross profit, subscription and maintenance support gross profit and professional services and other gross profit. We define non-GAAP gross profit as gross profit plus stock-based compensation expense and amortization expense for acquired intangible assets. We consider non-GAAP gross profit to be a useful metric for management and our investors because it excludes the effect of certain non-cash expenses so management and investors can compare our sales margins over multiple periods.

Non-GAAP income from operations. We define non-GAAP income from operations as income from operations plus stock-based compensation expense and amortization expense for acquired intangible assets. We consider non-GAAP income from operations to be a useful metric for management and investors because it excludes the effect of certain non-cash expenses so management and investors can compare our core business operating results over multiple periods.

Non-GAAP operating expenses, sales and marketing expense, research and development expense and general and administrative expense. We define non-GAAP operating expenses as operating expense less stock-based compensation expense allocated to sales and marketing, research and development and general and administrative expenses. Similarly, we define non-GAAP sales and marketing, research and development and general and administrative expenses as the relevant GAAP measure less stock-based compensation expense allocated to the particular expense item.

Non-GAAP net income and net income per share. We define non-GAAP net income as net income plus stock-based compensation expense, amortization expense for acquired intangible assets, non-cash interest expense on our convertible senior notes, foreign currency transaction gains and losses adjusted for our non-GAAP tax provision, which is our estimated current and deferred income tax expense commensurate with the non-GAAP measure of profitability utilizing our projected effective long-term statutory tax rate to which we expect that we will be subject after we implement our expected reorganization of our

international operations (and without giving effect to the Merger). We define non-GAAP income per share as non-GAAP net income divided by the weighted average shares outstanding.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Non-GAAP cost of revenue:				
GAAP license cost of revenue	$ 1,463	$ 1,799	$ 4,655	$ 5,697
(percent of related revenue)	5%	6%	5%	6%
Less:				
Stock-based compensation expense	105	146	312	472
Amortization of acquired intangible assets	265	334	1,034	1,003
Non-GAAP license cost of revenue	$ 1,093	$ 1,319	$ 3,309	$ 4,222
(percent of related revenue)	4%	4%	3%	4%
GAAP subscription and maintenance support cost of revenue	$ 15,002	$ 11,894	$ 42,085	$ 34,060
(percent of related revenue)	34%	33%	33%	32%
Less:				
Stock-based compensation expense	1,184	952	3,136	2,438
Amortization of acquired intangible assets	1,139	1,197	3,449	3,431
Non-GAAP subscription and maintenance support cost of revenue	$ 12,679	$ 9,745	$ 35,500	$ 28,191
(percent of related revenue)	29%	27%	28%	27%
GAAP professional services and other cost of revenue	$ 10,226	$ 10,060	$ 30,577	$ 27,340
(percent of related revenue)	59%	62%	80%	75%
Less:				
Stock-based compensation expense	1,227	1,127	3,482	3,208
Amortization of acquired intangible assets	175	175	525	525
Non-GAAP professional services and other cost of revenue	$ 8,824	$ 8,758	$ 26,570	$ 23,607
(percent of related revenue)	51%	54%	70%	64%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Non-GAAP gross profit:				
GAAP gross profit	$ 64,782	$ 60,369	$ 182,584	$ 171,882
(percent of total revenue)	71%	72%	70%	72%
Plus:				
Stock-based compensation expense	2,516	2,225	6,930	6,118
Amortization of acquired intangible assets	1,579	1,706	5,008	4,959
Non-GAAP gross profit	$ 68,877	$ 64,300	$ 194,522	$ 182,959
(percent of total revenue)	75%	76%	75%	77%
GAAP license gross profit	$ 29,124	$ 29,687	$ 90,028	$ 90,295
(percent of related revenue)	95%	94%	95%	94%
Plus:				
Stock-based compensation expense	105	146	312	472
Amortization of acquired intangible assets	265	334	1,034	1,003
Non-GAAP license gross profit	$ 29,494	$ 30,167	$ 91,374	$ 91,770
(percent of related revenue)	96%	96%	97%	96%
GAAP subscription and maintenance support gross profit	$ 28,518	$ 24,615	$ 85,021	$ 72,288
(percent of related revenue)	66%	67%	67%	68%
Plus:				
Stock-based compensation expense	1,184	952	3,136	2,438
Amortization of acquired intangible assets	1,139	1,197	3,449	3,431
Non-GAAP subscription and maintenance support gross profit	$ 30,841	$ 26,764	$ 91,606	$ 78,157
(percent of related revenue)	71%	73%	72%	73%
GAAP professional services and other gross profit (loss)	$ 7,140	$ 6,067	$ 7,535	$ 9,299
(percent of related revenue)	41%	38%	20%	25%
Plus:				
Stock-based compensation expense	1,227	1,127	3,482	3,208
Amortization of acquired intangible assets	175	175	525	525
Non-GAAP professional services and other gross profit	$ 8,542	$ 7,369	$ 11,542	$ 13,032
(percent of related revenue)	49%	46%	30%	36%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Non-GAAP income from operations:				
GAAP income (loss) from operations	$ 569	$ 1,567	$ (8,552)	$ 1,701
(percent of total revenue)	1%	2%	(3)%	1%
Plus:				
Stock-based compensation expense	14,630	14,021	39,957	38,307
Amortization of acquired intangible assets	1,579	1,706	5,008	4,959
Non-GAAP income from operations	$ 16,778	$ 17,294	$ 36,413	$ 44,967
(percent of total revenue)	18%	21%	14 %	19%
GAAP operating expense	$ 64,213	$ 58,802	$ 191,136	$ 170,181
(percent of total revenue)	70%	70%	74 %	71%
Less:				
Stock-based compensation expense	12,114	11,796	33,027	32,189
Non-GAAP operating expense	$ 52,099	$ 47,006	$ 158,109	$ 137,992
(percent of total revenue)	57%	56%	61 %	58%
GAAP sales and marketing expense	$ 30,519	$ 26,112	$ 88,296	$ 75,386
(percent of total revenue)	33%	31%	34 %	32%
Less:				
Stock-based compensation expense	6,184	4,973	15,548	13,321
Non-GAAP sales and marketing expense	$ 24,335	$ 21,139	$ 72,748	$ 62,065
(percent of total revenue)	27%	25%	28 %	26%
GAAP research and development expense	$ 20,814	$ 19,931	$ 62,545	$ 58,120
(percent of total revenue)	23%	24%	24 %	24%
Less:				
Stock-based compensation expense	3,341	4,249	9,979	11,414
Non-GAAP research and development expense	$ 17,473	$ 15,682	$ 52,566	$ 46,706
(percent of total revenue)	19%	19%	20 %	20%
GAAP general and administrative expense	$ 12,880	$ 12,759	$ 40,295	$ 36,675
(percent of total revenue)	14%	15%	16 %	15%
Less:				
Stock-based compensation expense	2,589	2,574	7,500	7,454
Non-GAAP general and administrative expense	$ 10,291	$ 10,185	$ 32,795	$ 29,221
(percent of total revenue)	11%	12%	13 %	12%

Table of Contents

	NEW METHOD (1)				PRIOR METHOD (1) (2)			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016	2017	2016	2017	2016
	(in thousands)							
Non-GAAP net income and income per share:								
GAAP net loss	$ (2,674)	$ (605)	$ (16,193)	$ (5,009)	$ (2,674)	$ (605)	$ (16,193)	$ (5,009)
(percent of total revenue)	(3)%	(1)%	(6)%	(2)%	(3)%	(1)%	(6)%	(2)%
Adjusted for:								
Stock-based compensation expense	14,630	14,021	39,957	38,307	14,630	14,021	39,957	38,307
Amortization of acquired intangible assets	1,579	1,706	5,008	4,959	1,579	1,706	5,008	4,959
Non-cash interest expense on our convertible senior notes	3,429	3,197	10,112	9,428	3,429	3,197	10,112	9,428
Foreign currency transaction losses (gains)	316	(207)	93	(533)	316	(207)	93	(533)
Non-GAAP tax provision	(4,847)	(5,373)	(11,959)	(14,143)	(2,049)	(1,758)	(5,022)	(4,775)
Non-GAAP net income	$ 12,433	$ 12,739	$ 27,018	$ 33,009	$ 15,231	$ 16,354	$ 33,955	$ 42,377
(percent of total revenue)	14 %	15 %	10 %	14 %	17 %	19 %	13 %	18 %
GAAP net loss per basic common share	$ (0.09)	$ (0.02)	$ (0.53)	$ (0.17)	$ (0.09)	$ (0.02)	$ (0.53)	$ (0.17)
Adjusted for:								
Stock-based compensation expense	0.47	0.47	1.30	1.30	0.47	0.47	1.30	1.30
Amortization of acquired intangible assets	0.05	0.06	0.16	0.17	0.05	0.06	0.16	0.17
Non-cash interest expense on our convertible senior notes	0.11	0.11	0.33	0.32	0.11	0.11	0.33	0.32
Foreign currency transaction losses (gains)	0.01	(0.01)	—	(0.02)	0.01	(0.01)	—	(0.02)
Non-GAAP tax provision	(0.16)	(0.18)	(0.39)	(0.48)	(0.07)	(0.06)	(0.16)	(0.16)
Non-GAAP net income per basic common share	$ 0.40	$ 0.43	$ 0.88	$ 1.12	$ 0.49	$ 0.55	$ 1.10	$ 1.44
GAAP net loss per diluted common share	$ (0.09)	$ (0.02)	$ (0.53)	$ (0.17)	$ (0.09)	$ (0.02)	$ (0.53)	$ (0.17)
Adjusted for:								
Stock-based compensation expense	0.44	0.44	1.24	1.25	0.44	0.44	1.24	1.25
Amortization of acquired intangible assets	0.05	0.05	0.16	0.16	0.05	0.05	0.16	0.16
Non-cash interest expense on our convertible senior notes	0.10	0.10	0.31	0.31	0.10	0.10	0.31	0.31
Foreign currency transaction losses (gains)	0.01	(0.01)	—	(0.02)	0.01	(0.01)	—	(0.02)
Non-GAAP tax provision	(0.15)	(0.17)	(0.37)	(0.46)	(0.06)	(0.06)	(0.16)	(0.16)
Non-GAAP net income per diluted common share	$ 0.38	$ 0.40	$ 0.84	$ 1.08	$ 0.46	$ 0.52	$ 1.05	$ 1.39

(1) In the third quarter of 2017, we changed our method of calculating our non-GAAP provision for income taxes in accordance with the SEC's Non-GAAP Financial Measures Compliance and Disclosure Interpretation. To assist investors to better understand the change, we are providing the calculations under our new method and the prior method. The "New Method" consists of current and deferred income tax expense commensurate with the non-GAAP measure of profitability utilizing our projected effective long-term statutory tax rate (i.e. the rate we expect to be applicable to us after we implement our planned international restructuring and without giving effect to the merger with Cisco). We currently believe this effective long-term statutory tax rate will be approximately 26% of Non-GAAP pre-tax income. The "Prior Method" consists of current and deferred income tax expense commensurate with our cash income tax rate. We believe our long-term effective GAAP tax rate will be lower than the U.S. statutory tax rate based upon the planned restructuring (and without giving effect to the merger).

(2) During the third quarter of 2017, we have updated the 2017 cash income tax rate used in the “Prior Method” from 5% to 7%. The non-GAAP tax provision using the Prior Method for the three months ended September 30, 2017 will reflect the true-up of non-GAAP tax provision for the six months ended June 30, 2017 to the 7% cash income tax rate.

The impact of the change described in (1) above on prior periods with respect to non-GAAP net income and non-GAAP diluted net income per share is as follows:

	NEW METHOD						
	Three Months Ended						
	30-Sep 2017	30-Jun 2017	31-Mar 2017	31-Dec 2016	30-Sep 2016	30-Jun 2016	31-Mar 2016
Non-GAAP net income and income per share:							
GAAP net (loss) income	$ (2,674)	$ (2,983)	$ (10,536)	$ 5,826	$ (605)	$ (2,895)	$ (1,509)
(percent of total revenue)	(3)%	(3)%	(13)%	6%	(1)%	(4)%	(2)%
Adjusted for:							
Stock-based compensation expense	14,630	12,934	12,393	13,200	14,021	13,612	10,674
Amortization of acquired intangible assets	1,579	1,727	1,702	1,649	1,706	1,693	1,560
Non-cash interest expense on our convertible notes	3,429	3,371	3,311	3,256	3,197	3,144	3,087
Foreign currency transaction losses (gains)	316	(31)	(192)	717	(207)	185	(511)
Non-GAAP tax provision	(4,847)	(5,259)	(1,853)	(3,445)	(5,373)	(4,091)	(4,679)
Non-GAAP net income	12,433	9,759	4,825	21,203	12,739	11,648	8,622
(percent of total revenue)	14 %	11 %	6 %	21%	15 %	14 %	12 %
GAAP net (loss) income per basic common share	$ (0.09)	$ (0.10)	$ (0.35)	$ 0.19	$ (0.02)	$ (0.10)	$ (0.05)
Adjusted for:							
Stock-based compensation expense	0.47	0.42	0.41	0.44	0.47	0.46	0.37
Amortization of acquired intangible assets	0.05	0.06	0.06	0.05	0.06	0.06	0.05
Non-cash interest expense on our convertible notes	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Foreign currency transaction losses (gains)	0.01	—	(0.01)	0.02	(0.01)	0.01	(0.02)
Non-GAAP tax provision	(0.16)	(0.17)	(0.06)	(0.11)	(0.18)	(0.14)	(0.16)
Non-GAAP net income per basic common share	$ 0.40	$ 0.32	$ 0.17	$ 0.70	$ 0.43	$ 0.40	$ 0.30
GAAP net (loss) income per diluted common share	$ (0.09)	$ (0.10)	$ (0.35)	$ 0.18	$ (0.02)	$ (0.10)	$ (0.05)
Adjusted for:							
Stock-based compensation expense	0.44	0.41	0.39	0.42	0.44	0.44	0.36
Amortization of acquired intangible assets	0.05	0.05	0.05	0.05	0.05	0.06	0.05
Non-cash interest expense on our convertible notes	0.10	0.11	0.10	0.10	0.10	0.10	0.10
Foreign currency transaction losses (gains)	0.01	—	(0.01)	0.02	(0.01)	0.01	(0.02)
Non-GAAP tax provision	(0.15)	(0.17)	(0.06)	(0.11)	(0.17)	(0.13)	(0.16)
Non-GAAP net income per diluted common share	$ 0.38	$ 0.31	$ 0.15	$ 0.67	$ 0.40	$ 0.38	$ 0.29

	PRIOR METHOD						
	Three Months Ended						
	30-Sep (2)	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
	2017	2017	2017	2016	2016	2016	2016
Non-GAAP net income and income per share:							
GAAP net (loss) income	$ (2,674)	$ (2,983)	$ (10,536)	$ 5,826	$ (605)	$ (2,895)	$ (1,509)
(percent of total revenue)	(3)%	(3)%	(13)%	6%	(1)%	(4)%	(2)%
Adjusted for:							
Stock-based compensation expense	14,630	12,934	12,393	13,200	14,021	13,612	10,674
Amortization of acquired intangible assets	1,579	1,727	1,702	1,649	1,706	1,693	1,560
Non-cash interest expense on our convertible notes	3,429	3,371	3,311	3,256	3,197	3,144	3,087
Foreign currency transaction losses (gains)	316	(31)	(192)	717	(207)	185	(511)
Non-cash tax provision	(2,049)	(2,489)	(484)	4,054	(1,758)	(786)	(2,232)
Non-GAAP net income	15,231	12,529	6,194	28,702	16,354	14,953	11,069
(percent of total revenue)	17 %	14 %	8 %	28%	19 %	18 %	15 %
GAAP net (loss) income per basic common share	$ (0.09)	$ (0.10)	$ (0.35)	$ 0.19	$ (0.02)	$ (0.10)	$ (0.05)
Adjusted for:							
Stock-based compensation expense	0.47	0.42	0.41	0.44	0.47	0.46	0.37
Amortization of acquired intangible assets	0.05	0.06	0.06	0.05	0.06	0.06	0.05
Non-cash interest expense on our convertible notes	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Foreign currency transaction losses (gains)	0.01	—	(0.01)	0.02	(0.01)	0.01	(0.02)
Non-cash tax provision	(0.07)	(0.08)	(0.02)	0.13	(0.06)	(0.03)	(0.08)
Non-GAAP net income per basic common share	$ 0.49	$ 0.41	$ 0.20	$ 0.95	$ 0.55	$ 0.51	$ 0.38
GAAP net (loss) income per diluted common share	$ (0.09)	$ (0.10)	$ (0.35)	$ 0.18	$ (0.02)	$ (0.10)	$ (0.05)
Adjusted for:							
Stock-based compensation expense	0.44	0.41	0.39	0.42	0.44	0.44	0.36
Amortization of acquired intangible assets	0.05	0.05	0.05	0.05	0.05	0.06	0.05
Non-cash interest expense on our convertible notes	0.10	0.11	0.10	0.10	0.10	0.10	0.10
Foreign currency transaction losses (gains)	0.01	—	(0.01)	0.02	(0.01)	0.01	(0.02)
Non-cash tax provision	(0.06)	(0.08)	(0.02)	0.13	(0.06)	(0.03)	(0.07)
Non-GAAP net income per diluted common share	$ 0.46	$ 0.40	$ 0.19	$ 0.91	$ 0.52	$ 0.49	$ 0.37

Off-Balance Sheet Arrangements

As of September 30, 2017, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. From time to time, we use derivative financial instruments to hedge foreign currency exchange rate risk. We do not use derivative financial instruments to hedge interest rate risk although in the future we may enter into interest rate hedging arrangements to manage interest rate risks. We do not use derivative financial instruments for speculative or trading purposes.

From time to time, we use foreign currency forward contracts to hedge certain balance sheet exposures related to foreign exchange rates. These forward contracts are not designated as hedges for accounting purposes. Gains and losses resulting from a change in fair value of these derivatives are reflected in income in the period in which the change occurs and are recognized on the consolidated statement of operations in other income (expense). Cash flows from these contracts are classified within net cash used in operating activities on the consolidated statements of cash flows. We recognize all derivative instruments on the balance sheet at fair value, and our derivative instruments are generally short-term in duration.

Interest Rate Risk

The interest rate is fixed on all our outstanding loan balances; consequently, we do not have exposure to risks due to increases in the variable rates tied to indexes. We maintain a short-term investment portfolio consisting mainly of highly liquid short-term money market funds, which we consider to be cash equivalents. Our restricted cash consists primarily of certificates of deposit that secure letters of credit related to operating leases for office space. These securities and investments earn interest at variable rates and, as a result, decreases in market interest rates would generally result in decreased interest income. At September 30, 2017, we had long-term debt of $270.4 million associated with our convertible senior notes, which are fixed rate instruments. We would not expect a 10% change in interest rates to have a material impact on our results of operations.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations because of changes in foreign currency exchange rates, particularly changes in exchange rates between the U.S. dollar and the Euro and British Pound, the currencies of countries where we currently have our most significant international operations. On a historical basis, invoicing has largely been denominated in U.S. dollars; however, we expect an increasing proportion of our future business to be conducted in currencies other than U.S. dollars. Our expenses are generally denominated in the currencies of the countries in which our operations are located, with our most significant operations at present located in the United States, the United Kingdom, Germany, Canada and India. As a result, our results of operations would generally be adversely affected by a decline in the value of the U.S. dollar relative to these foreign currencies. However, we believe this exposure is not material at this time. As we continue to grow our international operations, our exposure to foreign currency risk will likely become more significant.

As of September 30, 2017, we maintained eight open forward contracts with a total notional amount of $5.9 million. We did not maintain any open contracts as of December 31, 2016. All forward contracts have maturities of twelve months or less and were entered into to manage foreign currency exposures on certain foreign currency denominated accounts receivables. The Company recognized a gain of $0.2 million and a loss of $0.2 million related to the forward contracts for the three and nine months ended September 30, 2017, respectively.

Notwithstanding the open forward contracts described above, we have not fully hedged our exposure to fluctuations in foreign currency exchange rates, and fluctuations in foreign currencies impact the amount of total assets and liabilities that we report for our foreign subsidiaries upon the translation of these amounts into U.S. Dollars. In particular, the amount of cash and cash equivalents that we report in U.S. Dollars would be impacted by a significant fluctuation in foreign currency exchange rates. Based on our cash and cash equivalent balances held in foreign currencies at September 30, 2017, if overall foreign currency exchange rates in comparison to the U.S. Dollar uniformly weakened by 10%, the amount of cash and cash equivalents we would report in U.S. Dollars would decrease by approximately $5.4 million, assuming constant foreign currency cash and cash equivalents balances, although the actual effects may differ materially from this hypothetical analysis.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer, our chief financial officer and our chief accounting officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2017, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we are a defendant in litigation arising out of the ordinary course of business. Although it is difficult to predict the ultimate outcomes of these cases, we are not a party to any material, pending legal proceeding, nor are we aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our common stock are adverse to us or have a material interest adverse to us.

ITEM 1A. Risk Factors

Except as set forth below, there have been no material changes in risk factors from those disclosed in Part 1, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which was filed with the Securities and Exchange Commission, or SEC, on February 23, 2017.

If the proposed merger is not completed, our business could be materially and adversely affected and our stock price could decline.

On October 20, 2017, we entered into a definitive merger agreement with Cisco Systems, Inc. ("Cisco") pursuant to which, upon the terms and subject to the conditions set forth therein, a wholly-owned subsidiary of Cisco would merge with and into us, with us continuing on as the surviving entity and a wholly-owned subsidiary of Cisco. The merger is subject to closing conditions, which include among other conditions, the adoption of the merger agreement by the holders of a majority of the outstanding shares of our common stock, the absence of any order or restraint or applicable legal requirement prohibiting, making illegal or enjoining the completion of the merger, the expiration or early termination of the waiting period under the HSR Act and the receipt of certain applicable foreign antitrust approvals. Therefore, the merger may not be completed or may not be completed as quickly as expected. If the merger agreement is terminated, the market price of our common stock will likely decline, as we believe that our market price reflects an assumption that the merger will be completed. For example, on August 29, 2017, the last full trading day prior to published speculation regarding a potential transaction involving BroadSoft, BroadSoft common stock closed at $43.05 per share. On October 20, 2017, the last full trading day prior to the public announcement of the proposed merger, BroadSoft common stock closed at $53.90 per share, and, on the next trading day, following the announcement of our entering into the merger agreement, our stock price closed at $54.80 per share. In addition, our stock price may be adversely affected as a result of the fact that we have incurred and will continue to incur significant expenses related to the merger, all or a portion of which will not be recovered if the merger is not completed. If the merger agreement is terminated under certain circumstances, we may be obligated to pay Cisco a termination fee of $56 million. As a consequence of the failure of the merger to be completed, as well as of some or all of these potential effects of the termination of the merger agreement, our business could be materially and adversely affected.

The existence of the pending merger could have an adverse effect on our business, revenue and results of operations.

While the merger is pending, it creates uncertainty about our future. As a result of this uncertainty, customers may decide to delay, defer or cancel purchases of our products and/or services, pending completion of the merger or termination of the merger agreement. If these decisions represent a significant portion of our anticipated revenue, our results of operations and quarterly revenues could be substantially below the expectations of market analysts.

In addition, while the merger is pending, we are subject to a number of risks that may adversely affect our business, revenue and results of operations, including:

- the diversion of management and employee attention and the unavoidable disruption to our relationships with customers and vendors may detract from our ability to grow revenues and minimize costs;
- the fact that we have incurred and will continue to incur significant expenses related to the merger;
- the fact that, pursuant to the merger agreement, we must generally conduct our business in the ordinary course and we are subject to a variety of other restrictions on the conduct of our business prior to the closing of the merger or termination of the merger agreement; and
- the fact that we may be unable to respond effectively to competitive pressures, industry developments and future opportunities.

If the merger occurs, our stockholders will not be able to participate in any upside to our business.

Upon consummation of the merger, our stockholders will receive $55.00 in cash per share, without interest and subject to applicable tax withholding, of our common stock owned by them, but will not receive any shares of Cisco common stock. As a result, if our business following the merger performs well, our current stockholders will not receive any additional consideration, and will therefore not receive any benefit from the performance of our business.

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

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosure

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibit Number	Description of Document
2.1	Agreement and Plan of Merger, dated as of October 20, 2017, by and among Cisco Systems, Inc., Brooklyn Acquisition Corp. and BroadSoft, Inc. (1)
3.1	Amended and Restated Certificate of Incorporation. (2)
3.2	Second Amended and Restated Bylaws. (3)
4.1	Indenture, dated as of June 20, 2011, by and between the Company and Wells Fargo Bank, N.A., as Trustee. (4)
4.2	Form of Note representing the Company's 1.50% Convertible Senior Notes due 2018. (5)
4.3	Indenture, dated as of September 15, 2015, by and between BroadSoft, Inc. and Wells Fargo Bank, N.A., as Trustee (6)
4.4	Form of Note representing the Company's 1.0% Convertible Senior Notes due 2022 (7)
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of 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 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
101.CAL XBRL	Taxonomy Extension Calculation Linkbase
101.DEF XBRL	Taxonomy Extension Definition Linkbase
101.LAB XBRL	Taxonomy Extension Label Linkbase
101.PRE XBRL	Taxonomy Extension Presentation Linkbase

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(1) Filed as Exhibit 2.1 to the registrant’s Current Report on Form 8-K (File No. 001-34777) filed with the Securities and Exchange Commission on October 23, 2017 and incorporated herein by reference. Schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of such schedules, or any section thereof, to the SEC upon request.

(2) Filed as Exhibit 3.1 to the registrant’s Current Report on Form 8-K (File No. 001-34777) filed with the Securities and Exchange Commission on June 25, 2010 and incorporated herein by reference.

(3) Filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K (File No. 001-34777) filed with the Securities and Exchange Commission on November 20, 2013 and incorporated herein by reference.

(4) Filed as Exhibit 4.1 to the registrant’s Current Report on Form 8-K (File No. 1-34777) filed with the Securities and Exchange Commission on June 21, 2011 and incorporated by reference herein.

(5) Filed as Exhibit 4.2 to the registrant’s Current Report on Form 8-K (File No. 1-34777) filed with the Securities and Exchange Commission on June 21, 2011 and incorporated by reference herein.

(6) Filed as Exhibit 4.1 to the registrant’s Current Report on Form 8-K (File No. 001-34777) filed with the Securities and Exchange Commission on September 15, 2015 and incorporated by reference herein.

(7) Files as Exhibit 4.2 to the Registrant’s Current Report on Form 8-K (File No. 001-34777) filed with the Securities and Exchange Commission on September 15, 2015 and incorporated by reference herein.

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.

BROADSOFT, INC.

By: /s/ James A. Tholen

James A. Tholen
Chief Financial Officer
(Principal Financial Officer and duly authorized signatory)

Date: November 6, 2017

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Michael Tessler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BroadSoft, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael Tessler

Michael Tessler

Chief Executive Officer

Date: November 6, 2017

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, James A. Tholen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BroadSoft, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ James A. Tholen

James A. Tholen

Chief Financial Officer

Date: November 6, 2017

EXHIBIT 32.1

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

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Michael Tessler, Chief Executive Officer of BroadSoft, Inc. (the "Company"), hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2017, to which this Certification is attached as Exhibit 32.1 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Tessler

Michael Tessler

Chief Executive Officer

(Principal Executive Officer)

Date: November 6, 2017

EXHIBIT 32.2

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

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), James A. Tholen, Chief Financial Officer of BroadSoft, Inc. (the “Company”), hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2017, to which this Certification is attached as Exhibit 32.2 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James A. Tholen

James A. Tholen

Chief Financial Officer

(Principal Financial Officer)

Date: November 6, 2017