inContact, Inc.
Second Quarter 2013 Earnings Conference Call
August 8, 2013

Operator: Good day and welcome to today's inContact Incorporated Second Quarter 2013 Earnings conference call. At this time, all lines are in a listen-only mode; however, later in the program, you will have the opportunity to register to ask questions. This conference may be recorded.

And now, it is now my pleasure to turn the conference over to Greg Ayers, CFO. Please go ahead, sir.

Greg Ayers: Thank you and good afternoon. This is Greg Ayers, CFO of inContact. Welcome to our Second Quarter 2013 conference call. I will begin by presenting the Safe Harbor statement, and I will then turn the call over to CEO, Paul Jarman, to review our second quarter 2013 results and provide an update on important Q2 Company developments. Finally, I will provide additional detail on our financial results for the quarter before opening it up for Q&A. For access to our news release and other information on inContact, please visit our website at www.incontact.com.

The Private Securities Litigation Reform Act of 1995 provides a Safe Harbor statement for forward-looking statements made on the Company's behalf. All statements, other than statements of historical facts, which address the Company's expectations of sources of capital or which express the Company's expectation for the future with respect to financial performance or operating strategies, can be identified as forward-looking statements. Such statements made by the Company are based on the knowledge of the environment in which it operates, but because of the factors previously stated as well as other factors beyond the control of the Company, actual results may differ materially from the expectations expressed in the forward-looking statements.

And now, I will turn the call over to Paul Jarman.

Paul Jarman: Thanks, Greg. I am pleased to announce that Q2 was the strongest bookings quarter in the Company's history, up 46% over what was a very strong comparable quarter of Q2 2012. During the quarter, we closed a record number of 83 contracts, 59 with new logo customers and 24 expansion deals. These strong bookings have been fueled by our continued investment in demand generation marketing and sales expansion. At the end of the quarter, we had 41 quota-bearing sales people in four U.S. geographies and in the UK. With our new sales on-boarding programs and field-based marketing activities, we have significantly increased the productivity of our new sales heads, which is helping to drive our record bookings growth.

We believe that the cloud contact center market is entering a new phase of adoption, and inContact is benefiting from these major and powerful market dynamics. As the market becomes increasingly mainstream, we see larger and larger enterprise customers adopting the cloud, which is another driver of our strong bookings. As of the quarter end, we had 13 customers with annual reoccurring billings over 500,000. Two of the Q2 deals are with customers who will yield over 500,000 annually once they are fully deployed on our system. We also continue to add new customers from the Fortune 500, bringing our total to 32.

I'd like to provide you with additional insight regarding the size and number of large deals in the first half of 2013 as compared to the first half of 2012. The combined value of deals with an annual contract value of $360,000 or more has increased 196% in '13 over '12. The number of these deals has grown by 100%.

We believe that there are three key drivers to the market growth we are seeing. First, the growing importance of service as a differentiator, as consumers rely more on third party reviews, word of mouth and recommendations in the purchase process. Second, the dramatic shift from voice-only service to service delivery across social, mobile, web, chat and others. And finally, the compelling ROI for cloud technology, with unmatched business agility for its users.

We strongly believe that the majority of the growth in this market remains ahead of us. As Gartner estimates only a 5% penetration for cloud contact center today, inContact is extremely well positioned to exploit this perfect storm, as we have the right solutions, strong sales and marketing engine and the broadest cloud distribution model. We are very confident in our growth opportunity in this emerging market, and we'll continue to make strategic investments in sales, marketing, R&D and infrastructure take advantage of this market shift.

In the second quarter, Software revenue grew 26% year-over-year and software-related Telecom grew 28%. This growth gives us a run rate of over 110 million in our Software and software-related revenues. In addition, we achieved adjusted EBITDA of 1.9 million, up 71% over Q2 of 2012. During the quarter, we experienced lower revenue volume of anticipated approximately 2% from existing customers as they used less from Q1 peaks. We experienced this negative same-store sales trend from 2009 to 2011, but because 2012 was up 2.5%, we had anticipated Q2 of this year would also be positive.

In addition, in Q2, we are seeing longer implementation cycles associated with larger deals mentioned above. Like other

SaaS players who have matured from mid-market to enterprise, these longer cycles are a natural evolution for inContact as we bring on larger companies with more complex requirements. These customers take longer to turn up but yield significantly greater revenue over the course of their life cycle when compared to our historical mid-market customer. Some of these longer cycles are resulting from dependencies associated with required enterprise data integrations, work with third party ecosystem partners and staged turn-up as a part of a larger multi-vendor deployment process.

Let me provide you two examples of this from the quarter. A large BPO will be implemented in several stages, the first of which will be approximately 1,400 seats. Our solution will be deployed following an interface development project being executed by a third party ecosystem partner and utilizing our software development kit and open interfaces. The total opportunity with this BPO is in excess of 2,500 seats which will be rolled out later this year, into 2014. Another second example is what a large regional bank brought to us by Verizon. This bank will ultimately deploy inContact across a thousand seats, but the project is being phased across the bank's internal departments over the next two quarters.

We are aggressively managing these deals to close the gap between bookings and revenue over the next few quarters. We expect these actions to make for an exciting start to 2014.

I'd like to now share with you some highlights of the quarter. Companies are beginning to hear the wake-up call from consumers who expect high quality experiences regardless of the channel they use. With the introduction of our cloud Universal Queue early this year, inContact has the most efficient solution for contact centers that are expanding beyond voice, to mobile, social and online channels. Next month, we will release our most important software version in the Company's history, with category disrupting offerings and outbound dialing, mobile solutions and innovative agent interfaces. During the quarter, we executed a small technology tuck-in acquisition which will be prominently featured in this next version of our software, helping us extend our outbound and multi-channel offering and increasing our competitive edge.

Many of our new customers are moving away from antiquated premise systems. Most are looking to the cloud to unify multiple contact centers and to provide long-term flexibility and scalability. Aging and flexible call center systems are a significant barrier for companies who need to streamline operations, innovate and grow. In addition, many larger companies and government entities are increasingly concerned with disaster recovery and favor the built-in business continuity that the cloud provides.

In Q2, inContact signed a major energy provider to replace its legacy premise system with cloud contact center software. This utility company will leverage the inContact cloud portfolio for inbound and outbound contact support in a multi-channel environment. The energy provider selected us over the competition as we are the only vendor to provide connectivity, contact center infrastructure and workforce optimization in one unified cloud platform.

During the quarter, we also signed a leading transportation manufacturer that selected inContact to support their customer account through a virtual contact center. As a leader in high performance equipment, the company has worldwide parts distribution network with the ability to deliver parts whenever and wherever needed. The company was seeking a cloud contact center platform with both ease of use and flexibility and selected inContact's cloud ACD and IVR so their business users could make updates quickly, without the need to rely on scarce IT resources.

We saw continued traction in the healthcare vertical during the quarter. We attended three healthcare conferences and are encouraged by the opportunities we're seeing in this segment. Healthcare providers are highly focused on cost reductions and efficiencies, yet in many cases, they're still using manual processes for call routing and they have very few self service options for patients.

We also signed several major health insurance companies who are dealing with mounting competitive pressures, as well as new regulatory requirements. One of these new insurance customers selected inContact to increase sales effectiveness by integrating prospect data from sales force (ph) with inContact software.

Our largest healthcare industry deal in Q2 was with a fast-growing new prescription service that evaluated both premise and cloud and ultimately concluded that the inContact cloud software provided the required functionality and scalability they required. InContact will deliver its cloud solutions and workforce management for 150 agents in a traditional call center, as well as another 150 work-at-home agents.

Another deal that helps demonstrate the success we're experiencing was with a Fortune 500 pharmaceutical company that is expanding its use of inContact software across multiple divisions. InContact provided an ROI model and level of functionality that would not have been possible with a premise-based call center solution the company had been using previously. Serving healthcare providers and patients, the pharmacy services division has stringent requirements for security and redundancy that are mandated by government, legal and industry regulations. inContact was able to satisfy these security needs and provide a world-class cloud infrastructure that includes geographically redundant data centers and a carrier-grade telecom infrastructure that is owned, managed and monitored 24/7 by inContact employees. With the healthcare industry rapidly transforming, inContact is in the right place at the right time to meet the efficiency and cost models required by this market. We expect it to be a promising vertical for inContact over the coming quarters.

We experienced positive momentum in our reseller channel during the quarter, with approximately 23% of closed deals a direct result of these relationships. The Verizon channel continues to grow. As discussed last quarter, Verizon is helping us expand our presence in the government market, and during the quarter, we closed four deals in this vertical.

We continue to work with Siemens to ramp their cloud business in both North America and in Europe. You may recall that Siemens hired a new cloud sales team in North America in Q1, and this team doubled the number of opportunities in their pipeline during Q2. We are now training and on-boarding their new European sales heads and expect to see similar productivity for them in Q3.

In addition, over the past several quarters, we have begun to diversify and expand our partner relationships and signed a new large VAR to our reseller program. This new VAR has been one of our premise competitor's largest resellers, but due to enterprise customer demand, will now provide cloud software alternatives for their nationwide sales team and customer base. Our combined pipeline of reseller deals continues to climb each quarter. Entering Q3, reseller deals are approximately 20% of our total pipeline, which is up more than 75% from just four quarters ago when we began to track this metric.

In summary, we have a clear leadership position. In a market that is rapidly growing, we have the innovative products that contact centers need to address their biggest challenges. We are winning in a variety of promising new vertical markets and are having increased success in enterprise deals. We have a strong and growing distribution channel that will help us reach the broadest possible audience for our award-winning solutions. These factors give us great confidence in our strategy and in our future growth potential.

Now, I'd like to turn the call over to Greg to provide additional details on our Q2 financial results.

Greg Ayers: Thank you, Paul. First, I will recap the definitions of our two operating segments, Software and Telecom. I will then cover our Q2 operating segment and consolidated results, as well as other financial highlights.

Our first segment is the Software segment, which includes all monthly recurring revenue related to the delivery of our software applications, associated professional services and setup fees, as well as minimum purchase commitment revenue. The Software segment does not include any Telecom revenue.

For Q2 2013, I am pleased to report that our Software segment revenue increased to 16.2 million, which represents a 26% increase or 3.4 million over the 12.8 million in Q2 2012. This increase was the result of the following three key drivers of our Software revenue: The first driver of quarterly Software revenue growth is existing customer retention. Our Software revenue retention for the quarter remained very strong and was consistent with previous quarters, at a rate above 92%.

The second driver of quarterly Software revenue growth is the variable utilization of software services by existing customers. This metric fluctuates due to the seasonality, customer service activities and macroeconomic conditions, as well as the revenue generated from the sale of additional services to existing customers. The measurement of this revenue growth is similar in concept to the retail industry's use of the same-store sales metric; in other words, it excludes attrition and new customer contract revenue. With these existing customers, we experienced a 2.1% decline during the quarter, primarily driven by lower utilization of customers normalizing operations after the seasonal increase experienced in Q4 and Q1. This impacted our Software revenue by approximately $420,000 from what we had anticipated.

The third and final driver of our Q2 Software revenue growth is revenue from new contracts that are not yet included in the same-store sales metric. We closed 83 new contracts in the second quarter, 59 of which came from new customers and 24 which were upsells to existing accounts, where we expanded our footprint in agent seats, new locations or additional software application offerings. We estimate the expected future value of these contracts will be approximately 46% higher than the total estimated annual contract value of our Q2 2012 bookings.

I would like to take a moment to remind you how inContact calculates bookings. Bookings is an estimate of the annual contract value and not the full value of a multi-year contract, nor does it include the estimated associated connectivity revenue. We believe that this bookings calculation is a better reflection of the true Software revenue run rate that will be added to the business.

In Q2 2013, Software segment gross margin increased to 61% on a GAAP basis and 73% with non-cash charges added back compared to Q2 2012's 59% and 72%, respectively. This slight improvement in GAAP gross margin is principally attributable to leveraging infrastructure costs against higher levels of quarterly revenue. Q2's 9.8 million of Software segment gross profit represents a new Company record.

Our second segment is the Telecom segment, which includes all voice and long distance services provided to both our telecom-only legacy customers, as well as to our Software segment customers. Telecom segment revenue for Q2 2013 was 14.9 million, a 1.6 million or 12% increase over the 13.3 million in Q2 2012. We also saw some seasonality in the Telecom segment during the quarter that was similar to what we experienced in the Software segment. Now that 80% of the Telecom segment revenue is generated by our Software segment customers, we expect Telecom segment revenue to move in parallel to Software segment revenue.

The Q2 Telecom segment gross margin increased to a record 36%, up from 31% in Q2 2012. This increase from Q1 2013 is principally attributable to continued leverage from our telecom equipment investments. Telecom revenue generated by Software customers was 80% of total Telecom revenue, which was consistent with Q1 and up from 69% in Q2 of last year. Q2's 23.4% of Telecom segment operating margin is the second largest in Company history.

Our consolidated results for Q2 are as follows: Consolidated revenue increased to 31.1 million, a 4.9 million increase or 19% from Q2 2012's 26.2 million. This revenue increase was driven by the growth in our Software segment and software-related Telecom. Now that the software-related Telecom revenue has grown to 80% of total Telecom revenue, 90% of our consolidated revenue is either Software or software-related Telecom and for Q2, represents—represented 28.1 million.

Consolidated gross margin percentage was 49% in the second quarter compared to 45% for the same period in 2012. This meaningful increase in gross margin is principally attributable to improvement in the Software segment through leveraging fixed cost, but the Telecom segment also showed improvement in gross margin. Adding back non-cash charges, consolidated gross margin percentage was 56% for the second quarter compared to 52% for the same period in 2012.

Operating expenses were 16.8 million, up 3.6 million from Q2 2012's 13.2 million. Approximately 51% of the increase came from higher levels of investment in Software segment sales and marketing. As Paul mentioned previously, the investment in sales and marketing has paid off over the past 11 quarters, as we continue to achieve year-over-year strong bookings.

GAAP net loss for the quarter was 1.8 million or $0.03 per share as compared to a net loss of 1.7 million or $0.04 per share for Q2 2012. Adjusted EBITDA, which is a non-GAAP measure, is an important metric of our operating results due to the significant amount of depreciation and amortization, resulting primarily from previous acquisitions of software products, customer bases, network technology, amortization of capitalized software development cost and stock-based comp. Q2 2013 adjusted EBITDA was 1.9 million versus 1.1 million during the same period in 2012, an increase of 71%. This result is ahead of our expectations of managing the business to approximately $4 million in adjusted EBITDA for the full year.

To fully leverage the market acceleration and strong customer interest we are experiencing, we will continue to invest in marketing, sales and R&D resources during the second half of the year to enhance our growth into 2014. As such, we anticipated—we anticipate that adjusted EBITDA will fluctuate in the remaining quarters of 2013. Q2 marks the sixth sequential quarter that we've generated positive adjusted EBITDA. As of June 30th, 2013, we had 51.1 million in cash and had access to an additional 17.5 million under our line of credit and term note facility.

Due primarily to the shift to enterprise business and the longer implementation cycles that Paul described earlier, we are making a slight adjustment in our Software and consolidated revenue guidance for 2013. We expect full year Software segment revenues of between 68.5 and 70 million, representing year-over-year growth of 25 to 28%. We expect total revenue of between 130 million and 132 million, representing growth of 18 to 20% year-over-year. We are extremely encouraged by our record Software bookings, our record second half pipeline and the growing backlog of enterprise implementations. As such, we expect to have a strong revenue start to 2014.

In summary, we're pleased with the Company's continued success and look forward to continuing our strong momentum over the remainder of the year.

Paul and I will now turn the call over to the Operator for Q&A.

Operator: Thank you. At this time, if you would like to register to ask a question, please do so by pressing the star, and one on your touchtone phone. If you've found that your question has already been answered, you may remove yourself from the queue by pressing the pound key. Once again, it is star, and one to register to ask a question and we'll pause just a moment to allow those questions to queue.

And we'll go first to the site of Mark Murphy with Piper Jaffray. Your line is open. Please go ahead.

Mark Murphy: Yes, thank you. I wanted to ask you, regarding the sequential decline in the Telecom revenue, to what extent do you think that is a temporary phenomenon, maybe driven by the elongation of the software deployments which—you know, the ones which carry an associated Telecom revenue stream? And to what extent do you think that the Telecom growth could remain a little slower due to business flowing through Verizon or other partners where you don't take the associated Telecom revenue? And do you think there is any other factor that is impacting that, for example, the economic climate or anything else?

Paul Jarman: Mark, let me walk through a couple of those different answers. So first of all, Telecom revenue will start to mirror a little bit more like the Software revenue, where in quarters 3, 4 and 1, as Software has positive same-store sales, we'd likely see that benefit there. Two is, is as we sell some more in Europe and sell some more through Verizon, those will not have Telecom revenue associated with it. Now, when we sell it on our own, it's about a 95% attach rate, when we sell software plus telecommunications, so I think you've got a couple of factors. In Q2, we did see some seasonality. We saw a little more legacy Telecom revenue go away in the quarter, and then we, obviously, as we're implementing some of Verizon, which does not have Telecom, that could be a little different.

So, you know, for the most part, Mark, I would say this: I would say that when it's our own Software sale, 95% will be attached to Telecom. The two should grow together. As we add additional retailers that don't need Telecom, that will knock it down a little bit.

Mark Murphy: Okay, thank you for explaining that, Paul. And just as a follow-up, regarding the strength in the software bookings, I guess I'm surprised that it's this strong this quarter considering it is occurring against, I believe, your toughest comparison that you're going to have across the entire year. So when you consider the pipeline moving forward for the second half, does it feel to you like there's more gas in the tank there, and is the pipeline getting lumpier due to larger opportunities, or do you think that it's reasonably well diversified?

Paul Jarman: Well, one of the good things in the second quarter was, you know, first of all, we had 82 new contracts, so that's by far the most we've ever had, which was—we had good deals in the small, the mid and the large, and we just had a nice coverage across the board. So, first of all, I would say this: We certainly are seeing inflection out in the market, where more companies of all sizes are saying, "I would prefer a cloud solution." So that we are seeing. Secondly, we've had a very positive start to the third quarter, and we have really the best pipeline we've ever had going into the quarter, so that's partially because of that momentum that we're seeing, it's partially because of the demand generation work we've been doing and it's partially because, you know, we now can put 41 quota-bearing salespeople into the mix, where last year, we were down in the low 30s. So it's a combination of all those factors.

But, you know, we had a great quarter in bookings, we exceeded our own expectations and we've got a very good pipeline going forward, and we've added, as I've mentioned, additional channel and channel people. We're gaining traction in those channels. We're adding channels. So I think that, you know, our goal is to systematically keep moving the booking success forward.

Mark Murphy: Also, just to clarify, did you—are you saying that your reseller pipeline is up 75% in the last four quarters since you began tracking that, or is that a comment about your total aggregate pipeline?

Paul Jarman: So that would be year-over-year and, you know, we had about 23% of our deals were from resellers in the quarter, by far our best quarter for resellers, and we've got a very strong pipeline from them going forward, and…

Mark Murphy: So yes, I'm just—I'm trying to understand the—what is up 75% year-over-year? Is that the reseller pipeline or is that the total (cross talking).

Paul Jarman: Yes, that's the reseller pipeline.

Mark Murphy: The reseller pipeline is up that much, okay. As well, maybe a final question on the Siemens relationship. It feels like that pipeline is building and probably has been for a while. How do you feel about their rate of conversion against that pipeline? Are there recent dedicated sales hires there contributing yet? And I'm also curious at this point, what do you think are the odds that Siemens can either attain or come somewhere close to the run rate targets that they're trying to hit that are about a year out?

Paul Jarman: Yes, so first of all, the first question is yes, they're getting—definitely, they had wins in the quarter. They—those new people are help—organizing Siemens into a better process, and their pipelines are up. I believe their conversions are and will be up. And with Siemens, you also have, in that case, some larger deals which, you know, we can't count on but there's certainly some nice opportunities out there that are coming through their pipelines.

I would also say, in Europe, we added about six additional partners and so that growth, plus the Siemens growth, helps us towards that goal. I haven't guided to that goal yet, Mark. I'll tell you that we've got a year and a half left. We're not to that number yet, but we are seeing good progress compared to where we were a year ago.

Mark Murphy: Okay. Thank you very much for taking my questions.

Operator: And we'll go next to the site of Jeff Van Rhee with Craig-Hallum. Your line is open.

Jeff Van Rhee: Great, thank you. Very nice bookings number there. Let me go back to the implementation issues that you're talking about. First, can you just expand on how many deals this—presumably, this is the big deals which have the issues that you outlined, the complex deals. How many deals are we talking about that are facing these delays because of their size or complexity?

Paul Jarman: I would tell you probably five to six deals that are—that would—will take longer, and really, for the same reasons that I mentioned, you're going to see some more complex telecommunications to connect all of their different locations. You're going to see some more sophisticated integrations, and also, in some cases, you're just going to see these companies have to put it at a cadence that aligns to their corporate plans and so, basically, they're going to be staged. So not a lot of deals but a fair amount of revenue. When you're talking, you know, 1,000 seats, 2,500 seats, these certainly will really impact our financials as they get completely up and running.

Jeff Van Rhee: Mm-hmm. Where are you in terms of implementation capacity?

Paul Jarman: So we keep adding every quarter, so I would tell you that our capacity is decent. We will be adding four to six additional reps in this area in the third quarter, and I wouldn't say that it's necessarily that the capacity is the constraint. It's typically more the management of an enterprise process and how they need to implement that through their different divisions in a lot of these circumstances.

Jeff Van Rhee: Mm-hmm. So there's—I didn't ask it quite right, but I think you answered it. Just to make sure, capacity utilization is really what I was getting at, so you're not at a position now where you are capacity constrained, that's not part of this issue in the reduced license guide?

Paul Jarman: No, we're very busy, but we still are managing what we have in front of us.

Jeff Van Rhee: Okay. The new partner sounds like a pretty meaningful partner but limited color there. Can you just revisit that? As I heard it, competitor's biggest distribution partner and presume that competitor is prem and now they want to offer cloud and they've come to you. Just help us understand the bake off, how did they choose you, you know, and maybe, if you can, any sense of size, scope potential of that relationship.

Paul Jarman: You bet. So, you know, I'll tell you what I can. So, first of all, it is a major VAR from one of the primary premise competitors. They are seeing a lot of interest in the cloud. They weren't able to solve that through their traditional channels, and so they went through a process to select a cloud partner. We were able to win that process. They have significant customer base. They have, I would say, at least 200 salespeople across the country, and I would say they're—you know, they focused in on our market, so it's a great win for us. It's a great beachhead into the VAR process and market. It also signals to me that the VARs are starting to feel the pressure to offer a multi-faceted offering, where, in the past, they were primarily premise, and so it's very big for us, one, for what it means to win it, and two is what the additional distribution can do for us.

Jeff Van Rhee: Okay, great. I'll leave it there. Thank you.

Operator: And we'll go next to Mike Latimore with Northland Capital. Your line is open.

Mike Latimore: Great, thanks. In terms of the Software guidance, what are you assuming for usage patterns in the back half of the year here?

Paul Jarman: So we're being a little more conservative on the same-store sales in Q3 and Q4, and we're also recognizing that, you know, in Q2, when you don't have that 420,000, you've got to do that in Q3 and Q4 as well, right? So we're a little more conservative. We would not be as high as we were last year in our own estimates and take more of a weighted average over the last four years, and that would be how we look at it today.

Mike Latimore: Okay. And on these five or six large deals, what is the kind of average time, or what do you expect the time to deployment to be on these, you know, five or six and what is the average overall?

Paul Jarman: So traditionally, in the mid-market, we're going to be turning things up within about 60 days, and that will be—in the smaller companies, you really turn it all up when you do it, and so typically, it's one deployment. With these deals, I would say you're typically going to be three or four months to get the first part up, and in some cases, if there's some kind of milestone like, in the example I gave, they needed a new interface from a third party; that could make it more like five or six. And then what's likely going to happen is you're going to turn up 50 to 100 agents, you're going to feel good about it and then you're going to start to step it through the business, and that could take anywhere from three to nine months, as you look at the different types of companies that we've been signing.

Mike Latimore: Okay, got it. And then, can you give a, I don't know, maybe a percent change in ASP there sequentially or year-over-year?

Paul Jarman: Yes, I think it was – Greg, correct me – 25% year-over-year, so that was actually less than previous two quarters and mostly because we really were able to really increase that number of deals sold. So that record number of 83 gave us a very balanced win rate across all the segments.

Mike Latimore: Okay, great. And then just last on this new VAR, are you going to be the exclusive cloud contact center provider there, or are they open to others too?

Paul Jarman: We're not contractually exclusive either way, but it's certainly our purpose and their purpose to just have one partner.

Mike Latimore: Okay. Thanks.

Operator: And we'll go next to Nathan Schneiderman with ROTH Capital. Your line is open.

Nathan Schneiderman: Hi, Paul and Greg. Thanks in advance for taking my questions. I wanted to start off just asking a few more details about the strong bookings quarter of, you know, 46% against a 40%-plus comp; and just, to help us understand that a little better, last quarter, your bookings were up a little more than 50%, and I was just curious how the dollar value of, let's say, the ACV value booked this quarter compared with the last quarter.

Paul Jarman: I'm going to give you some rough math – Greg can correct me – but it will probably be about, at least 15 to 18% higher, so on a quarter-over-quarter comparison.

Nathan Schneiderman: Okay, great. That's helpful. And then I was just curious on—it sounds like, because of the same-store sales issue, you're about 400,000 light of where you expected to be on the Software revenue, but you're taking down your guidance for the second half of the year, about 2.5 to 3 million, so can you explain the difference there, and why your—why the reduction to the Software guide is as much as it is, given just the $400,000 shortfall this quarter?

Paul Jarman: Yes, you bet. So the first thing you need to do is you take that 420, you times it by three, so it gives you about 1 million, 3 million, 4, and then as we added more conservatism into the Q3 and Q4 same-store sales percentages; and then we were just more careful with two or three of these bigger deals, where a lot of that revenue's going to be coming into fourth quarter. Certainly, it does great things for our run rate exiting the year, but it gives us less credit in the year for the revenue.

Nathan Schneiderman: Got it, got it. And then I was hoping you could give us a little bit of an update on competition. To what extent are you seeing Interactive's CaaS small center solution, and then—and just competition with Interactive in general; and then if you could update us on competition with Five9 and any other players you'd highlight there?

Paul Jarman: You bet. So, first of all, you know, we've almost never seen the CaaS solution in the mid-market. In fact, I can't think of a single deal where we've actually fought against it yet. Typically, if we're down in the mid-market or the SMB, we would usually be fighting a legacy premise provider, and then in—you know, maybe 20, 30% of those times, we'd also see us or us and a Five9 fighting to take that same customer. So we typically see them in the lower end, and—if it's related to dialing. We typically see Interactive if it's more in the enterprise level, and I would say that what probably—we probably don't see them enough, meaning I'm surprised we don't bang up against each other as much as we should, meaning that the market seems to be pretty big right now, that a lot of the wins that we have are usually fighting the premise players like Cisco or Avaya or some legacy player without a lot of cloud bake off at the end.

Nathan Schneiderman: Okay. And then my final question for you on the Telecom business, it sounded like maybe you've had some increased attrition with the legacy customer base within the Telecom, and I wasn't sure if that was accurate. If you could just speak to the dynamic you're seeing in Telecom would be (ph)? And I understand you're expecting it to kind of flow with Software revenue, but did that business kind of step function down there on the legacy side? Thanks very much.

Paul Jarman: Yes, so there was some step function down there, not a lot; more related to the swing in same-store sales with Software. And then, obviously, just keep remembering, as we add these resellers, that some of the new business doesn't have Telecom tied to it. So that gives you—that would be a—you know, so it was—there is some legacy attrition but it wasn't a ton.

Nathan Schneiderman: Okay. Thank you.

Operator: And our last question for today comes from Mark Schappel with The Benchmark. Your line is open. Please go ahead.

Mark Schappel: Hi, good evening. Thanks for taking my question. Paul, with respect to your prepared remarks regarding the longer implementation cycles, I was wondering if you'd just give us a sense whether there's anything you're doing on the R&D front to help make new products onboard a little bit faster? In other words, you know, are you doing things to make them a little bit easier and faster to implement?

Paul Jarman: You know, actually, let me answer it this way, Mark. We've—we do things all the time to improve the process but I think it's more a process improvement than it is a technology improvement, and things such as earlier in the sales cycle, understanding their connectivity plans so that once it's signed, it doesn't take so long for the customer to decide which form of connectivity options they need; or understanding earlier in the cycle how and what they have to integrate to so we have a quicker plan out of the gate; and then lastly, motivating them to stair step their implementation faster. So, you know, we've turned up customers, Mark, and even enterprise customers, in a week, and we certainly can do that when that's what the customer needs. So it's more the process of working with these larger companies, with how they deploy change in their business, and I do think there are processes and things we can do that will help that and we've now taken action in those areas and we have seen improvement, but that's more the area of focus.

Mark Schappel: Okay, thanks. And then, Greg, I just want to get some clarification regarding your prepared remarks. I believe you mentioned that Telecom revenue should grow in parallel with Software revenue, given the fact that, you know, Telco's up to, say, 80% attached to Software. And does that necessarily mean that you expect Telco revenue to grow somewhere in the 18 to 20% range for the remainder of the year as well, consistent with your Software revenue?

Greg Ayers: Mark, I'm not sure I'd be willing to commit to that just yet, but really, the comment was more that the seasonal swings that we see in Software have a more—you know, in the Telco segment, we're seeing it move in parallel to the same kind of seasonality or fluctuations that we're seeing in the Software segment. So the—it was more just a fundamental directional comment more than anything specific with regard to the Telco.

Mark Schappel: Okay, great, and then…

Paul Jarman: Yes, and I think, Mark, when you look at that, it's—the real key change to that driver is how much we sell through the carriers or in Europe, because if it's—if we sell it with the software, it's going to almost, you know, be a dollar for a dollar with an attach rate, so it's really the—so if you look at our 23% coming from resellers, that would give you a feel for what might not have Telecom attached to it.

Mark Schappel: Okay, that's fair. And finally, Greg, is it fair to assume that there was negligible revenue from Sierra360 in the quarter?

Greg Ayers: Yes, there was no revenue associated with that acquisition. That was a technology acquisition, Mark, which we've embedded in our product and, again, will be part of the rollout in Q3.

Mark Schappel: Thanks. That's all for me.

Operator: And we will go to Brian Murphy with Sidoti & Company. Your line is open. Please go ahead.

Brian Murphy: Hi, thanks for taking my question. Just one more follow-up on the longer implementation cycles on the larger deals. Paul, are there third party dependencies on all of these five or six deals, and can you just give us a sense for, you know, maybe how complex these third party projects are? I'm just trying to gauge the potential for delay there.

Paul Jarman: Yes, you bet. So I would say, of the five or six that I'm referring to, I think two of them have some form of third party integrations. For example, one of them, which we closed at the end of first quarter, we'll be finishing up all of those integrations in the end of September. The other one is really around some of the telecommunications and some carriers that will work with us in the solution, and that one is mostly done as well. So really two of the six that we've gotten through most of the process.

Brian Murphy: Okay. Thank you.

Operator: And thank you, ladies and gentlemen, that is all the time we have for questions at this time.

Paul Jarman: Well, thank you. We appreciate everyone's time today and look forward to our success and everyone's success in the future. Thank you and have a great day.

Operator: And this does conclude today's program. We appreciate your participation. Please enjoy the rest of your day. You may disconnect at any time.