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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 OR 15(d)
of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 13, 2018

Altair Engineering Inc.
(Exact name of registrant as specified in its charter)

Delaware	001-38263	38-2591828
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1820 E. Big Beaver Road Troy, Michigan	48083
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (248) 614-2400

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Explanatory Note

This Amendment No. 1 to Current Report on Form 8-K is being filed by Altair Engineering Inc. ("Altair") for the purpose of amending and supplementing Item 9.01 of the Current Report on Form 8-K originally filed by Altair with the Securities and Exchange Commission ("SEC") on December 13, 2018 (the "Original Form 8-K") in connection with the consummation of the acquisition by Altair of Datawatch Corporation ("Datawatch"). As indicated in the Original Form 8-K, this Amendment No. 1 to Current Report on Form 8-K is being filed to provide the information required by Item 9.01(a) and (b) of Form 8-K and Rule 3-05(b) of Regulation S-X that was not previously filed with the Original Form 8-K, as permitted by the rules of the SEC.

Forward-Looking Statements

Information in this Amendment No. 1 to Current Report on Form 8-K, together with the exhibits attached hereto, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, including, but not limited to, statements regarding the integration of Altair Engineering Inc. and Datawatch Corporation, the expected benefits and costs of Altair's acquisition of Datawatch, Altair's plans relating to the acquisition, the future financial and accounting impact of the acquisition, and any statements of expectation or belief or assumptions underlying any of the foregoing. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Factors that could cause actual results and the timing of certain events to differ materially from the forward-looking statements, include, but are not limited to, the possibility that the expected costs and benefits of the acquisition may not materialize as expected, the possibility that preliminary financial reporting estimates and assumptions may prove to be incorrect, the failure of Altair to successfully integrate the Datawatch business or realize synergies, conditions in the capital and financial markets, general economic conditions and other risks that are described in Altair's Annual Report on Form 10-K for the year ended December 31, 2017 and its other filings with the SEC.

Item 9.01. Financial Statements and Exhibits.

(a) *Financial statements of business acquired.*

The following financial statements are being filed as exhibits to this amendment and are incorporated by reference herein:

Exhibit 99.3 — The audited consolidated balance sheet of Datawatch Corporation as of September 30, 2018 and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the years in the two-year period ended September 30, 2018, and the related notes, are attached hereto as Exhibit 99.3.

Exhibit 23.1 — The consent of the Independent Auditors of Datawatch Corporation is attached hereto as Exhibit 23.1.

(b) *Unaudited pro forma financial information.*

The following pro forma financial information is being filed as an exhibit to this amendment and is incorporated by reference herein:

Exhibit 99.4 — (i) The unaudited pro forma condensed combined balance sheet which gives effect to the merger as if it had occurred on September 30, 2018; (ii) The related unaudited pro forma condensed combined statements of operations for the nine-month period ended September 30, 2018, and the year ended December 31, 2017, which gives effect to the merger as if it had occurred on January 1, 2017; and (iii) the related notes to such unaudited pro forma condensed combined financial statements.

(d) *Exhibits*:

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of November 5, 2018, by and among Altair Engineering Inc., Dallas Merger Sub, Inc. and Datawatch Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed by the Company on November 5, 2018)
23.1*	Consent of RSM US LLP
99.1**	Press Release issued by the Company, dated December 13, 2018, announcing the expiration and results of the Offer
99.2**	Press Release issued by the Company, dated December 13, 2018, announcing the consummation of the Merger
99.3*	Audited consolidated balance sheet of Datawatch Corporation as of September 30, 2018 and 2017, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the years in the two-year period ended September 30, 2018, the related notes and the accompanying report of RSM US LLP.
99.4*	Unaudited pro forma condensed combined financial statements and explanatory notes for Altair Engineering Inc. as of September 30, 2018, for the year ended December 31, 2017 and for the nine months ended September 30, 2018.

* Filed herewith.

** Previously filed.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No.1 to be signed on its behalf by the undersigned hereunto duly authorized.

ALTAIR ENGINEERING INC.

Dated: February 22, 2019

By: /s/ Howard N. Morof
Name: Howard N. Morof
Title: Chief Financial Officer

Exhibit 23.1

CONSENT OF RSM US LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-223833, and 333-221312) of Altair Engineering Inc. of our report dated December 13, 2018, relating to the consolidated financial statements of Datawatch Corporation, appearing in this Current Report on Form 8-K/A.

/s/ RSM US LLP

Boston, Massachusetts
February 22, 2019

EXHIBIT 99.3

YEAR-END HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS OF DATAWATCH CORPORATION

DATAWATCH CORPORATION

4 CROSBY DRIVE
BEDFORD, MASSACHUSETTS 01730
(978) 441-2200

DATAWATCH CORPORATION

TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	3
CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2018 AND 2017 AND FOR THE TWO YEARS IN THE PERIOD ENDED SEPTEMBER 30, 2018:	
Consolidated Balance Sheets	4
Consolidated Statements of Operations	5
Consolidated Statements of Comprehensive Loss	6
Consolidated Statements of Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Datawatch Corporation and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Datawatch Corporation and subsidiaries (the "Company") as of September 30, 2018 and 2017 and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the years in the two-year period ended September 30, 2018, and the related notes (collectively, the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board ("United States") ("PCAOB") and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

Boston, MA
December 13, 2018

We have served as the Company's auditor since 2013.

DATAWATCH CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	September 30, 2018	September 30, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,735	$ 30,451
Accounts receivable, net of allowance for doubtful accounts of $93 and $60 as of September 30, 2018 and September 30, 2017, respectively	9,802	7,306
Unbilled accounts receivable	2,805	—
Prepaid expenses and other current assets	2,131	2,789
Total current assets	28,473	40,546
Property and equipment, net	1,047	1,064
Acquired intellectual property, net	3,743	887
Other intangible assets, net	4,775	969
Goodwill and indefinite-lived intangible assets	21,518	6,685
Deferred tax asset, net	36	—
Other long-term assets	2,092	254
Total assets	$ 61,684	$ 50,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of debt, net	$ 2,044	$ —
Accounts payable	2,074	2,360
Accrued expenses	3,044	3,521
Deferred revenue	18,191	11,303
Total current liabilities	25,353	17,184
LONG-TERM LIABILITIES:		
Long-term debt, net	6,440	—
Deferred revenue, long-term	2,078	302
Deferred tax liability	848	—
Other long-term liabilities	448	390
Total long-term liabilities	9,814	692
Total liabilities	35,167	17,876
COMMITMENTS AND CONTINGENCIES (Note 7)		
SHAREHOLDERS' EQUITY:		
Common stock, par value $0.01; authorized: 20,000,000 shares; issued and outstanding: 12,750,993 shares and 12,736,747 shares, respectively, as of September 30, 2018 and 12,272,704 shares and 12,258,458 shares, respectively, as of September 30, 2017	128	123
Additional paid-in capital	148,582	145,262
Accumulated deficit	(120,068)	(110,816)
Accumulated other comprehensive loss	(1,985)	(1,900)
	26,657	32,669
Less treasury stock, at cost, 14,246 shares	(140)	(140)
Total shareholders' equity	26,517	32,529
Total liabilities and shareholders' equity	$ 61,684	$ 50,405

See accompanying notes to these consolidated financial statements.

DATAWATCH CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Years Ended September 30, 2018	2017
REVENUE:		
Software licenses	$24,759	$20,051
Maintenance	15,588	14,473
Professional services	1,331	1,739
Total revenues	41,678	36,263
COSTS AND EXPENSES:		
Cost of software licenses	1,298	1,895
Cost of maintenance and services (1)	3,622	2,349
Sales and marketing (1)	22,597	19,124
Engineering and product development (1)	11,421	8,888
General and administrative (1)	11,835	8,777
Total costs and expenses	50,773	41,033
LOSS FROM OPERATIONS	(9,095)	(4,770)
Interest expense	(399)	—
Other income	57	808
Foreign currency transaction gain (loss)	174	(49)
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(9,263)	(4,011)
Income tax (expense) benefit	11	18
NET LOSS	$ (9,252)	$ (3,993)
Net loss per share – basic:	$ (0.74)	$ (0.33)
Net loss per share – diluted:	$ (0.74)	$ (0.33)
Weighted-average shares outstanding – basic	12,521	12,073
Weighted-average shares outstanding – diluted	12,521	12,073
(1) Includes share-based compensation as follows:		
Cost of maintenance and services	$ 62	$ 37
Sales and marketing	869	579
Engineering and product development	592	438
General and administrative	1,452	1,119
	$ 2,975	$ 2,173

See accompanying notes to these consolidated financial statements.

DATAWATCH CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Years Ended September 30,	
	2018	**2017**
Net loss	$(9,252)	$(3,993)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(85)	(34)
Comprehensive loss	(9,337)	(4,027)

See accompanying notes to these consolidated financial statements.

DATAWATCH CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
BALANCE, SEPTEMBER 30, 2016	11,938,032	119	142,668	(106,823)	(1,866)	(14,246)	(140)	33,958
Exercise of stock options	100,000	1	421	—	—	—	—	422
Vesting of restricted stock	234,672	3	—	—	—	—	—	3
Share-based compensation expense	—	—	2,173	—	—	—	—	2,173
Translation adjustments	—	—	—	—	(34)	—	—	(34)
Net loss	—	—	—	(3,993)	—	—	—	(3,993)
BALANCE, SEPTEMBER 30, 2017	12,272,704	123	145,262	(110,816)	(1,900)	(14,246)	(140)	32,529
Exercise of stock options	100,000	1	345	—	—	—	—	346
Vesting of restricted stock	378,289	4	—	—	—	—	—	4
Share-based compensation expense	—	—	2,975	—	—	—	—	2,975
Translation adjustments	—	—	—	—	(85)	—	—	(85)
Net loss	—	—	—	(9,252)	—	—	—	(9,252)
BALANCE, SEPTEMBER 30, 2018	12,750,993	$ 128	$148,582	$ (120,068)	$ (1,985)	(14,246)	$ (140)	$26,517

See accompanying notes to these consolidated financial statements.

DATAWATCH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended September 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (9,252)	$ (3,993)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	1,662	1,627
Provision for doubtful accounts	33	32
Share-based compensation expense	2,975	2,173
Deferred income taxes	(36)	—
Amortization of debt issuance costs	16	—
Changes in operating assets and liabilities:		
Accounts receivable	(498)	(332)
Unbilled accounts receivable	1,653	—
Prepaid expenses and other long-term assets	1,284	(479)
Accounts payable, accrued expenses and other liabilities	(1,758)	1,580
Deferred revenue	3,363	1,684
Cash provided by (used in) operating activities	(558)	2,292
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Angoss Software, net of cash acquired (Note 2)	(24,559)	—
Purchases of property and equipment	(170)	(277)
Cash used in investing activities	(24,729)	(277)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	346	422
Borrowings under debt agreement	10,000	—
Cash paid for debt issuance costs	(74)	—
Principal repayments on outstanding debt	(1,458)	—
Cash provided by financing activities	8,814	422
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(243)	(20)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,716)	2,417
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	30,451	28,034
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 13,735	$30,451
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 401	$ —
Income taxes paid	$ 17	$ 18

See accompanying notes to these consolidated financial statements.

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Datawatch Corporation (the "Company" or "Datawatch") designs, develops, markets and distributes business computer software products. The Company also provides services, including implementation and support of its software products, as well as training on their use and administration. The Company is subject to a number of risks including dependence on key individuals, competition from substitute products and larger companies and the need for successful ongoing development and marketing of products.

Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

These consolidated financial statements include the accounts of Datawatch and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments, which are evaluated on an on-going basis, that affect the amounts and disclosures reported in the Company's consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The most significant estimates and judgments include those related to revenue recognition, the allowance for doubtful accounts, sales returns reserve, valuation of share-based compensation awards, useful lives of property and equipment and intangibles, and the valuation of long term assets including goodwill, intellectual property and intangibles, and deferred tax assets. Actual results could differ from those estimates and judgments.

Business Combinations

We allocate the fair value of purchase consideration to Angoss' tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from customer relationships and acquired developed technology and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ materially from estimates. Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed.

Revenue Recognition

Datawatch software products are generally sold in multiple element arrangements which may include software licenses, professional services and post-contract customer support ("PCS"). The Company licenses its software products directly to end-users and indirectly to end-users through value added resellers and distributors. Sales to indirect distribution channels accounted for 37% and 36% of total sales for the years ended September 30, 2018 and 2017, respectively. The Company's software product offerings do not require customization and can be installed and used by customers on their own with little or no configuration required. Multi-user licenses marketed by the Company are sold as a right to use the number of licenses, and the license fee revenue is recognized upon delivery of the software.

Revenue typically consists of software licenses, PCS and professional services. Revenue from the sale of software products is generally recognized at the time of delivery, provided there are no uncertainties surrounding product acceptance, the fee is fixed or determinable, collectability is reasonably assured, persuasive evidence of the arrangement exists and there are no significant obligations remaining. PCS is typically provided under a maintenance agreement which provides technical support and rights to unspecified software maintenance updates and bug fixes on a when-and-if available basis. Revenue from PCS agreements is deferred and recognized ratably over the term of the agreements, typically one year. Professional services include advanced modeling, application design, implementation and configuration and process optimization with revenue recognized as the services are performed. These services are generally delivered on a time and materials basis, billed on a current basis as the work is performed, and generally do not involve modification or customization of the software or any unusual acceptance clauses or provisions.

For multiple element arrangements, total fees are allocated to each of the undelivered elements based upon vendor specific objective evidence (“VSOE”) of their fair values, with the residual amount recognized as revenue for the delivered elements. The residual method of revenue recognition is used for multi-element arrangements when the VSOE of the fair value does not exist for one of the delivered elements, generally the software license. Under the residual method, the arrangement fee is recognized as follows: (1) the total fair value of the undelivered elements, as supported by VSOE, is deferred and subsequently recognized as such items are delivered or completed and (2) the difference between the total arrangement fee and the amount allocated to the undelivered elements is recognized as revenue related to the delivered elements. The Company has established VSOE of fair value of PCS from either contractually stated renewal rates or using the bell-shaped curve method. Additionally, VSOE of fair value of the professional services is based on the amounts charged for these elements when sold separately.

Certain deals related to Angoss products contain unbilled receivables, fixed price services and multi-year contract term licenses with significant and incremental discounts. We do not have VSOE in software bundled arrangements involving fixed price services, which results in revenue being deferred and recognized ratably over the longest contractual period. Additionally, we may enter into multi-year contracts with customers that include a discount on future renewal options that is significant and incremental to the initial arrangement. A portion of the fee is deferred as a result of the significant and incremental discount and is recognized as revenue proportionally as future renewals are delivered or as the discount expires.

The Company also licenses its enterprise software using a subscription model. At the time a customer enters into a binding agreement to purchase a subscription, the customer is invoiced annually in advance and an account receivable and deferred revenue are recorded. Beginning on the date the software is delivered and available for use by the customer, and provided that all other criteria for revenue recognition are met, the deferred revenue amount is recognized ratably over the period the service is provided. The subscription arrangement includes software, maintenance and unspecified future upgrades including major version upgrades on a when-and-if available basis.

The Company’s software products are sold under warranty against certain defects in material and workmanship for a period of 30 days from the date of purchase. Revenue from the sale of software products to distributors and resellers is recognized at the time of shipment providing all other revenue recognition criteria are met and (i) the distributor or reseller is unconditionally obligated to pay for the products, including no contingency as to product resale, (ii) the distributor or reseller has independent economic substance apart from the Company, (iii) the Company is not obligated for future performance to bring about product resale, and (iv) the amount of future returns can be reasonably estimated. The Company’s experience and history with its distributors and resellers allows for reasonable estimates of future returns.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The Company analyzes accounts receivable and the composition of the accounts receivable aging, historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Actual results could differ from the allowances recorded, and this difference could have a material effect on the Company's financial position and results of operations. Receivables are written off against these allowances in the period they are determined to be uncollectible.

For the fiscal years ended September 30, 2018 and 2017, changes to and ending balances of the allowance for doubtful accounts were as follows:

	September 30,	
	2018	2017
Allowance for doubtful accounts balance - beginning of year	$ 60	$ 28
Additions to the allowance for doubtful accounts	117	113
Deductions against the allowance for doubtful accounts	(84)	(81)
Allowance for doubtful accounts balance - end of year	$ 93	$ 60

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash deposited with banks and highly liquid securities consisting of money market investments with original maturities of 90 days or less.

Concentration of Credit Risks and Major Customers

Financial instruments, which potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. The Company's cash is maintained with what management believes to be a high-credit quality financial institution. At times, deposits held at this bank may exceed the federally insured limits. Management believes that the financial institutions that hold the Company's deposits are financially sound and have minimal credit risk. Risks associated with cash and cash equivalents are mitigated by the Company's investment policy, which limits the Company's investing of excess cash into only money market mutual funds.

The Company licenses its products and services directly to end-users and indirectly to end-users through U.S. and non-U.S. distributors and other software resellers, under customary credit terms. No partners or customers accounted for more than 10% of total revenue for the year ended September 30, 2018. One partner accounted for 12% of total revenue for the year ended September 30, 2017. No partner or customer constituted a significant portion (more than 10%) of accounts receivable for the years ended September 30, 2018 and 2017. The Company performs ongoing credit evaluations of its customers and generally does not require collateral.

Deferred Revenue

Deferred revenue consisted of the following at September 30:

	September 30,	
	2018	2017
	(In thousands)	
Maintenance	$10,336	$ 8,632
Software licenses	9,561	2,853
Professional services	372	120
Total	20,269	11,605
Less: Long-term portion of deferred revenue	(2,078)	(302)
Current portion of deferred revenue	$18,191	$11,303

Deferred maintenance revenue consists primarily of the unearned portion of customer support services provided by the Company to customers who purchased maintenance agreements for the Company's products. Maintenance revenues are recognized on a straight-line basis over the term of the maintenance period, generally 12 months. Deferred license revenue consists primarily of the unearned portion of revenue from subscription sales and are recognized on a straight-line basis over the term of the subscription period. The increase in the long-term portion of deferred revenue is attributable to Angoss multi-year contracts. We may enter into multi-year contracts with customers that include a discount on future renewal options that is significant and incremental to the initial arrangement. A portion of the fee is deferred as a result of the significant and incremental discount and is recognized as revenue proportionally as future renewals are delivered or as the discount expires.

Deferred professional services revenue is generated from arrangements that are invoiced in accordance with the terms and conditions of the arrangement but do not meet all the criteria for revenue recognition and are, therefore, deferred until all revenue recognition criteria are met.

Property and Equipment

Property and equipment consists of office equipment, furniture and fixtures, software and leasehold improvements, all of which are recorded at cost. Depreciation and amortization are provided using the straight-line method over the lesser of the estimated useful lives of the related assets or term of the related leases. Useful lives and lease terms range from three to seven years. Depreciation and amortization expense related to property and equipment was $0.4 million for each of the years ended September 30, 2018 and 2017.

Long-Lived Assets

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable and an impairment loss is recognized when it is probable that the estimated cash flows are less than the carrying amount of the asset.

Long-Lived Assets: Acquired Intellectual Property

Acquired intellectual property consists of software source code acquired through business combinations. The acquired intellectual property assets are being amortized to cost of software licenses using the straight-line method over the estimated life of the asset.

Acquired intellectual property, net, were comprised of the following at September 30, 2018 and 2017 (in thousands):

Identified Intangible Asset	Weighted Average Useful Life (In years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	September 30, 2018			
Intellectual property	8	$15,021	$ (11,278)	$ 3,743

Identified Intangible Asset	Weighted Average Useful Life (In years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	September 30, 2017			
Intellectual property	8	$11,621	$ (10,734)	$ 887

Amortization expense related to the acquired intellectual property assets charged to cost of software licenses for the years ended September 30, 2018 and 2017, was $0.5 million and $1.1 million, respectively.

The future amortization expense related to the acquired intellectual property is as follows (in thousands):

Fiscal Years Ending September 30,	
2019	$ 685
2020	685
2021	533
2022	425
2023	425
Thereafter	990
Total future amortization expense	$3,743

Long-Lived Assets: Other Intangible Assets

Other intangible assets consist of trade names, patents and customer lists acquired through business combinations. The values allocated to these intangible assets are amortized using the straight-line method over the estimated useful life of the related asset.

Other intangible assets, net, were comprised of the following at September 30, 2018 and 2017 (in thousands):

Identified Intangible Asset	Weighted Average Useful Life (In years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	September 30, 2018			
Patents	20	$ 160	$ (113)	$ 47
Customer lists	8	8,075	(3,347)	4,728
Trade names	0	120	(120)	—
Total		$ 8,355	$ (3,580)	$ 4,775

Identified Intangible Asset	Weighted Average Useful Life (In years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	September 30, 2017			
Patents	20	$ 160	$ (105)	$ 55
Customer lists	14	3,574	(2,660)	914
Trade names	3	120	(120)	—
Total		$ 3,854	$ (2,885)	$ 969

Amortization expense related to other intangible assets charged to sales and marketing totaled $0.7 million and $0.1 million for fiscal 2018 and 2017, respectively. There was no amortization expense related to other intangible assets charged to general and administrative expense in fiscal years 2018 and 2017.

The future amortization expense related to amortizing other intangible assets is as follows (in thousands):

Fiscal Years Ending September 30,	
2019	$ 992
2020	992
2021	992
2022	992
2023	389
Thereafter	418
Total future amortization expense	$4,775

Goodwill and Indefinite-Lived Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of acquired businesses. Indefinite-lived intangibles are intangible assets whose useful lives are indefinite in that their lives extend beyond the foreseeable horizon – that is there is no foreseeable limit on the period of time over which they are expected to contribute to the cash flows of the reporting entity. The Company accounts for these items in accordance with FASB's ASC 350 *Intangibles – Goodwill and Other*. This requires that goodwill and intangible assets having indefinite lives are not amortized but instead are reviewed annually, or more frequently as a result of an event or change in circumstances, for possible impairment with impaired assets written down to fair value. Goodwill, assembled workforce and Angoss trade names are considered indefinite-lived intangibles. The Company conducts its annual impairment test for goodwill and indefinite-lived intangible assets during the fourth quarter of each fiscal year.

The following table presents the changes in the carrying amount of goodwill and indefinite lived intangibles (in thousands):

	Amount
Balance as of September 30, 2017	$ 6,685
Goodwill acquired from the Angoss Acquisition	11,633
Indefinite lived trade names acquired from the Angoss Acquisition	3,200
Balance as of September 30, 2018	$21,518

Fair Value Measurements

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The estimated fair values have been determined through information obtained from market sources and management estimates. The estimated fair value of certain financial instruments including cash equivalents, accounts receivable and account payable, approximate the carrying value due to their short-term maturity.

The fair value of the Company's financial assets and liabilities are measured using inputs from the three levels of fair value hierarchy which are as follows:

- Level 1 — Quotedprices in active markets for identical assets or liabilities;
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company classified its cash equivalents, which primarily include money market mutual funds, of $16.5 million as of September 30, 2017 within Level 2 of the fair value hierarchy. The Company held no money market mutual funds as of September 30, 2018.

As of September 30, 2017, the Company's assets that are measured on a recurring basis include the following (in thousands):

	September 30, 2017 Fair Value Measurement Using Input Types		
	Level 1	Level 2	Level 3
Assets:			
Money market funds	$ —	$16,470	$ —
Total	$ —	$16,470	$ —

Non-financial assets such as goodwill and long-lived assets are also subject to fair value measurements. Goodwill is subject to recurring fair value measurements to determine whether impairment exists. Long-lived assets are subject to non-recurring fair value measurements if they are deemed to be impaired. The impairment models used for nonfinancial assets depend on the type of asset and are accounted for in accordance with the FASB guidance on fair value measurement.

Income Taxes

The provision for income taxes is based on the earnings or losses reported in the consolidated financial statements. The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company provides a valuation allowance against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company follows the accounting guidance for uncertain tax positions. This guidance clarifies the accounting for income taxes by prescribing the minimum threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Net Loss Per Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period.

The following table details the derivation of weighted-average shares outstanding used in the calculation of basic and diluted net loss for each period (in thousands, except share data):

	Years Ended September 30,	
	2018	**2017**
Net loss	$ (9,252)	$ (3,993)
Weighted-average number of common shares outstanding	12,521	12,073
Net loss per share	$ (0.74)	$ (0.33)

As the Company was in a net loss position in fiscal 2018 and 2017, all common stock equivalents (vested stock options and unvested RSUs) in the respective periods were anti-dilutive. As a result of being anti-dilutive, 184,738 shares and 220,729 shares for the years ended September 30, 2018 and 2017, respectively, were excluded in the calculation above.

Foreign Currency Translations and Transactions

The Company's foreign subsidiaries functional currency is their local currency. As a result, assets and liabilities of foreign subsidiaries are translated into U.S. dollars at rates in effect at each balance sheet date. Revenues, expenses and cash flows are translated into U.S. dollars at average rates prevailing during the respective period. The related translation adjustments are reported as a separate component of shareholders' equity under the heading "Accumulated Other Comprehensive Loss." Included in comprehensive loss are the foreign currency translation adjustments. During fiscal years 2018 and 2017 there were foreign currency translation losses of $0.1 million and $34,000, respectively.

Gains and losses resulting from transactions that are denominated in currencies other than the applicable unit's functional currency are included in the operating results of the Company. For fiscal years 2018 and 2017 there were gains of $0.2 million and losses of $49,000, respectively.

Advertising and Promotional Materials

Advertising and promotional costs are expensed as incurred and amounted to $0.2 million and $0.1 million in fiscal years 2018 and 2017, respectively.

Share-Based Compensation

The Company recognizes the fair value of share-based awards over the requisite service period of the individual awards, which generally equals the vesting period. All of the Company's share-based awards are accounted for as equity instruments and there have been no liability awards granted. See additional share-based compensation disclosure in Note 5.

Segment Information and Revenue by Geographic Location

The Company has determined that it has only one reportable segment. The Company's chief operating decision maker, its Chief Executive Officer, does not manage any part of the Company separately, and the allocation of resources and assessment of performance is based solely on the Company's consolidated operations and operating results. See Note 9 for information about the Company's revenue by geographic operations.

Guarantees and Indemnifications

The Company's software products are sold under warranty against certain defects in material and workmanship for a period of 30 days from the date of purchase. The Company has never incurred significant expense under its product or service warranties and does not expect to do so in the future. As a result, the Company believes its exposure related to these warranty agreements is minimal. Accordingly, there are no liabilities recorded for warranty claims as of September 30, 2018 or 2017.

The Company enters into indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company agrees to indemnify, hold harmless, and to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally its customers, in connection with any patent, copyright or other intellectual property infringement claim by any third party with respect to the Company's products. The term of these indemnification agreements is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes its exposure related to these agreements is minimal. Accordingly, the Company has no liabilities recorded for these potential obligations as of September 30, 2018 or 2017.

Certain of the Company's agreements also provide for the performance of services at customer sites. These agreements may contain indemnification clauses, whereby the Company will indemnify the customer from any and all damages, losses, judgments, costs and expenses for acts of its employees or subcontractors resulting in bodily injury or property damage. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has general and umbrella insurance policies that would enable it to recover a portion of any amounts paid. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes its exposure related to these agreements is minimal. Accordingly, the Company has no liabilities recorded for these potential obligations as of September 30, 2018 or 2017.

As permitted under Delaware law, the Company has agreements with its directors whereby the Company will indemnify them for certain events or occurrences while the director is, or was, serving at the Company's request in such capacity. The term of the director indemnification period is for the later of ten years after the date that the director ceases to serve in such capacity or the final termination of proceedings against the director as outlined in the indemnification agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company's director and officer insurance policy limits the Company's exposure and would enable it to recover a portion of any future amounts paid. As a result of its insurance policy coverage for directors, the Company believes its exposure related to these indemnification agreements is minimal. The Company has no liabilities recorded for these potential obligations as September 30, 2018 or 2017.

Research and Development Costs

Research and development costs are expensed as incurred to the extent the costs do not meet the capitalization requirements. Capitalization of computer software developed for resale begins upon the establishment of technological feasibility, generally demonstrated by a working model or an operative version of the computer software product. Such costs have not been material to date as technological feasibility is established within a short time frame from the software's general availability and, as a result, no costs were capitalized in fiscal years 2018 or 2017.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill And Other (Topic 350): Simplifying The Test For Goodwill Impairment*, in an effort to simplify the subsequent measurement of goodwill and the associated procedures to determine fair value. The guidance eliminates Step 2 from the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The adoption of this guidance is not expected to have a material impact on our financial statements, unless we have an impairment.

In June 2016, the FASB issued ASU 2016-13*, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* which requires entities to estimate all expected credit losses for certain types of financial instruments, including trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The updated guidance also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating expected credit losses. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the potential impacts of this new guidance on the Company's consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify various aspects of how share-based payments are accounted for and presented in financial statements. The standard is effective prospectively for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company elected to adopt the pronouncement on a prospective basis starting from the first quarter of the fiscal year ended September 30, 2018. As a result of the adoption of ASU 2016-09, we recognize the impact of forfeitures when they occur with no adjustment for estimated forfeitures and recognize excess tax benefits as a reduction of income tax expense regardless of whether the benefit reduces income taxes payable. At September 30, 2017, the Company had approximately $7.6 million of Federal and state net operating loss carryovers related to excess stock compensation. The Company has increased its net operating loss deferred tax asset with a corresponding increase to its valuation allowance.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize, on the balance sheet, leases with a lease terms of greater than twelve months as a right-of-use asset and a lease liability. The standard is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the effect that the standard will have on the Company's consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU is the result of a joint project by the FASB and the International Accounting Standards Board ("IASB") to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards ("IFRS") that would: remove inconsistencies and weaknesses, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices across entities, jurisdictions, industries, and capital markets, improve disclosure requirements and resulting financial statements, and simplify the presentation of financial statements. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU was initially effective for annual reporting periods beginning after December 15, 2016. On July 9, 2015, the FASB voted to delay the effective date of the new revenue standard by one year, but to permit entities to choose to adopt the standard as of the original effective date.

The Company has adopted the full retrospective model on October 1, 2018. Quarterly results in the 2019 fiscal year and comparative prior periods will be compliant with Topic 606, with the Annual Report on Form 10-K for the year ended September 30, 2019 being the first such Annual Report issued in compliance with Topic 606.

The Company has substantially completed the implementation of ASC 606 and has identified the necessary changes to its policies, processes, systems, and controls. However, due to the complex nature of the Company's arrangements and recent updates to interpretive guidance, the Company has not yet completed all of its internal control procedures.

Based upon the work performed to date, the Company expects to record a cumulative-effect adjustment as of September 30, 2016 to increase retained earnings by approximately $3.1 million which includes a $1.7 million increase due to the acceleration of subscription revenue, a $1.1 million increase due to deferred commission expense as a result of certain commissions being paid that have been deemed to be incremental in obtaining new contracts and are amortized over the estimated customer life and a $0.3 million increase due to estimated royalties being recorded in the period in which they were earned. We expect to fully disclose the impacts of the new standard in connection with our 10-Q filing for the first fiscal quarter of 2019.

The Company expects the following impacts:

- Currently, we recognize revenue from subscription licenses ratably over the term of the agreement. Subscription licenses currently include a maintenance element. A portion of the arrangement consideration will be allocated from the subscription to the maintenance obligation based on the relative stand-alone selling price. The adoption of the new revenue standard will result in revenue for performance obligations recognized as they are satisfied. Therefore, revenue from the subscription license performance obligation is expected to be recognized upon delivery. Revenue from maintenance includes two performance obligations, upgrades and customer support, and is expected to be recognized on a straight-line basis over the contractual term.
- Currently, the Company allocates revenue to licenses under the residual method when it has Vendor Specific Objective Evidence ("VSOE") for the remaining undelivered elements, which allocates any future credits or significant discounts entirely to the license. The adoption of ASC 606 will result in future credits, significant discounts, and material rights under ASC 606, generally allocated to all performance obligations based upon their relative selling price. Under ASC 606, additional license revenue from the reallocation of such arrangement considerations will be recognized when control is transferred to the client, which is generally upon delivery of the license.

- Additionally, we do not have VSOE in software bundled arrangements involving fixed price services, which results in revenue being deferred and recognized ratably over the longest contractual performance period. The adoption of the new revenue standard eliminates the requirement for VSOE and replaces it with the concept of a stand-alone selling price. Once the transaction price is allocated to each of the performance obligations based on their relative stand-alone selling prices, we can recognize revenue as the performance obligations are delivered, either at a point in time or over time. Under the new revenue standard, fixed price consulting revenue will be recognized over time based on the input method that reflects the Company's performance on the contract. This will result in the acceleration of consulting revenue when compared to the current practice of ratable recognition over the longest contractual service period for consulting when there is a lack of VSOE.
- Under our current revenue recognition policy, we recognize royalty revenue in the period in which we receive royalty reports, which is typically in the quarter immediately following the quarter in which sales of royalty-bearing products occurred. Under the new standard, we will be required to make estimates of royalties earned in the current period and record royalty revenue based on those estimates.
- We have also assessed accounting for incremental costs to obtain a contract and costs incurred in fulfilling a contract. We currently believe the most significant change to be accounting for commissions, as these incremental costs will be capitalized and will be amortized over a period of time which could extend beyond the initial contract term.
- There will be a corresponding effect on taxes in relation to all of the above impacts.
- We note that our internal control framework did not materially change upon adoption of the provisions of Topic 606 and the related cost guidance under ASC 340, but rather that existing internal controls were modified and augmented, as necessary, to consider our new revenue recognition policy that went into effect October 1, 2018. We have developed internal controls to ensure that we adequately evaluate our contracts and accurately restate our prior-period operating results under ASC 606.

The Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its consolidated financial statements.

NOTE 2. ANGOSS ACQUISITION

On January 30, 2018 (the "Acquisition Date"), Datawatch, through its wholly-owned Canadian subsidiary, acquired all of the outstanding capital stock of Angoss Software Corporation ("Angoss"), a corporation existing under the laws of Ontario, for $24.6 million in cash, net of $3.0 million in cash acquired (the "Angoss Acquisition"). Of this payment, $0.1 million was determined to be post-combination compensation expense. Excluding this amount, the purchase consideration for the Angoss Acquisition totaled $24.6 million.

The Company accounted for the Angoss Acquisition in accordance with ASC 805, *Business Combinations*. The Company has allocated the cost to acquire Angoss to its identifiable tangible and intangible assets and liabilities, with the remaining amount classified as goodwill. The Company used its best estimates and assumptions as part of the purchase price allocation process to value the assets acquired and liabilities assumed on the acquisition date. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. During the fiscal year ended September 30, 2018, the Company recorded measurement period adjustments that resulted in an increase of goodwill of approximately $0.1 million.

The table below summarizes the estimated fair value of net assets acquired and net liabilities assumed in the Angoss Acquisition as of January 30, 2018 (in thousands).

	Amount
Accounts receivable	$ 1,933
Unbilled accounts receivable	6,882
Prepaid expenses and other current assets	370
Property and equipment	250
Customer relationships	4,500
Developed technology	3,400
Trade names	3,200
Goodwill	11,633
Accounts payable	(186)
Accrued expenses	(932)
Deferred revenue	(5,643)
Deferred tax liability	(848)
Fair value of assets and liabilities acquired	$24,559

The amount of goodwill resulting from the allocation of purchase consideration is primarily attributable to expected synergies. Goodwill is not deductible for tax purposes. In accordance with FASB ASC 805, goodwill will not be amortized but instead will be tested for impairment at least annually and more frequently if certain indicators of impairment are present. In the event that goodwill becomes impaired, we will record an expense for the amount impaired during the fiscal quarter in which the determination is made.

The Company incurred approximately $1.3 million of acquisition related costs in the year ended September 30, 2018. These costs are included in general and administrative expense in the accompanying consolidated statements of operations.

The intangible assets, excluding goodwill and assembled workforce are being amortized on a straight-line basis over their estimated lives as follows (in thousands):

	Fair Value	Estimated Lives
Customer relationships	$ 4,500	5.0 years
Developed technology	3,400	8.0 years
Trade names	3,200	Indefinite
Total intangible assets	$11,100	

In accordance with FASB ASC Topic 350, *Intangibles—Goodwill and Other*, management determined that the straight-line method of amortization would be used for customer relationships and developed technology as this pattern most closely reflects the economic benefits of the intangible assets consumed.

Management is responsible for the valuation of net assets acquired and considered a number of factors, including valuations and appraisals, when estimating the fair values and estimated useful lives of acquired assets and liabilities. The fair values of the intangible assets and certain liabilities were determined using variations of the income approach.

Customer relationships

The $4.5 million fair value of customer relationships was determined using the multi-period excess earnings method, which estimates the fair value of an asset based on its ability to generate future cash flows. The 5 year useful life of customer relationships was determined based on an analysis of future net cash flows and the amount of time that would be required to realize 95% of the cumulative net cash flows attributable to the existing customer relationships.

Developed Technology

The $3.4 million fair value of developed technology was determined using the relief from royalty method. By owning the developed technology, Datawatch does not have to pay royalties for the continued use of the asset, which has value. Management determined a useful life of 8 years for this asset is appropriate because it represents the point in time at which 95% of the cumulative net cash flows attributable to the developed technology would be expected to be realized.

Trade Names

Similar to developed technology, the $3.2 million fair value of the trade names were determined using the relief from royalty method. Management has utilized an indefinite useful life for the acquired 'Angoss' and 'Knowledge' trade names as the Company currently plans to continue to use both trade names in association with all product and service offerings underlying the cash flows attributable to these trade names.

Deferred revenue

The fair value of the acquired deferred revenue of $5.6 million was determined using a cost build-up approach, which estimates the costs to complete the remaining obligations underlying the deferred revenue and applying a mark-up reflecting an appropriate operating margin.

Deferred tax liability

As part of the purchase accounting related to the Angoss Acquisition, the Company recognized a deferred tax liability of $0.8 million related to indefinite lived tradename intangible assets acquired in the Angoss Acquisition.

Pro forma results (unaudited)

The following unaudited pro forma results are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the Angoss Acquisition occurred at the beginning of the periods presented or the results which may occur in the future. The following unaudited pro forma results of operations assume the Angoss Acquisition had occurred on October 1, 2017 (in thousands):

	Years Ended September 30,	
	2018	**2017**
Revenues	$45,285	$45,910
Net loss	$ (9,884)	$ (4,648)
Net loss per share – basic:	$ (0.79)	$ (0.38)
Net loss per share – diluted:	$ (0.79)	$ (0.38)

Significant pro forma adjustments incorporated into the pro forma results above include the recognition of additional amortization expense related to acquired intangible assets.

NOTE 3. FINANCING ARRANGEMENT

Revolving Line of Credit and Term Note

In connection with the Angoss Acquisition, on January 24, 2018, Datawatch entered into a new credit facility with a bank. The credit facility includes a $10.0 million term loan and a $5.0 million revolving line of credit, secured by substantially all of the assets of Datawatch, excluding intellectual property. The term loan, which was used to fund a portion of the Angoss Acquisition, bears interest at the prime rate plus 1%, is repayable based on a 48-month amortization schedule, matures on January 24, 2021, and is subject to prepayment penalties. The line of credit, which is intended to be used for working capital and general corporate purposes, bears interest at the prime rate plus 0.5% and is due and payable on January 24, 2020. Commitment fees of $50,000 and $17,500 were paid for the term loan and line of credit, respectively. We incurred an additional $49,000 in costs related to the issuance of this credit facility, the majority of which relates to legal fees. Availability under the line of credit is based on the amount of eligible accounts receivable from time to time. The credit facility agreement contains various conditions, covenants and representations with which the Company must be in compliance in order to borrow funds and to avoid an event of default.

As of September 30, 2018, the total amount of debt outstanding on the term loan was $8.5 million, net of $0.1 million in capitalized lender fees and debt issuance costs. The interest rate on the term loan as of September 30, 2018 was 6.25%.

As of September 30, 2018, the Company had no outstanding debt on the revolving line of credit.

Future principal payments as of September 30, 2018 related to the term note are as follows (in thousands):

Fiscal Years Ending September 30,	
2019	$ 2,500
2020	2,500
2021	3,542
Total future principal payments	8,542
Less:	
Current portion, net of debt discount	(2,044)
Unamortized debt discount	(58)
Long-term debt	$ 6,440

NOTE 4. INCOME TAXES

Loss from operations before income taxes consists of the following for the years ended September 30:

	2018	2017
	(In thousands)	
Domestic	$(5,080)	$(2,569)
Foreign	(4,183)	(1,442)
Total	$(9,263)	$(4,011)

The benefit (provision) for income taxes consisted of the following for the years ended September 30:

	2018	2017
Current:		
Federal	$ (26)	$ —
State	(24)	(9)
Foreign	5	27
	(45)	18
Deferred:		
Federal	(4,736)	1,968
State	—	55
Foreign	705	(238)
Change in valuation allowance	4,087	(1,785)
	56	—
Total (provision) benefit	$ 11	$ 18

At September 30, 2018, we had U.S. federal tax loss carryforwards of approximately $58 million, expiring at various dates through 2038, including approximately $0.2 million resulting from an acquisition undertaken during 2004 which are subject to additional annual limitations as a result of the changes in ownership, and had approximately $30.3 million in state tax loss carryforwards, which also expire at various dates through 2038. We have federal research and development credits of approximately $1.3 million that begin to expire beginning in 2021 and state credits of approximately $0.8 million that expire at various dates through 2033. We also have Canada ITC credits of $0.8 million which expire at various dates through 2037 and Canada foreign tax credits of $16,000 which expire at various dates through 2027. In addition, we have the following foreign net operating loss carryforwards: U.K. losses of approximately $12.9 million with no expiration date, Australia losses of approximately $3.3 million with no expiration date, Germany losses of approximately $1.9 million with no expiration date, Singapore losses of approximately $2.7 million with no expiration date, Sweden losses of approximately $11.9 million with no expiration, and Canada losses of $3.7 million that expire at various dates through 2038. The Company has a Canada net capital loss carryforward of $0.3 million with no expiration.

The components of the Company's net deferred tax assets (liabilities) are as follows at September 30:

	2018	2017
	(In thousands)	
Deferred tax liabilities:		
Prepaid expenses	$ (192)	$ (405)
Acquired intangibles	(3,027)	(533)
	(3,219)	(938)
Deferred tax assets:		
Net operating loss carryforwards	22,007	24,902
Research and development credits	1,937	1,546
ITC credits	602	—
Alternative minimum tax credits	—	7
Accounts and notes receivable reserves	26	24
Depreciation and amortization	1,720	2,569
Deferred rent	75	114
Deferred revenue	1,400	—
Stock compensation	1,645	253
Scientific research and experimental development	678	—
Other	142	31
	30,232	29,446
Total	27,013	28,508
Valuation allowance	(27,825)	(28,508)
Deferred tax liability, net	$ (812)	$ —

The valuation allowance relates to the Company's U.S. and foreign net operating losses and other deferred tax assets and is recorded based upon the uncertainty surrounding their realizability, as these assets can only be realized via profitable operations in the respective tax jurisdictions. The Company records a deferred tax asset or liability based on the difference between the financial statement and tax basis of assets and liabilities, as measured by enacted tax rates assumed to be in effect when these differences reverse. In evaluating the Company's ability to recover its deferred tax assets, the Company considers all available positive and negative evidence including its past operating results, the existence of cumulative income in the most recent fiscal years, changes in the business in which the Company operates and its forecast of future taxable income. In determining future taxable income, the Company is responsible for assumptions utilized including the amount of federal, state and international pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies.

These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates that the Company is using to manage the underlying business. The Company has experienced cumulative tax losses on a two year running basis covering the years ended September 30, 2018 and 2017. Accordingly, as of September 30, 2018, the Company determined that it is more likely than not that the deferred tax assets will not be realized in all of its jurisdictions, with the exception of Singapore and the United Kingdom. A full valuation allowance has been recorded in the U.S., Australia, Canada, Germany, Singapore, and Sweden. The Company had a valuation allowance on some of its assets in Singapore and the United Kingdom.

The following table reconciles the Company's tax provision based on its effective tax rate to its tax provision based on the federal statutory rate of 24% for the year ended September 30, 2018 and 34% for the year ended September 30, 2017 (in thousands):

	2018	2017
Benefit at federal statutory rate	$ 2,247	$ 1,369
State, net of federal impact	506	4
Foreign income taxes	61	115
Valuation allowance increase	4,087	(1,785)
Return to provision adjustments	1,368	421
Foreign rate change	—	—
Stock-based compensation	214	(148)
NOL adjustment due to subsidiary liquidation	—	—
Acquisition costs	(310)	—
Change in uncertain tax positions	20	30
IRS audit adjustments	—	—
Goodwill and intangible asset impairment	—	—
Federal Tax Reform	(8,210)	—
Other	28	12
Income tax (expense) benefit	$ 11	$ 18

Deferred Taxes

The Company's deferred tax assets include net operating loss carry forwards and tax credits that expire at different times through 2038 or have an unlimited carry forward. Significant judgment is required in determining the Company's provision for income taxes, the carrying value of deferred tax assets and liabilities and the valuation allowance recorded against net deferred tax assets. Factors such as future reversals of deferred tax assets and liabilities, projected future taxable income, changes in enacted tax rates and the period over which the Company's deferred tax assets will be recoverable are considered in making these determinations. Management does not believe the deferred tax assets are more likely than not to be realized in all jurisdictions, with the exception of Singapore and the United Kingdom. A full valuation allowance has been provided against the deferred tax assets in the U.S, Australia, Canada, Germany, and Sweden at September 30, 2018. The Company recorded a valuation allowance against some of its deferred tax assets in Singapore and the United Kingdom at September 30, 2018.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act. ASC 740 requires deferred tax assets and liabilities to be measured using the enacted rate for the period in which they are expected to reverse. The tax law change was enacted as of December 31, 2017. Accordingly, the reduction to the U.S. Federal corporate tax rate to 21% should be utilized to measure the U.S. deferred tax assets and liabilities that will reverse in future periods. The Company's reduction to its net U.S. deferred tax asset of $8.2 million was offset by a corresponding reduction to its valuation allowance of $8.2 million. In addition, due to the Company's fiscal tax year, it has a blended Federal rate of 24.25% for the fiscal year ended September 30, 2018. The new legislation includes a transition tax in which all foreign earnings are deemed to be repatriated to the U.S. and taxable at specified rates included within the tax legislation. We have analyzed our earnings and profit pools and determined that the transition tax will not have a material impact on the financial statements.

During the year ended September 30, 2018, the Company acquired Angoss Software Corporation and its subsidiary in the United Kingdom. The Company evaluated Angoss Software Corporation's ability to utilize its deferred tax assets. Angoss had a history of losses and no ability to carry back the deferred tax assets. The reversal of deferred tax assets and liabilities of the same type and during the same time period did not result in the ability to utilize Angoss Corporation's deferred tax assets. The Company recorded a full valuation allowance on Angoss Software Corporation's deferred tax assets in acquisition accounting. Angoss has an indefinite lived tradename intangible asset which resulted in a deferred tax liability of approximately $0.8 million being recorded in acquisition accounting.

Provision for Uncertain Tax Positions

The Company applies the accounting requirements for uncertain tax positions which provide a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. In accordance with these requirements, the Company first determines whether a tax authority would "more likely than not" sustain its tax position if it were to audit the position with full knowledge of all the relevant facts and other information. For those tax positions that meet this threshold, the Company measures the amount of tax benefit based on the largest amount of tax benefit that the Company has a greater than 50% chance of realizing in a final settlement with the relevant authority. Those tax positions failing to qualify for initial recognition are recognized in the first interim period in which they meet the more likely than not standard, or are resolved through negotiation or litigation with the taxing authority, or upon expiration of the statute of limitations.

At September 30, 2017, the Company had a cumulative tax liability of $0.1 million related to Federal and foreign tax exposure that could result in cash payments. The Company increased the tax liability by $0.1 million during the fiscal year ended September 30, 2018. The net increase related to a decrease due to the statute of limitations expiring on foreign uncertain tax positions netted against an increase due U.S. uncertain tax positions. The Company does not expect its tax liability to change significantly during the next twelve months. The Company's policy is to recognize interest and penalties related to uncertain tax positions as a component of income tax expense in its consolidated statements of operations. The Company accrued interest and penalties of approximately $11,000 associated with this liability for the fiscal year ended September 30, 2018.

The Company's unrecognized tax benefits (before consideration of any valuation allowance) represent differences between tax positions taken by the Company in its various consolidated and separate worldwide tax returns and the benefits recognized and measured for uncertain tax positions. This amount also represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. The change in the unrecognized tax benefits during the fiscal year ended September 30, 2018 was as follows (in thousands):

Balance at September 30, 2016	$155
Reductions for prior year tax positions	(30)
Balance at September 30, 2017	125
Increases for prior year tax positions	58
Balance at September 30, 2018	$183

In the normal course of business, the Company is subject to examination by taxing authorities throughout the world, including such jurisdictions as the Sweden, United Kingdom, Germany, Singapore, Australia, Canada, and the United States, and as a result, files numerous consolidated and separate income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The fiscal years ended September 30, 2013 through September 30, 2017 are generally still open to examination in the jurisdictions listed above. During the year ended September 30, 2017, the Company's Singapore tax returns for the fiscal tax year's ended September 30, 2013 through September 30, 2016 were audited by the Inland Revenue Authority of Singapore. The audit was completed during the fourth quarter ended September 30, 2017 and resulted in the reduction in net operating loss carry forwards of approximately $0.3 million. The Company has reduced its deferred tax assets and corresponding valuation allowance in Singapore to reflect the changes from the audit. During the year ended September 30, 2018, the State of New York commenced a Sales and Use tax audit. The Company has not received any findings from the State of New York as a result of this on-going audit to date. During the fiscal year ended September 30, 2015, the Swedish tax authorities began an audit of the Company's subsidiary in Sweden. In February 2017, there was a decision of the Swedish tax authorities claiming that there had been a transfer of certain intellectual property assets by our Swedish subsidiary resulting in a tax liability of approximately $9 million. The Company has appealed the Swedish tax authority's decision to the Swedish administrative court and the parties are awaiting a date for the oral hearing before the court. The Company has not made a reserve on its financial statements for any taxes that may become due as we believe that it is more likely than not that we will prevail in court.

NOTE 5. SHARE-BASED COMPENSATION

The Company provides its employees, officers, consultants and directors with stock options, restricted stock units (“RSUs”) and other stock rights for common stock of the Company on a discretionary basis. All option and RSU grants are subject to the terms and conditions determined by the Compensation and Stock Committee of the Board of Directors (the “Committee”), and generally vest over a three-year period and expire either seven or ten years from the date of grant.

On January 20, 2006, the Company established the Datawatch Corporation 2006 Equity Compensation and Incentive Plan (the “2006 Plan”), which provides for the granting of both incentive stock options and non-qualified options, the award of Company common stock and opportunities to make direct purchases of Company common stock, as determined by the Committee. Options pursuant to this plan were available to be granted through April 26, 2011 and vest as specified by the Committee.

On April 26, 2011, the Company established the Datawatch Corporation 2011 Equity Compensation and Incentive Plan (as amended, amended and restated, modified or supplemented from time to time, the “2011 Plan”), which provides for the granting of both incentive stock options and non-qualified options, the award of restricted stock, RSUs, and any other equity-based interests (collectively, “Stock Rights”), as determined by the Committee. Options pursuant to this plan may be granted through April 25, 2021 and shall vest as specified by the committee.

On April 22, 2014, the stockholders of the Company approved the adoption of the Company’s Second Amended and Restated 2011 Equity Compensation and Incentive Plan, which amended the previous Amended and Restated 2011 Equity Compensation and Incentive Plan to increase the shares authorized for issuance under such plan by 700,000 shares to 2,275,392 shares.

On April 18, 2017, the stockholders of the Company approved the adoption of the Company’s Third Amended and Restated 2011 Equity Compensation and Incentive Plan (the “Amended 2011 Plan”), which amended the previous Second Amended and Restated 2011 Equity Compensation and Incentive Plan to increase the shares authorized for issuance under such plan by 1,000,000 shares to 3,275,392 shares. At September 30, 2018, 262,674 shares were available for future issuance under the 2011 Plan.

Under the 2006 Plan and Amended 2011 Plan, stock options are granted at exercise prices not less than the fair market value of the underlying common stock at the date of grant. All of the Company’s share-based awards are accounted for as equity instruments and there have been no liability awards granted. Share-based compensation expense for share-based payment awards, issued to employees and directors, is measured based on the grant-date fair value of the award and recognized on a straight-line basis over the requisite period of the award. Share-based compensation expense for share-based payment awards, issued to non-employees, is revalued each fiscal quarter based on the current fair value of the award and recognized on over the requisite period of the award.

All awards granted during the year ended September 30, 2018 were granted under the Amended 2011 Plan.

Stock Options

The Company estimates the fair value of each share-based award (except RSUs, which are discussed below) using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield. No options were granted by the Company in the fiscal years 2018 or 2017. The total intrinsic value of options exercised during the years ended September 30, 2018 and 2017 was $0.8 million and $0.7 million, respectively. Total cash received from option exercises during the years ended September 30, 2018 and 2017 was $0.3 million and $0.4 million, respectively. There was no tax benefit realized from stock option exercised during the years ended September 30, 2018 and 2017. As of September 30, 2018, there was no unrecognized compensation cost related to non-vested stock option arrangements.

The expected option life is based on historical trends and data. With regard to the expected option life assumption, the Company considers the exercise behavior of past grants and models the pattern of aggregate exercises. Patterns are determined on specific criteria of the aggregate pool of optionees including the reaction to vesting, realizable value and short-time-to-maturity effect. The Company determined the volatility for options granted using the historical volatility of the Company’s common stock. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options. Dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Based on the Company’s historical voluntary turnover rates, an annualized estimated forfeiture rate of 10% has been used in calculating the historical cost. Additional expense will be recorded if the actual forfeiture rate is lower than estimated, and a recovery of prior expense will be recorded if the actual forfeiture rate is higher than estimated.

The following table is a summary of combined stock option activity under the 2006 Plan and the Amended 2011 Plan:

	Number of Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding, September 30, 2016	275,000	$ 6.31	5.01	$ 715
Granted	—	—	—	—
Canceled/Forfeited	—	—	—	—
Exercised	(100,000)	4.22	—	688
Outstanding, September 30, 2017	175,000	$ 7.51	1.31	$ 809
Granted	—	—	—	—
Canceled/Forfeited	—	—	—	—
Exercised	(100,000)	3.46	—	764
Outstanding, September 30, 2018	75,000	$ 12.92	1.56	$ —
Exercisable, September 30, 2018	75,000	$ 12.92	1.56	$ —
Unvested awards expected to vest, September 30, 2018	—	$ —	—	$ —

The following table presents weighted-average price and life information regarding options outstanding and exercisable at September 30, 2018:

	Outstanding			Exercisable	
Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$12.92	75,000	1.56	$ 12.92	75,000	$ 12.92

Restricted Stock Units

The Company periodically grants awards of restricted stock units to its non-employee directors employees on a discretionary basis pursuant to its stock compensation plans. Each RSU entitles the holder to receive, at the end of each vesting period, a specified number of shares of the Company's common stock. The total number of RSUs unvested at September 30, 2018 was 910,540. Most RSUs vest at the rate of 33.33% on each of the first through third anniversaries of the grant date.

The fair value related to the RSUs was calculated based primarily on the closing stock price of the Company's common stock on the date of the grant and is being amortized evenly on a pro-rata basis over the vesting period to sales and marketing, engineering and product development, professional services and general and administrative expense. The fair values of the RSUs granted in fiscal years 2018 and 2017 were $4.1 million (or $9.15 weighted-average fair value per share) and $4.6 million (or $7.17 weighted-average fair value per share), respectively. The Company recorded compensation expense related to RSUs of approximately $3.0 million and $2.2 million during the years ended September 30, 2018 and 2017, respectively. These amounts are included in the total share-based compensation expense disclosed above. As of September 30, 2018, there was $5.3 million of total unrecognized compensation cost related to RSUs, which is expected to be recognized over a weighted-average period of 2.03 years.

The following table presents nonvested RSU information for the fiscal years ended September 30, 2018 and 2017

	Number of RSUs Outstanding
Nonvested, September 30, 2016	609,565
Granted	644,250
Canceled/Forfeited	(91,077)
Vested	(234,672)
Nonvested, September 30, 2017	928,066
Granted	454,500
Canceled/Forfeited	(93,737)
Vested	(378,289)
Nonvested, September 30, 2018	910,540

NOTE 6. ACCRUED EXPENSES

Accrued expenses consisted of the following at September 30, 2018 and 2017:

	September 30,	
	2018	2017
Royalties and commissions	$ 996	$1,709
Payroll and related expenses	640	813
Professional fees and consulting	649	294
Other	759	705
Total	$3,044	$3,521

NOTE 7. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases various facilities and equipment in North America and overseas under non-cancelable operating leases which expire at various dates through 2022. The lease agreements generally provide for the payment of minimum annual rentals, pro-rata share of taxes and maintenance expenses. Rental expense for all operating leases was $1.1 million and $1.0 million for fiscal years 2018 and 2017, respectively. At September 30, 2018 and 2017, deferred rent totaled $0.3 million which is included under the caption "Other long-term liabilities" in the Company's consolidated balance sheets, for the year ended September 30, 2018 and 2017. Certain of the Company's facility leases include options to renew.

As of September 30, 2018, future minimum rental commitments under non-cancelable operating leases are as follows (in thousands):

Fiscal Years Ending September 30,	
2019	$ 980
2020	793
2021	794
2022	604
2023	147
Total future minimum lease payments	$3,318

Royalties

Royalty expense included in cost of software licenses was $0.5 million and $0.6 million for the years ended September 30, 2018 and 2017, respectively. Minimum royalty obligations were insignificant for fiscal years 2018 and 2017.

Contingencies

From time to time, the Company is subject to claims and may be party to actions that arise in the normal course of business. The Company is not party to any litigation that management believes will have a material adverse effect on the Company's consolidated financial condition or results of operations.

NOTE 8. RETIREMENT SAVINGS PLAN

The Company has a 401(k) retirement savings plan covering substantially all of the Company's full-time U.S. employees. Under the provisions of the plan, employees may contribute a portion of their compensation, subject to certain limitations. The Company, at the discretion of the Board of Directors, may make contributions on behalf of its employees under this plan. Such contributions, if any, become fully vested after five years of continuous service. The Company did not make any contributions to the 401(k) retirement savings plan in fiscal 2018 and 2017.

NOTE 9. SEGMENT INFORMATION AND REVENUE BY GEOGRAPHIC LOCATION

The Company has determined that it has only one reportable segment. The Company's chief operating decision maker, its Chief Executive Officer, does not manage any part of the Company separately, and the allocation of resources and assessment of performance is based solely on the Company's consolidated operations and operating results.

The Company conducts operations in the U.S. and internationally. The following table presents information about the Company’s geographic operations (in thousands):

	Domestic	International	Total
Total Revenue			
Year ended September 30, 2018	$33,458	$ 8,220	$41,678
Year ended September 30, 2017	$29,969	$ 6,294	$36,263
Total Operating Loss			
Year ended September 30, 2018	$ (5,582)	$ (3,513)	$ (9,095)
Year ended September 30, 2017	$ (2,280)	$ (2,490)	$ (4,770)
Total Long-Lived Assets			
At September 30, 2018	$30,867	$ 2,344	$33,211
At September 30, 2017	$ 9,812	$ 47	$ 9,859

NOTE 10. SUBSEQUENT EVENTS

On November 5, 2018, Datawatch announced an agreement to be acquired by an entity affiliated with Altair Engineering Inc. (together with its affiliates, “Altair”) pursuant to an Agreement and Plan of Merger (the “Merger Agreement”), dated as of November 5, 2018, by and among Datawatch, Dallas Merger Sub, Inc., a Delaware corporation (“Purchaser”) and Altair, pursuant to which, among other things, Purchaser has completed a tender offer (the “Offer”) to purchase all of the outstanding shares (the “Shares”) of Datawatch common stock, $0.01 par value, at a price of $13.10 per share, without interest and subject to any required withholding taxes (the “Offer Price”). Subject to the satisfaction or waiver of the remaining conditions set forth in the Merger Agreement, Purchaser will merge with and into Datawatch (the “Merger”) without a meeting or vote of the stockholders of Datawatch in accordance with Section 251(h) of the General Corporation Law of the State of Delaware (the “DGCL”), with Datawatch continuing as the surviving corporation in the Merger as a subsidiary of Altair. At the effective time of the Merger (the “Effective Time”), any Shares not purchased pursuant to the Offer (other than Shares (i) owned by stockholders who are entitled to demand and properly demand appraisal in accordance with Section 262 of the DGCL in connection with the Merger, (ii) then owned by Datawatch or owned both at the commencement of the Offer and at the Effective Time by any wholly owned subsidiary of Datawatch and (iii) irrevocably accepted for purchase in the Offer or owned both at the commencement of the Offer and at the Effective Time by Altair, Purchaser or any other wholly owned subsidiary of Altair) will be automatically converted into the right to receive the Offer Price, net to the seller in cash, without interest and less any applicable withholding taxes.

Consummation of the Merger is subject to various conditions set forth in the Merger Agreement, including, but not limited to the receipt of required approvals, waivers and consents, and other conditions set forth in Annex I to the Merger Agreement. The Merger is not subject to any financing condition.

NOTE 11. QUARTERLY RESULTS (UNAUDITED)

Supplementary Information:

	First	Second	Third	Fourth
	(In thousands, except per share amounts)			
Year Ended September 30, 2018:				
Software license revenue	$ 5,558	$ 5,181	$ 6,868	$ 7,152
Maintenance revenue	3,651	3,886	3,888	4,163
Professional services revenue	376	335	350	270
Cost of software licenses	239	336	354	369
Cost of maintenance and services	604	885	1,114	1,019
Expenses	9,612	11,930	12,077	12,234
Loss from operations	(879)	(3,748)	(2,431)	(2,037)
Net loss	(828)	(3,871)	(2,281)	(2,272)
Net loss per share – basic	$ (0.07)	$ (0.31)	$ (0.18)	$ (0.18)
Net loss per share – diluted	$ (0.07)	$ (0.31)	$ (0.18)	$ (0.18)
Year Ended September 30, 2017:				
Software license revenue	$ 4,357	$ 4,889	$ 4,912	$ 5,893
Maintenance revenue	3,555	3,560	3,729	3,629
Professional services revenue	321	311	425	682
Cost of software licenses	703	733	231	228
Cost of maintenance and services	532	545	617	655
Expenses	9,165	8,637	8,761	10,226
Loss from operations	(2,167)	(1,155)	(543)	(905)
Net loss	(2,231)	(449)	(499)	(814)
Net loss per share – basic	$ (0.19)	$ (0.04)	$ (0.04)	$ (0.07)
Net loss per share – diluted	$ (0.19)	$ (0.04)	$ (0.04)	$ (0.07)

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On November 5, 2018, Altair Engineering Inc. ("Altair" or the "Company") entered into an Agreement and Plan of Merger (the "Merger Agreement"), by and among Altair, Dallas Merger Sub, Inc., a Delaware corporation and a wholly-owned indirect subsidiary of Altair ("Purchaser") and Datawatch Corporation ("Datawatch").

In accordance with the terms of the Merger Agreement, Purchaser commenced a tender offer to purchase all of the issued and outstanding shares of common stock, par value $0.01 per share (the "Shares"), of Datawatch at a purchase price of $13.10 per Share, net to seller in cash (the "Offer Price"), without interest and less any applicable withholding taxes (the "Offer"). The Offer expired at 12:00 midnight, Boston time, on December 12, 2018 (one minute after 11:59 p.m., Boston time, on December 12, 2018) as scheduled and was not extended. According to the depository for the Offer, as of the expiration of the Offer, 8,954,113 Shares (excluding Shares with respect to which notices of guaranteed delivery were delivered) were validly tendered and not validly withdrawn pursuant to the Offer, representing approximately 70% of the outstanding Shares and a sufficient number of Shares such that the minimum tender condition to the Offer was satisfied. In addition, the depository has advised the Company that notices of guaranteed delivery have been delivered with respect to 2,162,329 additional Shares, representing approximately 17% of the outstanding Shares. All other conditions to the Offer were satisfied or waived. As a result, on December 13, 2018, promptly after the expiration of the Offer, Purchaser irrevocably accepted for payment all Shares that were validly tendered and not validly withdrawn pursuant to the Offer and payment for such Shares has been made to the depository, which will act as agent for tendering stockholders whose Shares have been accepted for payment, in accordance with the terms of the Offer.

Also on December 13, 2018, Altair completed the acquisition of Datawatch through the merger of Purchaser with and into Datawatch, with Datawatch surviving as a wholly owned subsidiary of the Company (the "Merger"). The Merger was governed by Section 251(h) of the Delaware General Corporation Law, with no stockholder vote required to consummate the Merger. At the effective time of the Merger (the "Effective Time"), any Share not purchased pursuant to the Offer (other than Shares (i) owned by Datawatch's stockholders who have perfected their statutory rights of appraisal under Delaware law, (ii) then owned by Datawatch or owned both at the commencement of the Offer and at the Effective Time by any wholly owned subsidiary of Datawatch and (iii) irrevocably accepted for purchase in the Offer or owned both at the commencement of the Offer and at the Effective Time by Purchaser, the Company or any other wholly owned subsidiary of the Company) was cancelled and converted into the right to receive the Offer Price, without interest and less any applicable withholding taxes.

In connection with the closing of the Offer and the Merger, the Company paid approximately $168 million for the Shares, without giving effect to related transaction fees and expenses paid, approximately $6.7 million for certain restricted stock units that accelerated upon a change in control, and retired approximately $8 million in outstanding Datawatch debt. The Company funded these payments from available cash on hand and a drawdown from its existing credit facility.

The unaudited pro forma condensed combined financial statements were prepared using the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*, with Altair considered as the accounting acquirer and Datawatch as the accounting acquiree. Accordingly, consideration paid by Altair to complete the Merger has been allocated to identifiable assets acquired and liabilities assumed of Datawatch based on estimated fair values as of the closing date of the Merger. Management made a preliminary allocation of the consideration transferred to the assets acquired and liabilities assumed based on the information available and management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed. The finalization of the purchase accounting assessment may result in changes to the valuation of assets acquired and liabilities assumed, which could be material. Accordingly, the pro forma adjustments related to the allocation of consideration transferred are preliminary and have been presented solely for the purpose of providing unaudited pro forma combined financial statements in this Current Report on Form 8-K/A. Management expects to finalize the accounting for the business combination as soon as practicable within the measurement period in accordance with ASC 805, but in no event later than one year from December 13, 2018.

The following unaudited pro forma condensed combined financial statements are based on Altair's historical consolidated financial statements and Datawatch's historical consolidated financial statements as adjusted to give effect to the December 13, 2018 acquisition of Datawatch, including Altair's draw on the existing credit facility necessary to finance the acquisition. The unaudited pro forma condensed combined balance sheet as of September 30, 2018 gives effect to the acquisition of Datawatch as if it had occurred on September 30, 2018. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2018 and for the year ended December 31, 2017 give effect to the acquisition of Datawatch as if it had occurred on January 1, 2017, the first day of Altair's fiscal year 2017.

The pro forma condensed combined financial statements do not necessarily reflect what the combined company's financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The unaudited pro forma condensed combined financial statements have been derived from, and should be read in conjunction with:

- The audited consolidated financial statements and accompanying notes of Altair as of and for the year ended December 31, 2017, as contained in its Annual Report on Form 10-K filed on March 21, 2018;
- The unaudited consolidated financial statements and accompanying notes of Altair as of and for the nine months ended September 30, 2018, as contained in its Quarterly Report on Form 10-Q filed on November 8, 2018;
- The audited consolidated financial statements and accompanying notes of Datawatch as of and for the years ended September 30, 2017 and 2018

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
(in thousands)

	Historical As of September 30, 2018			
	ALTAIR ENGINEERING INC.	DATAWATCH CORPORATION	Pro Forma Adjustments (Note 4)	Pro Forma Combined
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 197,413	$ 13,735	$ (153,375) A, B	$ 57,773
Accounts receivable, net	69,046	9,802	—	78,848
Inventory, net	1,234	—	—	1,234
Income tax receivable	9,841	—	—	9,841
Prepaid expenses and other current assets	12,149	2,131	—	14,280
Total current assets	289,683	25,668	(153,375)	161,976
Property and equipment, net	29,679	1,047	—	30,726
Goodwill	62,905	21,518	106,527 D	190,950
Other Intangible assets, net	22,329	8,518	37,882 D	68,729
Deferred tax assets	7,837	36	—	7,873
Other long-term assets	15,580	2,092	—	17,672
TOTAL ASSETS	$ 428,013	$ 58,879	$ (8,966)	$477,926
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Current portion of long-term debt	$ 400	$ 2,044	$ (2,044) A	$ 400
Accounts Payable	5,592	2,074	—	7,666
Accrued compensation and benefits	28,750	—	536 D	29,286
Obligations for acquisition of businesses	831	—	—	831
Other accrued expenses and current liabilities	20,222	3,044	—	23,266
Deferred revenue	136,991	15,386	(10,693) D	141,684
Total current liabilities	192,786	22,548	(12,201)	203,133
Long-term debt, net of current portion	670	6,440	23,560 A	30,670
Deferred revenue, non-current	9,722	2,078	(1,444) D	10,356
Other long-term liabilities	13,036	1,296	7,100 D	21,432
TOTAL LIABILITIES	216,214	32,362	17,015	265,591
Commitments and contingencies				
MEZZANINE EQUITY	2,352	—	—	2,352
	2,352	—	—	2,352
STOCKHOLDERS' EQUITY	209,447	26,517	(25,981) H	209,983
TOTAL LIABILITIES, MEZZANINE EQUITY, AND STOCKHOLDERS' EQUITY	**$ 428,013**	**$ 58,879**	**$ (8,966)**	**$477,926**

See accompanying notes to the unaudited pro forma condensed combined financial statements

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
(in thousands, except per share data)

	Historical Nine Months Ended September 30, 2018 ALTAIR ENGINEERING INC.	Historical Nine Months Ended June 30, 2018 DATAWATCH CORPORATION	Pro Forma Adjustments (Note 4)	Pro Forma Combined
Revenues:				
Software	$ 212,258	$ 29,032	$ (4,988) E	$236,302
Software related services	26,872	1,060	(32) E	27,900
Total software	239,130	30,092	(5,020)	264,202
Client engineering services	36,652	—		36,652
Other	5,386	—		5,386
Total revenue	281,168	30,092	(5,020)	306,240
Cost of revenues:				
Software	32,736	3,532	(29) F	36,239
Software related services	19,573	—	—	19,573
Total software	52,309	3,532	(29)	55,812
Client engineering services	29,977	—	—	29,977
Other	3,416	—	—	3,416
Total cost of revenues	85,702	3,532	(29)	89,205
Gross profit	195,466	26,560	(4,991)	217,035
Operating expenses:				
Research and development	71,748	8,407	(163) F	79,992
Sales and marketing	58,435	16,020	(324) F	74,131
General and administrative	51,636	8,791	(821) C, F	59,606
Amortization of intangible assets	5,665	400	4,438 G	10,503
Other operating income	(7,433)	—	—	(7,433)
Total operating expenses	180,051	33,618	3,130	216,799
Operating income (loss)	15,415	(7,058)	(8,121)	236
Interest expense	92	254	(254) A	92
Other (income) expense, net	(2,046)	(349)	—	(2,395)
Income (loss) before income taxes	17,369	(6,963)	(7,867)	2,539
Income tax expense	4,629	17	(278) I	4,368
Net income (loss)	$ 12,740	$ (6,980)	$ (7,589)	$ (1,829)
Earnings (loss) per share:				
Basic earnings per share	$ 0.19			$ (0.03)
Diluted earnings per share	$ 0.17			$ (0.02)
Weighted average shares used in computing earnings per share:				
Basic	66,429			66,429
Diluted	74,182			74,182

See accompanying notes to the unaudited pro forma condensed combined financial statements.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For Year Ended December 31, 2017
(in thousands, except per share data)

	Historical For Year Ended			
	December 31, 2017	September 30, 2017		
	ALTAIR ENGINEERING INC.	DATAWATCH CORPORATION	Pro Forma Adjustments (Note 4)	Pro Forma Combined
Revenues:				
Software	$ 244,817	$ 34,524	$ (5,654) E	273,687
Software related services	35,397	1,739	(36) E	37,100
Total software	280,214	36,263	(5,690)	310,787
Client engineering services	46,510	—	—	46,510
Other	6,609	—	—	6,609
Total revenue	333,333	36,263	(5,690)	363,906
Cost of revenue:				
Software	36,360	4,244	(11) F	40,593
Software related services	26,888	—	—	26,888
Total software	63,248	4,244	(11)	67,481
Client engineering services	38,131	—	—	38,131
Other	5,212	—	—	5,212
Total cost of revenue	106,591	4,244	(11)	110,824
Gross profit	226,742	32,019	(5,679)	253,082
Operating expenses:				
Research and development	93,234	8,888	303 F	102,425
Sales and marketing	79,958	19,024	(211) F	98,771
General and administrative	87,979	8,777	(433) F	96,323
Amortization of intangible assets	5,448	100	6,648 G	12,196
Other operating income	(6,620)	—	—	(6,620)
Total operating expenses	259,999	36,789	6,308	303,096
Operating (loss) income	(33,257)	(4,770)	(11,986)	(50,013)
Interest expense	2,160	—	—	2,160
Other (income) expense, net	994	(759)	—	235
Income (loss) income before income taxes	(36,411)	(4,011)	(11,986)	(52,408)
Income tax expense (benefit)	62,996	(18)	(376) I	62,602
Net (loss) income	$ (99,407)	$ (3,993)	$ (11,610)	$ (115,010)
Earnings (loss) per share:				
Basic earnings per share	(1.89)			(2.19)
Diluted earnings per share	(1.89)			(2.19)
Weighted average shares used in computing earnings per share:				
Basic	52,466			52,466
Diluted	52,466			52,466

See accompanying notes to the unaudited pro forma condensed combined financial statements.

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Note 1 — Basis of Presentation

The unaudited pro forma condensed combined balance sheet was derived from the historical unaudited consolidated financial statements of Altair and the historical audited consolidated financial statements of Datawatch, and give effect to the acquisition as if it had occurred on September 30, 2018. The unaudited pro forma condensed combined statements of operations were derived from the historical audited consolidated financial statements and unaudited consolidated financial statements of Altair and Datawatch, and give effect to the acquisition as if it had occurred on January 1, 2017, the first day of Altair's last fiscal year.

The historical consolidated financial statements have been adjusted in the unaudited pro forma condensed combined statements of operations to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable, and (3) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results following the business combination.

Altair has a different fiscal year end than Datawatch. Datawatch's fiscal year ends on September 30 of each year and Altair's fiscal year ends on December 31 of each year. As the fiscal years do not differ by more than 93 days, pursuant to Rule 11-02(c)(3) of Regulation S-X, the historical statement of operations of Datawatch used in the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2017 was prepared by using the audited consolidated statements of operations of Datawatch for the year ended September 30, 2017. The historical statement of operations of Datawatch used in the unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2018 was prepared by using the unaudited quarterly consolidated statements of operations of Datawatch for the nine months ended June 30, 2018.

The unaudited pro forma condensed combined statements of operations are based on a preliminary allocation of fair value of purchase consideration, provided for illustrative purposes only, and do not purport to represent what the combined company's results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. In addition, the unaudited pro forma condensed combined statement of operations do not reflect any future planned cost savings initiatives following the completion of the business combination.

Note 2 — Preliminary Purchase Price Allocation

Altair completed the acquisition of Datawatch for consideration of approximately $183.9 million which consisted of consideration paid to former holders of common stock of Datawatch at $13.10 a share, or $168.2 million, approximately $6.7 million to former holders of outstanding Datawatch restricted stock awards where vesting accelerated immediately prior to the merger based on change-in-control provisions in the original award, and $8.5 million to settle Datawatch debt. In addition, Altair incurred a liability of approximately $0.5 million payable to former holders of unvested Datawatch equity awards for which service had been rendered at the acquisition date. Altair financed the acquisition with cash on hand and a drawdown of $30 million on its existing credit facility.

The acquisition of Datawatch has been accounted for as a business combination, under the acquisition method of accounting, which results in acquired assets and assumed liabilities being measured at their estimated fair values as of December 13, 2018, the acquisition date. As of the acquisition date, goodwill is measured as the excess of consideration transferred over the estimated fair values of the net acquisition date fair values of the assets acquired and liabilities assumed.

The preliminary acquisition date fair value of the consideration transferred for Datawatch was approximately $183.9 million which consisted of the following (in thousands):

	Fair Value
Cash paid to equity holders	$168,168
Cash paid to settle RSUs and stock options vested at acquisition date	6,723
Liability assumed for cash-settled restricted awards	536
Cash paid for outstanding acquiree debt	8,484
	$183,911

The following table summarizes the preliminary estimated fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	Fair Value
Cash	$ 13,735
Accounts receivable	9,802
Other assets	4,259
Property and equipment	1,047
Intangible assets	46,400
Goodwill	128,045
Accounts payable, accrued expenses, and other liabilities	(5,654)
Deferred revenue	(5,327)
Other long term liabilities	(8,396)
Net assets acquired	$ 183,911

The excess of preliminary fair value of purchase consideration over the preliminary fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The preliminary fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The preliminary estimated fair values of assets acquired and liabilities assumed may be subject to change as additional information is obtained. Thus, the provisional measurements of fair value set forth above are subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

The following table sets forth the components of intangible assets acquired (in thousands) and their preliminary estimated useful lives as of the date of acquisition:

Intangible Asset	Fair Value	Useful Life
Trade names	$ 7,400	Indefinite
Developed technology	22,600	6
Customer relationships	16,400	10
Total identifiable intangible assets	$ 46,400	

Developed technology represents the preliminary estimated fair value of Datawatch's software intellectual property, which consists of software products serving the self-service data preparation, predictive analytics and visual data discovery markets. Customer relationships represent the preliminary estimated fair values of the underlying relationships with Datawatch customers. Developed technology will be amortized on a straight-line basis; Customer Relationships will be amortized using an accelerated amortization method. The goodwill balance is primarily attributed to the assembled workforce and expanded market opportunities when integrating Datawatch technology with the Company's other offerings. Virtually all of the goodwill generated in the acquisition of Datawatch is not deductible for U.S. income tax purposes.

The consummation of the merger resulted in a change in control which accelerated vesting for certain restricted stock units ("RSUs") of Datawatch. These RSUs were converted into the right to receive merger consideration in the amount of $6.7 million, which is included in total consideration transferred.

The consummation of the merger also modified certain Datawatch RSUs without change in control provisions. These RSUs were modified such that the holder has the right to receive cash payments upon vesting at $13.10 per share in the amount of $3.9 million, of which $0.5 million was allocated to pre-combination expense and consideration paid as it relates to service rendered by Datawatch employees prior to the acquisition date.

Note 3 — Reclassifications

Altair has made certain reclassifications to the Datawatch historical balance sheet and statements of operations for the purposes of preparing the unaudited pro forma condensed combined balance sheet as of September 30, 2018 and the unaudited pro forma condensed combined statement of operations for the year ended September 30, 2017 and the nine-month period ended June 30, 2018 to conform to Altair's historical presentation as detailed below.

Reclassifications in the unaudited pro forma condensed combined balance sheet as of September 30, 2018 (in thousands):

Datawatch Corporation Consolidated Balance Sheet		Adjustments (a)	(b)	(c)	(d)	Datawatch Corporation Consolidated Balance Sheet after Adjustments
CURRENT ASSETS:						
Cash and cash equivalents	$13,735	$ —	$ —	$ —	$ —	$ 13,735
Accounts receivable, net	9,802		—	—	—	9,802
Inventory, net	—	—	—	—	—	—
Income tax receivable	—	—	—	—	—	—
Prepaid expenses and other current assets	2,131		—	—	—	2,131
Unbilled accounts receivable	2,805	(2,805)	—	—	—	—
Total current assets	28,473	(2,805)	—	—	—	25,668
Property and equipment, net	1,047	—	—	—	—	1,047
Goodwill	21,518	—	—	—	—	21,518
Other intangible assets, net	4,775	—	3,743	—	—	8,518
Deferred tax assets	36	—	—	—	—	36
Other long-term assets	2,092	—	—	—	—	2,092
Acquired intellectual property, net	3,743		(3,743)	—	—	—
TOTAL ASSETS	$61,684	$(2,805)	$ —	$ —	$ —	$ 58,879
CURRENT LIABILITIES:						
Current portion of long-term debt	$ 2,044	$ —	$ —	$ —	$ —	$ 2,044
Accounts payable	2,074	—	—	—	—	2,074
Accrued compensation and benefits	—	—	—	—	—	—
Obligations for acquisition of businesses	—	—	—	—	—	—
Other accrued expenses and current liabilities	—	—	—	3,044	—	3,044
Deferred revenue	18,191	(2,805)	—	—	—	15,386
Accrued expenses	3,044	—	—	(3,044)	—	—
Total current liabilities	25,353	(2,805)	—	—	—	22,548
Long-term debt, net of current portion	6,440	—	—	—	—	6,440
Deferred revenue, non-current	2,078	—	—	—	—	2,078
Stock-based compensation awards	—	—	—	—	—	—
Other long-term liabilities	448	—	—	—	848	1,296
Deferred tax liability	848	—	—	—	(848)	—
TOTAL LIABILITIES	35,167	(2,805)	—	—	—	32,362
Commitments and contingencies						
STOCKHOLDERS' EQUITY:						
TOTAL STOCKHOLDERS' EQUITY	26,517	—	—	—	—	26,517
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$61,684	$(2,805)	$ —	$ —	$ —	$ 58,879

(a) Represents the reduction of $2.8 million in Unbilled accounts receivable and Deferred revenue to align Datawatch's policy for classification of Unbilled accounts receivable and Deferred revenue to Altair's policy.
(b) Represents the reclassification of $3.7 million in Acquired intellectual property to Other intangible assets, net.
(c) Represents the reclassification of $3.0 million in Accrued expenses to Other accrued expenses and current liabilities.
(d) Represents the reclassification of $0.8 million in Deferred tax liability to Other long-term liabilities.

Reclassifications in the unaudited pro forma condensed combined statement of operations for the nine-month period ended June 30, 2018 (in thousands):

Datawatch Corporation Consolidated Statement of Operations		Adjustments (a)	(b)	(c)	(d)	(e)	Datawatch Corporation Consolidated Statement of Operations after Adjustments
Revenues:							
Software	$17,607	$ 11,425	$ —	$ —	$ —	$ —	$ 29,032
Software related services	—	1,060	—	—	—	—	1,060
Maintenance	11,425	(11,425)	—	—	—	—	—
Professional services	1,060	(1,060)	—	—	—	—	—
Total software	30,092	—	—	—	—	—	30,092
Client engineering services	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total revenue	30,092	—	—	—	—	—	30,092
Cost of revenue							
Software	929	—	2,603	—	—	—	3,532
Software related services	—	—		—	—	—	—
Cost of maintenance and services	2,603	—	(2,603)	—	—	—	—
Total software	3,532	—	—	—	—	—	3,532
Client engineering services	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total cost of revenue	3,532	—	—	—	—	—	3,532
Gross profit	26,560	—	—	—	—	—	26,560
Operating expenses:							—
Research and development	—	—	—	8,407	—	—	8,407
Sales and marketing	16,420	—	—	—	—	(400)	16,020
General and administrative	8,791	—	—	—	—	—	8,791
Amortization of intangible assets	—	—	—	—	—	400	400
Other operating income	—	—	—	—	—	—	—
Engineering and product development	8,407			(8,407)	—	—	—
Total operating expenses	33,618	—	—	—	—	—	33,618
Operating income (loss)	(7,058)	—	—	—	—	—	(7,058)
Interest expense	254	—	—	—	—	—	254
Other (income) expense, net	(55)	—	—	—	(294)	—	(349)
Foreign currency transaction loss	(294)	—	—	—	294	—	—
Income (loss) before income taxes	(6,963)	—	—	—	—	—	(6,963)
Income tax expense	17	—	—	—	—	—	17
Net income (loss)	$ (6,980)	$ —	$ —	$ —	$ —	$ —	$ (6,980)

(a) Represents the reclassification of $11.4 million from Maintenance revenue to Software, and $1.1 million from Professional services to Software related services.
(b) Represents the reclassification of $2.6 million from Cost of maintenance and services to Cost of revenue, Software.
(c) Represents the reclassification of $8.4 million from Engineering and product development to Research and development.
(d) Represents the reclassification of $0.3 million from Foreign currency transaction loss to Other (income) expense, net.
(e) Represents the reclassification of $0.4 million from Sales and marketing to Amortization of intangible assets.

Reclassifications in the unaudited pro forma condensed combined statement of operations for the year ended September 30, 2017 (in thousands):

Datawatch Corporation Consolidated Statement of Operations		Adjustments					Datawatch Corporation Consolidated Statement of Operations after Adjustments
		(a)	(b)	(c)	(d)	(e)	
Revenues:							
Software	20,051	14,473	—	—	—	—	34,524
Software related services	—	1,739	—	—	—	—	1,739
Maintenance	14,473	(14,473)	—	—	—	—	—
Professional services	1,739	(1,739)	—	—	—	—	—
Total software	36,263	—	—	—	—	—	36,263
Client engineering services	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total revenue	36,263	—	—	—	—	—	36,263
Cost of revenue							
Software	1,895	—	2,349	—	—	—	4,244
Software related services	—	—		—	—	—	—
Cost of maintenance and services	2,349	—	(2,349)	—	—	—	—
Total software	4,244	—	—	—	—	—	4,244
Client engineering services	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total cost of revenue	4,244	—	—	—	—	—	4,244
Gross profit	32,019	—	—	—	—	—	32,019
Operating expenses:							
Research and development	—	—	—	8,888	—	—	8,888
Sales and marketing	19,124	—	—	—	—	(100)	19,024
General and administrative	8,777	—	—	—	—	—	8,777
Amortization of intangible assets	—	—	—	—	—	100	100
Other operating income	—	—	—	—	—	—	—
Engineering and product development	8,888			(8,888)	—	—	—
Total operating expenses	36,789	—	—	—	—	—	36,789
Operating income (loss)	(4,770)	—	—	—	—	—	(4,770)
Interest expense	—	—	—	—	—	—	—
Other (income) expense, net	(808)	—	—	—	49	—	(759)
Foreign currency transaction loss	49	—	—	—	(49)	—	—
Income (loss) before income taxes	(4,011)	—	—	—	—	—	(4,011)
Income tax expense	(18)	—	—	—	—	—	(18)
Net income (loss)	$ (3,993)	$—	$ —	$ —	$—	$ —	$ (3,993)

(f) Represents the reclassification of $14.5 million from Maintenance revenue to Software, and $1.7 million from Professional services to Software related services.
(g) Represents the reclassification of $2.3 million from Cost of maintenance and services to Cost of Revenue, Software
(h) Represents the reclassification of $8.9 million from Engineering and product development to Research and development.
(i) Represents the reclassification of $0.05 million from Foreign currency transaction loss to Other (income) expense, net.
(j) Represents the reclassification of $0.1 million from Sales and marketing to Amortization of intangible assets.

Note 4 — Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheet and Statements of Operations

The pro forma adjustments are based on our preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro forma condensed combined balance sheet and condensed combined statements of operations (in thousands):

(A) Represents adjustments to Cash, Current liabilities, Long-term liabilities and Interest expense.

	Current	Non Current	Total
Cash received from drawdown on revolving line of credit	$ —	$ 30,000	$ 30,000
Cash paid to retire Datawatch long term debt (including current portion of $2,044)	(2,044)	(6,440)	(8,484)
	$(2,044)	$ 23,560	$ 21,516

Datawatch's debt covenants on its outstanding term loan did not permit assignment of the term loan debt to an acquirer, and thus Altair repaid Datawatch's term loan in connection with closing the merger transaction. The $0.3 million adjustment in the nine months ended September 30, 2018 is to eliminate the interest expense Datawatch paid; Datawatch entered into the debt agreement in January 2018, and thus there was no debt outstanding and no interest expense in Datawatch's 2017 fiscal year. This adjustment also reflects the repayment of Datawatch debt and the resulting reduction to current portion long term debt of $2.0 million and to long term debt of $6.4 million, and to cash and cash equivalents of $8.4 million. This pro forma adjustment is as of September 30, 2018 and reflects the elimination of Datawatch debt outstanding at that date.

Also in connection with the merger transaction Altair drew down $30 million on its existing line of credit in order to finance the acquisition. The Company believes it will pay down the credit line from operating cash flows within the next 12 months, and thus no accrual of interest expense is included as the Company does not believe there will be a continuing impact.

(B) Represents cash paid to equity and share-based award holders:

Cash paid for outstanding shares	$(168,168)
Cash paid for accelerated restricted stock units	(6,710)
Cash paid to option holders	(14)
	$(174,892)

- Cash paid to equity holders includes cash paid to shareholders for outstanding shares, cash paid to settle restricted stock units that accelerated upon a change in control, and cash paid to option holders for the portion of the $13.10 per share price in excess of the option strike price.
- In addition to cash paid for accelerated share based awards, Altair will recognize approximately $3.4 million in future compensation expense for restricted stock units converted into the right to receive $13.10 upon attainment of vesting conditions in the original Datawatch award.

(C) Represents the adjustment for transaction costs. Through September 30, 2018 approximately $0.1 million had been incurred by Altair and had been recognized as an operating expense in Altair's operating results for the nine-month period then ended.

(D) Represents the recognition of purchase price adjustments, as follows:

Recognition of goodwill in connection with the acquisition of Datawatch	$128,045
Elimination of historical Datawatch goodwill	(21,518)
Net increase in goodwill	$106,527

- Goodwill represents the excess of purchase consideration over net identifiable assets. Historical goodwill is eliminated in the acquisition method. This adjustment represents the recognition of $128.0 million in goodwill in connection with the acquisition of Datawatch, and the elimination of Datawatch's $21.5 million of historical goodwill.

Recognition of identifiable intangibles in connection with the acquisition of Datawatch	$46,400
Elimination of historical Datawatch intangible assets	(8,518)
Net increase in Other intangible assets, net	$37,882

- This adjustment represents the recognition of $46.4 million in identifiable intangible assets (trade names, developed technology, and customer relationships) in connection with the acquisition of Datawatch, and the elimination of Datawatch's $8.5 million in historical identifiable intangible assets.

	Current	Non Current
Datawatch pre acquisition deferred revenue	$ 15,386	$ 2,078
Fair value of deferred revenue subsequent to the acquisition	4,693	634
Adjustment to deferred revenue	$(10,693)	$ (1,444)

- This adjustment represents the adjustment to Datawatch historical current and non-current deferred revenue to the fair value at the acquisition date, consisting of the remaining obligation to deliver services plus a reasonable margin. This results in a $4.7 million and $0.6 million balance, respectively of current and non-current deferred revenue.

- The adjustment of $0.5 million in accrued compensation and benefits represents the recognition of a liability for partially vested RSU awards that were modified upon the merger. This represents the amount payable to employees due to their pre-combination service. The ultimate payment of this amount is contingent upon the employees fulfilling their service conditions; the Company anticipates that award holders will deliver required service.
- The Company recognized an increase in other long-term liabilities in the amount of $7.1 million for tax, penalties and interest accrued to date related to a foreign tax controversy for Datawatch. This tax controversy is a long-standing tax matter related to a unique combination of complex tax laws and regulations coupled with unusual facts and circumstances for which there appears to be little or no precedents in prior case law in this jurisdiction. Ultimate resolution of this matter, which could be several years from September 30, 2018 inclusive of applicable appellate procedures, will be based upon significant judgement and interpretation by the parties involved, especially as this matter progresses through the court process. Recognition of the liability is deemed appropriate for purchase accounting purposes given the novel circumstances, lack of precedents, and substantial judgement involved in assessing this potential obligation.

(E) Represents the decrease in the amount of deferred revenue recognized as a result of the Datawatch acquisition:

	Nine month period ended September 30, 2018	Year ended December 31, 2017
Software	$ (4,988)	$ (5,654)
Software related services	(32)	(36)
	$ (5,020)	$ (5,690)

- After the acquisition the reduction of deferred revenue will reduce revenue related to the assumed software and software related service as the services are over the term of the agreements. The pro forma adjustments to reduce revenue by $5.0 million for the nine months ended September 30, 2018 and $5.7 million for the year ended December 31, 2017 reflect the difference between prepayments related to software and software related services and the fair value of the assumed deliverables as they are satisfied, assuming the transaction was consummated on January 1, 2017.

(F) Represents the increase in stock-based compensation expense as a result of the Datawatch acquisition:

	Historical Expense		Pro Forma Combined		Pro Forma Adjustment	
	Nine month period ended June 30, 2018	Year ended September 30, 2017	Nine month period ended September 30, 2018	Year ended December 31, 2017	Nine month period ended September 30, 2018	Year ended December 31, 2017
Software and Software related services	$ (43)	$ (37)	$ 14	$ 26	$ (29)	$ (11)
Research and development	(634)	(579)	471	882	(163)	303
Sales and marketing	(445)	(438)	121	227	(324)	(211)
General and administrative	(1,104)	(1,119)	366	686	(738)	(433)
	$ (2,226)	$ (2,173)	$ 972	$ 1,821	$ (1,254)	$ (352)

- The merger agreement modified outstanding unvested restricted stock units and provided for a cash payout of $13.10 per share. This modification will result in the recognition of post combination expense based on a respective employee meeting the service conditions in the original award. The pro forma adjustment decreases compensation expense by $1.3 million in the nine month period ended September 30, 2018 and $0.6 million for the year ended December 31, 2017. The reduction is principally attributed to the 512,184 RSUs which vested immediately prior to the merger transaction due to change-in-control provisions in the original awards and were cash settled. Thus, there is no post-combination expense related to these awards.

(G) Represents the increase in amortization expense as a result of the Datawatch acquisition:

	Nine Month Period ended September 30, 2018	Year ended December 31, 2017
Developed technology	$ 2,825	$ 3,767
Customer relationships	2,013	2,982
Historical amortization expense	(400)	(100)
	$ 4,438	$ 6,648

- This adjustment reflects the increase in the amortization expense as a result of the amortization of acquired identifiable intangible assets. Trade names are indefinite lived intangibles, Developed Technology has a life of 6 years and is being amortized on a straight line basis, and customer relationships have a 10 year life and are being amortized using an accelerated amortization method. The historical amortization expense previously recognized in the Datawatch financial statements reduces the amortization of the acquired intangible assets.

H) Represents the elimination of the historical stockholders' equity of Datawatch of $26.0 million. The difference between the $26.0 million and the historical Datawatch equity of $26.5 million pertains to the $0.5 million in pre-acquisition expense for modified RSUs that will be cash settled. This an precombination expense of Datawatch, but was not reflected in the historical September 30, 2018 financial statements.

I) Represents the tax impact of the pro forma adjustments based on statutory tax rates. The income tax expense/benefit is based on applicable statutory tax rates for the jurisdictions associated with the respective pro forma adjustments. Because the tax rates used for these pro forma financial statements are an estimate, the statutory rate will likely vary from the actual effective tax rate in subsequent periods.