inContact, Inc.
Fourth Quarter 2013 Earnings Conference Call
February 13, 2014

Operator: Good day everyone and welcome to today's program. 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 a question. Today's conference may be recorded, and now it is my pleasure to turn the call over to Greg Ayers. Please go ahead, sir.

Gregory Ayers: Thank you and good afternoon. This is Greg Ayers, CFO of inContact. Welcome to our Fourth Quarter and 2013 Year End Conference Call. I will begin the call with some prepared remarks, and I will then turn the call over to CEO Paul Jarman to review our fourth quarter and full year 2013 results and provide an update on important Q4 Company developments. Finally, I will provide additional detail on our financial results for the quarter and for the year before opening it up for Q&A. For access to our news release and other information about inContact, please visit our website at www.incontact.com.

The purpose of today's call is to provide you with information regarding our fourth quarter 2013 results. Some of our discussion and responses to your questions may contain forward-looking statements which are subject to risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize, or should our assumptions prove to be incorrect, actual Company results could differ materially from these forward-looking statements. These risks, uncertainties and assumptions, as well as other information on potential risk factors that could affect our financial results, are included in our filings with the SEC, including our most recent report on Form 10-Q, particularly under the heading Risk Factors.

During the call, we may offer incremental metrics to provide additional insight into our business or quarterly results. Please be advised this detail may be one-time and may or may not be provided in the future.

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

Paul Jarman: Thanks, Greg. I am pleased to announce the conclusion of a breakout year for inContact as we continue to solidify our leadership position in this rapidly growing Cloud contact center market. For Q4 and for all of 2013, we reached new record benchmarks across our business, including sales pipeline, bookings, implementations and revenue. inContact is leading the market with the Cloud contact center industry's highest Cloud software revenue.

In Q4 we achieved record bookings which represents 40% year-over-year growth in estimated contract value. We closed 85 contracts, including 61 new logo customers and 24 expansion deals. For the full year 2013, total contracts came to 296, with 211 new customers and 85 expansions.

In 2013, software revenue grew 26% year over year. Combined software and software-related network connectivity revenues grew 25%. The combined revenue of software and software-related network connectivity is important because offering integrated network connectivity with the software is a big competitive advantage, something only we provide; second, the connectivity gives us additional revenue per customer and additional stickiness; and lastly, those revenues come in with very good net margin.

The total software and software-related network connectivity revenues came in at $32.4 million for Q4 and a record $118 million for the full year 2013. In addition, Adjusted EBITDA for the quarter was $1.3 million. For the year 2013, Adjusted EBITDA was $7.3 million.

In 2013, there were four drivers of significant transformation across our business that enabled us to achieve these outstanding results. The first driver is increasing Cloud adoption in key verticals where we have a strong and growing presence. The second driver is enterprises moving to the Cloud and our ability to win and retain these larger customers. The third is our aggressive innovation cadence increasing our competitive edge and differentiation. The fourth is our strong ability to execute and sell marketing and distribution channels.

The first driver of inContact growth comes from our successes in several major verticals, including government, health care, financial services, and travel and hospitality. In Q4 we announced a new deal with one of the top five most populous states in the country. That major state agency is moving from an aging premise solution to the Cloud, in order to unify operations across three locations with over 300 agents. inContact is a great fit for government because we can help agencies streamline operations, adjust to seasonal demands, and reduce costs with the Cloud model. We are a proven secure Cloud provider. In 2013, inContact added 27 government agencies at the state and local level. All of these agencies are seeking to improve citizen services, and are tracking customer satisfaction goals just as actively as their counterparts in the business world.

The great news about verticals is that these companies talk to each other, and this will further accelerate our momentum in those industries.

The second growth driver for inContact is our increasing appeal to large enterprise organizations. Of the pure Cloud providers, we have the most enterprise implementations in the Cloud and the largest number of Cloud agent seats. We are pleased to have 36 total Fortune 500 customers now on our roster. This is up 50% from just two years ago. One of our top achievements in 2013 is winning and deploying our largest enterprise deals ever in the Cloud. For the full year, we added eight new accounts that will yield over $500,000 of annual software revenue once they are fully deployed on our system.

In response to growing demand, we have optimized our implementation process and scaled our capacity to turn out new customers on the inContact platform. We grew turnouts by 40% year over year, and even faster in Q4. I am happy to report that all five of the large customers won in Q2 and Q3 are now deployed and are already driving revenue in the first quarter of 2014. Our proven implementation methodology sets us apart; we are ready to scale and turn up even more business in the Cloud.

Innovation is the third growth driver for inContact and 2013 was a landmark year for new product introductions that set us apart from both Cloud and premise competitors. inContact delivers at least two major releases every year, unlike most premise software vendors who lock customers into an 18-month cycle of waiting for new features. Some competitors are starting to offer first generation Cloud products or entering the market with a patchwork of Cloud acquisitions.

But to be clear about this landscape, inContact is the only provider that has a purpose-built 100% multi-tenant Cloud solution that has been tuned and improved every year since 2003. Even among Cloud competitors, inContact has an aggressive cadence of innovation which we plan to continue with significant Cloud upgrades to our customers at least every six months.

In the first quarter of 2013, inContact introduced a Cloud universal queue to answer the complex challenge of managing multiple channels in the contact center. Adding additional service channels beyond voice, such as e-mail, chat, mobile and social, is a huge driver for Cloud adoption. In fact, in its annual benchmark survey, DMG Consulting reported that a majority of organizations are planning to add one or two channels to their service organization during the next 18 months. If they are going to add a channel, it is likely in the 80% range that they will plan to use Cloud-based technology. The majority of our new customers has cited this multi-channel support as a key requirement in selecting inContact.

In 2013, we made a strategic decision to intensify our focus and offering in our workforce optimization portfolio, WFO, which includes a full set of tools to understand and improve performance in the contact center. In the fourth quarter, we added award-winning speech analytics and an operations performance dashboard to the suite. The combination of Cloud contact center infrastructure and workforce optimization is a major advantage for us. No other peer Cloud provider is offering both the level of functionality and the tight integration between the core software and the WFO.

In the fourth quarter, we closed two major deals because of that full solution. One example is a leading entertainment company. The customer will be getting a full multi-channel contact system to support over 250 agents, plus they will have sophisticated WFO tools to capture performance and customer experience data.

In the fall release we announced a game-changing new offering that will completely displace old dialer software being sold by other Cloud and premise competitors. The new Personal Connection outbound solution is a major leap forward in dialing software. Backed by three patents, Personal Connection totally eliminates the initial pause that is caused by traditional predictive dialers. This is breakthrough news because it transforms the way companies can engage their customers. Because of this, Personal Connection has been recognized with Product of the Year Award in 2014 from *Customer* magazine. We have heard excellent feedback from our customers who are already using the product and are getting dramatic results, and we are already winning deals against entrenched outbound competitors.

Innovation was a big story in 2013, as we leapfrogged both premise and Cloud competitors. We plan to stretch that lead even further in 2014.

The fourth major factor in our success is our increasing ability to execute our go-to-market strategy across marketing, sales and channels. Our demand generation efforts are running at full speed, bringing in a significant number of leads every quarter. Our customers are a big part of our marketing programs. In 2014, we had 70 customers speaking on our behalf at events, both live and virtual, and in video, on our website as well as in the media. This year has been record-setting and rewarding for our sales teams. We now have 43 quota-carrying sales people as well as an additional 15 representatives who are actively supporting sales through our channel partners. We have been hiring more experienced enterprise class associates in the field. Our team is tuned up, trained, and exceeding their targets quarter after quarter. I am pleased with our progress expanding and diversifying our distribution channel which is helping us grow market share. inContact has the broadest distribution channel of any other peer contact center or competitor. We now have over 45 active partners including both reseller and referral partners. We have a strong fourth quarter with Verizon, and with Unify, we had our best quarter to date in our partnership. In Q4, 53% of bookings came through all of our partners. We will continue to expand our channel with both new resellers and implementation partners. We have started to certify selected third parties to deploy the inContact platform by adding channel capacity both to resell and to implement our Cloud contact center software. We are well positioned to grow.

This ability to expand our distribution channel sets us ahead of the competition. We will diversify and leverage all of our sales channels to their fullest advantage in 2014 and beyond.

Across the board, 2013 was a transformational year for inContact because of our execution of revenue growth. We are leading in the market because we have 10 years of experience and we are focused 100% in the Cloud. We have a mature service model with proven implementation and high-touch aftercare services. Among pure Cloud competitors we have a unique business model and the most complete solution that includes carrier-grade connectivity, Cloud infrastructure, plus workforce optimization software. No other provider matches our aggressive pace of innovation. Going into the new year, we have a strong engine with high-performing sales teams and a rapidly expanding distribution channel.

In 2014, we believe there is a combination of forces driving the market upward. Number one, customer experience is now a strategic priority; and number two, companies are increasingly moving to the Cloud for customer service.

The first market trigger has been predicted by Gardner, who said that in 2014, customer service is reemerging as the core business strategy to create a winning customer experience. Because of this, the customer experience is now a top priority for executives.

The second market trigger driving growth for inContact is the increasing adoption of the Cloud by a majority of companies across all verticals. Ninety percent of the contact center seats in the US are still operating on legacy premise software, old expensive rigid systems that can't keep up with the demands of today's customers. The majority of the contact center market opportunity is ahead of us, and we are staffing up to capture it.

I like to now turn to our 2014 plans. We intend to take full advantage of this multi-billion dollar, multi-year growth opportunity by continuing to innovate and invest in the following ways: to increase the breadth and diversity of our distribution channel; to add quota-bearing sales associates; and to expand R&D into multi-channel offerings and in outbound technologies.

Looking forward to strong momentum in the Cloud contact center industry in 2014, we anticipate our software revenue to grow to between $85 million and $87 million for the full year. That represents 23% to 26% growth. This also represents at least a 30% growth rate when you exclude the unifying minimum purchase commitment revenue. Software and software-related network connectivity revenue will increase to between $143 million and $146 million for 2014. We also expect consolidated revenue to come in between $154 million and $157 million for the year.

Gross margins will be somewhat impacted in 2014 as the result of certain investments in professional and customer service and the step down in unifying minimum purchase commitment revenue. We have begun to invest aggressively in 2014 to set us up for competitive advantage and sustainable growth over the next three years. As such, we expect to increase our investment in R&D to 13% and maintain our investment in sales and marketing at 29%. inContact has generated positive EBITDA four out of the past five years; we expect to continue that trend in 2014, but given the investment strategy detailed above, we will be positive but more closer to breakeven. Given the market opportunity and the valuations in our sector, we believe this is the prudent way to enhance shareholder value.

Now more than ever, companies are focusing on customer experience and the Cloud offers the scalable, flexible and affordable technology to companies who are ready to upgrade their outdated systems. With those two facts, 2014 should be the best year yet in the Cloud contact center industry. We plan to continue our leadership and strong execution in another exciting year for inContact stakeholders and shareholders.

Now I'd like to turn the call over to Greg to provide additional details on our Q4 and full year financial results.

Gregory Ayers: Thank you, Paul. First, I want to recap the definitions of our two operating segments, Software and Network Connectivity, formerly Telecom. I will then cover our Q4 and full year 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. For Q4 2013, I am pleased to report that our Software segment revenue increased to 19.4 million which represents a 24% increase over the 15.6 million recorded in Q4 2012. This increase was the result of the following three key drivers of our software revenue: customer retention, utilization rates and new accounts.

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 revenues. With these existing customers, we experienced a 6.4% sequential increase during the quarter. This measure was in line with the historical uptick for the December quarter.

The third and final driver of our Q4 Software revenue growth is revenue from new contracts that are not yet included in the same-store sales metric. We closed 85 new contracts in the fourth quarter: 61 new customers and 24 up-sells 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 40% higher than the total estimated annual contract value of our Q4 2012 bookings. Q4 represents the largest bookings quarter in the Company's history.

I would like to take a moment to remind you how inContact calculates bookings. Bookings are an estimate of the annual contract value of new software sales. It does not reflect the full value of a multi-year contract, nor does it include estimated network connectivity revenue. We believe that this conservative approach to the bookings calculation is an accurate reflection of the true Software revenue run rate that will be added to the business.

For the full year 2013, our Software segment revenues increased 26% to a total of 68.9 million. Our four-year CAGR for software revenues stands at 26%, a strong showing within the SaaS sector.

In Q4 2013, Software segment gross margin was 58% on a GAAP basis and 71% with non-cash charges added back, compared to Q4 2012's 60.5% and 72% respectively. This slight decrease in GAAP gross margin is principally attributable to an increase in the percentage of professional services revenue and cost of professional services, as well as an increase in royalty-bearing software services revenue. Q4's 11.3 million of Software segment gross profit represents a new Company record.

Our second segment is the Network Connectivity segment, which includes all connectivity services provided to both our legacy customers as well as to our Software segment customers. Network Connectivity segment revenue for Q4 2013 was 15.7 million, a 4% increase over the 15.1 million in Q4 2012. Approximately 83% of the Network Connectivity segment revenue is now generated by our Software segment customers. With the exception of accounts sold by Network Connectivity base partners such as Verizon, we typically provide such Network Connectivity services to customers using our software.

For the full year 2013, Network Connectivity revenues grew 10% to a total of 61 million. The Q4 Network Connectivity segment gross margin increased to a record 36%, up from 33.4% in Q4 2012. This increase in gross margin is principally attributable to continued leverage from our Network Connectivity equipment investments. Q4's 24.4% Network Connectivity segment operating margin is 180 basis points higher than Q4 of 2012.

Our consolidated results for Q4 are as follows: consolidated revenue increased to 35 million, a 4.4 million increase or 14.4% from Q4 2012's 30.7 million. This revenue increase was driven by the growth in our Software segment and software-related Network Connectivity. Including the software and software-related Network Connectivity business, over 92% of our consolidated revenue is derived from SaaS contract billings, and for Q4 totaled 32.4 million. For all of 2013, consolidated revenue totaled 130 million, an 18% increase over 2012's 110 million.

Consolidated gross margin was 48% in the fourth quarter compared to 47.2% for the same period in 2012. This increase in gross margin is attributable to improvement in the Network Connectivity segment through leveraging fixed costs, and an increase in the level of minimum purchase commitment revenue. Adding back non-cash charges, consolidated gross margin percentage on a non-GAAP basis was 56% for the fourth quarter compared to 54% for the same period in 2012.

Operating expenses were 20.2 million, up 5 million from Q4 2012's 15.2. Approximately 50% 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 14 quarters as we continue to achieve year-over-year strong bookings.

GAAP net loss for the quarter was 3.6 million or $0.06 per share, as compared to a net loss of 874,000 or $0.02 per share for Q4 2012. The increase in the net loss is primarily attributable to the increased investment in sales and marketing and research and development.

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 and network technology, as well as the amortization of capitalized software development costs and stock-based comp. Q4 2013 Adjusted EBITDA was 1.3 million versus 2.3 million during the same period in 2012. Adjusted EBITDA for the full year was 7.3 million, almost double the 4 million level which we had estimated at the beginning of the year. This past quarter marks the eighth sequential quarter that we've generated positive Adjusted EBITDA.

As of year end, we had $49.1 million in cash and had access to an additional 16 million under our line of credit and term note facility.

In summary, we're pleased with the Company's continued success and look forward to continuing our strong momentum throughout 2014.

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 press star, and one, on your touch-tone phone. At any time, if you've found that your question has already been answered, you may withdraw yourself from the queue by pressing the pound key. Once again, it is star, and one, to register to ask a question. We'll pause a moment to allow those questions to queue.

And we’ll go first to Mark Murphy with Piper Jaffray. Your line is open, please go ahead.

Mark Murphy: Yes, thank you. Congratulations on a very strong finish to the year. Paul, I wanted to clarify a comment that you had made. I know you said that the—many of the large deals from the last year are live now and generating revenue. Do you mean to say that they’re completely live? In other words, that all of the seats have been deployed, or is it just that each one of them has at least—you’ve at least begun getting the seats deployed?

Paul Jarman: So basically where we’re at, Mark, is we have turned up each of those five companies. There are some divisions and sections that are still being turned up but each five of them’s initial implementation is done, and we are going through additional products or divisions through some of those still in the process.

Mark Murphy: If you had to guess, then, if you took all of those seats in aggregate, I mean I remember your referring to a 5000 seat deal and I know that there were many others that were multiple hundreds of seats and maybe others around a thousand? What percentage of those seats do you think are turned up and generating revenue at this point? Just from the larger deals.

Paul Jarman: From the five that we were referencing, you know, one or two are completely done and the other three are probably about halfway done.

Mark Murphy: Okay. Okay, good. And then, as well, Paul, could you provide some more color on what you billed for Salesforce.com and the Force.com platform? What exactly is that technology and how are you partnering with Salesforce?

Paul Jarman: You bet. So what we have done is we announced last quarter an integration through Force.com with Salesforce, where we have embedded our user interface that a customer service rep would normally see from us, inside of Salesforce’s interface itself. We used their latest APIs. We were very innovative with the UIUX of the solution, and we did it through Force.com, which meant that there was a rev share opportunity between us and Salesforce. So it was meaningful for a couple of reasons. Number one is the functionality through the new APIs is significant. Two is it gave us an opportunity to have a tighter relationship with them through the Force.com platform. Three is it allows their sales people to get some quota credit as it’s sold.

Mark Murphy: Okay, got it. Thank you for sharing the details. My next question is, we had heard the rumblings that you’re beginning to farm out more of that implementation work to the third parties, and, you know, clearly you're doing it so you can focus researchers more optimally. You know, my assumption is that maybe that would allow you to prioritize some of the bigger rollouts with your in-house implementation team? You know, is that an accurate way to think about this? In addition, or if that's correct, how beneficial could this be to your go-live timelines this year?

Paul Jarman: So first of all, last year, you know, we taught the different resellers that we have how to implement our solution, in really last year and a little bit of the year before. And so they have been implementing their own sales. What we—as you mention, what we've also done now is we have some additional implementation partners that are implementing the deals for us that did not sell the deal, and that does give us bandwidth and speed, you know, in some of the larger deals, it doesn't necessarily significantly impact the speed of the implementation, because it's often the time frame of the customer that is the longest pole in the tent, but it does give us more speed in the mid market and kind of upper mid market, as those deals come through that we have a wider just set of people that can immediately take those.

Mark Murphy: In terms of seat count, what are you referring to when you say a mid market or upper mid market deal?

Paul Jarman: I'd usually refer to that as under 100 seats.

Mark Murphy: Okay.

Paul Jarman: (Cross-talking) … more of a mid market deal.

Mark Murphy: I'm sorry, I missed the last comment.

Paul Jarman: So mid market would be pretty much 100 seats or under; upper mid market's probably more like one to three hundred.

Mark Murphy: Right, got it. Okay. Then also, I think you gave us the number of quota-carrying reps, I think it was pretty consistent with where you ended Q3. Is there any way you can help us with maybe where you want to get that number by mid year or by the end of this year?

Paul Jarman: So what I mentioned was 43 on the quota side and 15 that are working with the channels. In general for the year we're looking to expand that by about 25%. We'll try to put as many of those as we can earlier in the year than later.

Mark Murphy: Okay. The last question that, Greg, I wanted to try to ask you, in general, how to model the Telecom revenue going forward, because it appears that on the one hand it is attesting to your direct software bookings, and you're starting to catch up on some of the deployment, so that would sound pretty beneficial; and then on the other hand, you're doing kind of a shocking amount of channel business. I think in a lot of cases there is no attached Telecom revenue for that piece of it. So how exactly, you know, how should we think about modeling that going forward? How do you think that would balance out?

Gregory Ayers: Mark, I guess the easiest way to answer that question is the guidance that Paul provided in that, that our software and software-related will grow between 21 and 23.5%. We've already taken into account that there is a small percentage of the portfolio which continues to attrit. There's an expanding adoption of channel partners and different routes to market. But even taking into those two factors, we're still looking for the software-related network connectivity and software to grow again between 21 and 23.5%.

Mark Murphy: Okay, got it; and then—

Paul Jarman: Remember, Mark, just one thing is that not all of our channel partners require the connectivity revenue to be theirs. We do provide that for a lot of the channel partners.

Mark Murphy: Understood. Okay, thank you very much. Congrats again.

Paul Jarman: Thanks.

Operator: We'll go next to Jeff Van Rhee with Craig-Hallum. Your line is open.

Jeff Van Rhee: Great, thank you. Very nice quarter, guys. A few questions from me. First, Paul, could you just expand on the channel side? That's a really big number as a percent of the bookings and maybe just expand on what changed there, both in this quarter and also in terms of any new relationships and the pipeline for new relationships? Maybe if you could just start there for me.

Paul Jarman: You bet. So, the one thing to know, Jeff, is you look at our channel. About 40% of our channel bookings are coming from what I'd call a reseller, and about 60% are coming from what I'd call a referral partner, someone who refers us the business and then we put it on our paper. So, you know, through the year we have been adding additional referral partners and we've been adding additional resellers; and obviously we don't announce every one of those as they come, but we have been gaining momentum both in the number of partners and in the amount of revenue that's coming from existing partners.

Jeff Van Rhee: So as you think forward to the year, how—give us a sense of what you think mix-wise in terms of the bookings are going to come from channel versus straight-up direct sales.

Paul Jarman: So I think that that 53% probably pretty accurate; and remember that a portion of that is referral partners where our direct sales team is still involved, because it's on our paper; but I think in aggregate it's about 50-50, and then also the other comparison that I gave is probably pretty true as well, which is about 40% reseller and about 60% referral.

Jeff Van Rhee: Okay. All right, and then, to touch on the outbound for me, obviously you got some pretty differentiated technology there; you've talked about the significant potential (inaudible) uplift as that gets adopted. What up-take have you seen, what kind of impact has it had, and do you expect it to have?

Paul Jarman: You know, first of all, you know, first of all, from our customers that have used it now and new companies that are using it now, we've had a very favorable response as to that. We've eliminated the pause and we've really changed how they look at communication to their customer because, you know, about 49% of people that receive that call hang it up when they hear the pause. So the algorithms and the patents that we have are working.

The second thing we've seen, Jeff, is that some of the other Cloud competitors have done well in Cloud dialing, and so we think we can make an impact in that market, and it's a 400, 500 million dollar market itself.

And then thirdly is is that we can create additional revenue on top of the ACD sales, and in some cases where in the past we did not win an ACD sale because they needed both dialing and ACD, we can now provide both. So we view it as a key addition to what we're doing in that we didn't just come out with a me-too product but created a lot of innovation there and protected it with patents.

Jeff Van Rhee: Got it. And lastly maybe, Greg, just back to the Software gross margin, can you just give us, just in terms of of this quarter, maybe go a little deeper, just to understand the puts and takes in terms of the drivers that are moving it around right now?

Gregory Ayers: Sure, Jeff. So, as a percentage of total Software segment revenue, we saw an increase in services revenue and the professional service fees. Obviously those line items or that business comes at a lower gross margin than you would obviously see on the product. We also saw an increase in the percentage of products that we provide to our customers that are—have a royalty associated with them. So there was a shift mix with regard to the revenue, and then in addition to that we saw a bit of an uptick with regard to the percentage of cost to provide those professional services. As we move into these larger accounts, they require a workforce with a higher level of skill, therefore a higher level of cost.

Jeff Van Rhee: Got it. Okay then the last one from me, you sort of put out there or trying this 30 to 50 range on the bookings front, just your thoughts on that range going into the forward year and also any incremental color about the depth and makeup of the pipeline going into the year would be helpful.

Paul Jarman: So, Jeff, first of all we're excited about the pipeline. We feel we've got good pipeline in our direct teams and our referral partners and in our resale partners, number one. Number two is, though I'm not going to give any precise bookings guidance for the year, what we do see though is is that, as I mentioned, we believe that we can grow the software 30% or faster when you don't consider the Siemens guarantees. And obviously we would need bookings to be able to support that kind of growth rate.

Jeff Van Rhee: Got it. Thank you.

Operator: And we'll go next to Brian Schwartz with Oppenheimer. Your line is open.

Brian Schwartz: Hi. I too want to add my congratulations on strong bookings and new deals quarter.

Paul Jarman: Thank you.

Brian Schwartz: Got a few questions here for you guys. Maybe following up on that last question, maybe kind of looking out in terms of a growth rate. You know for Paul or maybe this is for Greg. So the ACD bookings trends, they look great, there certainly was a big step up, this year in growth. You know, but your 2014, the Software guidance is assuming that the overall growth rate is—it's going to be impacted by the Siemens comparison, so it's not really truly reflecting the strong ACD growth rate. So what I wanted to ask you guys is how you're thinking about the intermediate growth rate for the Software business? Does it get back above 30% like it did it before? You know, what type of scenarios would that have to happen for that to occur, and, you know, I don't want you guys to get too far ahead of yourselves, but just kind of interested in how you're thinking about the process when you look at the intermediate planning of the software business.

Paul Jarman: Brian, when you use the word intermediate, do you mean multi-year or do you mean multi-quarter?

Brian Schwartz: Yes, no, I'm looking multi-year. I'm looking beyond. We have a tough comparison here, in '14, because of the Siemens, so I'm looking more multi-year, looking '15, '16 and beyond.

Paul Jarman: So first of all, Brian, we think the market is going to grow at a pace that we could have organic, or I'll use non-Siemens-guarantee growth in the thirties, and so that shift this year pushes it down a little bit as you see the Siemens guarantees go away. It still would be lower a little bit in first and second quarter of ’15, as they compare year over year to the guarantees; and then by third quarter of ’15 you have no more compares in there. So we’d want to keep moving the Company at that 30-plus range and just work through those compares as we go.

Brian Schwartz: Thanks, Paul, that’s a great target to throw out there. A couple questions on the landscape out there. You know, first on the win rates in the quarter, wondering if they picked up here with the strong deal metrics and the bookings that you’re reporting, if there’s any changes out there and who you’re beating more frequently in the market?

Paul Jarman: First of all, one thing that was very good for fourth quarter is we were excited about our win rate percentages against the primary competitors. Number two is, you know, traditionally we’re usually out there, taking business from legacy premise competitors. Those people would be the Avayas, the Genesis, the Cisco, and those are—or the (inaudible), those are where most of the premise revenue sits today. On occasion we’ll be fighting against another Cloud competitor or a hybrid competitor to take that away from the premise companies.

Brian Schwartz: Great; and then last question, just kind of on the pipeline, appreciate all the real good commentary we’ve done so far. Just kind of wondering about those big way-open elephants in your pipeline, the new Fortune 500 opportunities. If I look at the new adds that you’ve added, the Fortune 500 customers, it’s certainly in the ballpark here in ’13 with the previous couple years. So I’m wondering if you could comment how your pipeline looks entering this fiscal year for those very big deals compared to entering prior years.

Paul Jarman: So Brian, I would just say that—well I’d say two things. First of all, you know, we have some nice opportunities out there in the pipeline for some significant deals. I’d also say that we love the—that kind of 100 to 500 seat range because they’re quicker to close, they’re quicker to turn up and get to revenue, and so though we have some nice opportunities in the system for some bigger wins, we’re going to keep our sales team also working really hard to hit that sweet spot.

Brian Schwartz: Thank you, Paul, and then a last one from me. You know, on the competitive landscape there’s certainly been some noise here with—you know one of the Cloud competitors out there, they did a recent IPO, another one is talking about raising money this year. I’m wondering in terms of the replacement opportunity in the replacement cycle, Paul, if you think that, you know, anything is starting to change, maybe picking up the pace of the replacement cycle as we potentially get more market awareness contact as a service solutions in the market. Thanks.

Paul Jarman: I think in general, you know, this market's going to move from more of an adoption model to more of a competition model, and then at some point it'll move into who are the winners. We're still just exiting, in my mind, the adoption model; because you only have literally 10% Cloud adoption in the contact center market. So I think certainly, as in most markets, you're going to see two or three different players start to gain the traction versus others, as we're already seeing, and I think what's interesting today though in our market is as the larger premise players have not seemed to have been those that have responded quickly to the opportunity. It's been more of the pure play or smaller players that are really gaining the momentum right now.

Brian Schwartz: Thank you. If I can just squeeze one in for Greg here, just wanted to ask where the business is today on the productivity curve with the sales force expansion on the direct side. You know, if I look at the metrics here, you know, it looks like the sales force has grown almost 35% here over the last two years, so I'm wondering, where we are in terms of the productivity curve for those new sales hires, if we can look towards productivity gains as a potential growth catalyst for the business here in '14? Thanks.

Gregory Ayers: Sure. So with the 43 quota-carrying headcount that we ended Q4 of '13, that was actually up 59% from the prior year. We have seen folks come on board and do very well their first quarter, their second quarter. So I think we've already experienced an uptick in the productivity with regard to the quality of new sales rep that Bill has been able to pull together in the Company. For a financial modeling standpoint, we factor in about a six-month lag, but I think that's relatively conservative. So I think we're seeing a positive trend line with regard to earlier productivity from the new hires.

Brian Schwartz: Thanks again for taking my questions today, and congrats again on a good quarter.

Paul Jarman: Thank you.

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

Mike Latimore: Great. Thanks a lot. Can you give a—what the average selling price change was, either sequentially or year over year?

Gregory Ayers: Sure. So year over year was up 11% in average deal size.

Mike Latimore: And then what are you thinking about in terms of cap ex for this year?

Gregory Ayers: So we would probably be looking to spend approximately 4 to 5 million dollars with regard to replacement of network infrastructure and expansion.

Mike Latimore: Then how about software cap ex?

Gregory Ayers: So software cap ex is probably going to be around $10 million.

Mike Latimore: Got it. And then, I know you had landed a large, I think it was Avaya distributor, I guess; any bookings from that, and how are your recruitments of Avaya distributor going?

Paul Jarman: You know, so, Mike, we have—we've got a group of people or a team that's in that area. First of all, we've seen nice traction with the first one, and second of all, we have a team that's working with large firm, more than just Avaya, but we're seeing that in general they're interested in how do I get into the Cloud market. So I don't really want to say more than that, other than that it's an area of opportunity for us this year.

Mike Latimore: Okay. Then how about just back on the deployments timeline, do you have some sort of average deployment—time frame for deployments to occur, and has it changed much over the last year or so?

Paul Jarman: You know, I think that, if you look at the kind of mid market or upper mid market I referred to before, that's kind of that two- to four- month range and a little bit based on connectivity or company speed and then you have some outliers with the bigger companies that could be because of their processes or multi software pieces coming in together. So in general, it's going to flow through from two to four, and then you're going to have a couple outliers in the bigger deals.

Mike Latimore: So just last, what was the professional services revenue in the quarter?

Gregory Ayers: The PS was 1.8 million.

Mike Latimore: Great. Thanks a lot. Have a great year.

Gregory Ayers: Thanks.

Paul Jarman: Thanks, Mike.

Operator: And we'll go next to Mark Schappel with Benchmark. Your line is open.

Mark Schappel: Hi, good evening, and thanks for taking my—thanks for taking my question here. Greg, what was the percentage of Software revenue from ACD sales this quarter?

Gregory Ayers: That was 78%.

Mark Schappel: Seventy-eight, okay. Then, Greg, could you just remind us what the quarterly unified (inaudible) pay arrangements are for the rest of the year?

Gregory Ayers: Yes, so it's 1.75 million in Q1 and Q2 of '14, and a net 500,000 in Q3.

Mark Schappel: What was Q2 again?

Gregory Ayers: Q2 was 1.75.

Mark Schappel: And I believe there were eight customers this year that are now—that you added that are paying about 500,000 in revenue per year. What's the total number there, Greg?

Gregory Ayers: So, Mark, just clarifying that. So the eight that we've signed, we anticipate them to generate half a million—half a—$500,000 in annual revenue. They're not producing that yet, but of those that are, we still have 13 customers that are 500,000 or more on an annual basis, software only.

Mark Schappel: Great. Thank you. That's all for me.

Operator: Thank you. That is all the time we have for questions today. I'd like to turn the conference back over to Mr. Jarman.

Paul Jarman: Well, thank you for your time and your support, and we look forward to an exciting and great 2014. Again, thanks for your time.

Operator: This does conclude today's program. We appreciate everyone's participation. You may disconnect at any time.