inContact, Inc.
Second Quarter 2014 Earnings Conference Call
August 06, 2014

Operator: Good day, and welcome to inContact's (ph), Inc. Second Quarter 2014 Earnings Conference Call. All lines are currently in a listen-only mode. Later you will have the opportunity to ask questions during the question-and-answer session, and please note, today's call is being recorded.

It is now my pleasure to turn the conference over to Greg Ayers. Please go ahead.

Gregory Ayers: Thank you, and good afternoon. This is Greg Ayers, CFO of inContact. Welcome to our Q2 2014 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 second quarter results and discuss the progress with the integration of our recent Uptivity acquisition. Finally I will provide additional detail on our financial results for the quarter, as well as additional details on the Uptivity transaction 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 second quarter 2014 results and the progress since our acquisition of Uptivity. 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. Now I'll turn the call over to Paul Jarman. Paul?

Paul Jarman: Thank you, Greg. I'm pleased to announce that Q2 was a very strong quarter for inContact with both record bookings and software segment revenues. We closed 100 total contracts, 52 with new customers and 48 expansion deals, which represents a 32% year-over-year increase in estimated annual contract value. Our momentum continues to build, as both medium-sized and enterprise companies choose our cloud platform for the powerful benefits it delivers over legacy premise solutions.

Today, in addition to our very positive second quarter numbers, I want to give you some color for how we are achieving these results and how we plan to continue our momentum. The first proof point of our business strength is bookings. In Q2, bookings, which only include subscription revenue contracts, grew 32% against a tough comparable quarter in 2013 and were the highest in Company history. We now have 71 Fortune 500 customers, which includes those brought over with the Uptivity acquisition. In the quarter we had tremendous success winning more than 60% of the deals where we were pitted against other cloud providers.

We now have 64 quota-carrying sales personnel, counting inContact and Uptivity, who are now combined into a single team, selling our full portfolio. We are attracting new customers of all sizes at a healthy pace across many industries, from healthcare to finance to retail and e-commerce. For example we recently announced a deal for 900-plus seats with a leading e-commerce firm. This new customer is moving to a single global platform to unify their service process across multiple contact centers in the US and Europe, a 100% in the cloud.

The next positive indicator in our business is revenue growth. I am pleased to report that our core contact center business registered 31% software revenue growth in Q2. This substantially accelerating growth was achieved without Uptivity. When we add the Uptivity contribution, total software segment revenue increased 50% year-over-year. This additional growth includes almost two months of revenue contribution from Uptivity, after we closed the acquisition in early May. I want to emphasize how strong the performance has been this quarter for the core inContact business. All of the new enterprise customers that came in last year are fully implemented and are now generating revenue; in fact many of them are now expanding in the cloud.

In addition our same-store sales from existing customers were solid, posting a slight sequential increase, in comparison to last year's second quarter sequential decline. This is a very positive result for what was typically been a tough quarter for same-store sales. Finally, Adjusted EBITDA for the quarter, excluding purchase price adjustments was 3.5 million versus 1.9 million during the same period last year, an 84% increase.

Now we'll take a look at quarterly implementations, which is a lead measure and a vital link in the SaaS model for future revenue. I'm happy to report that we achieved an increase of more than 50% in SaaS implementations this quarter compared to a year ago. This is very important as we are taking the business to a new level of scalability that leverages our cloud expertise and expands capacity through third-party implementation partners. We have put heavy emphasis on our professional services offering, which has resulted in a proven and repeatable implementation model. We're taking our methodology to market by training OEM and qualified service partners. We now have outsourced over 40 implementation projects with these certified partners who work in tandem with our professional services team.

Customer retention and expansion are also two key measures of our long-term success. We maintained our software customer retention in Q2 above 92%. This metric was maintained while we grew, and was positively influenced by our new technical account management program, providing sophisticated and personalized service to our top accounts. Because of our reliable and scalable platform and advances in our service model, our customers are confidently expanding in the cloud by adding new contact center locations, new business units and new products. Many of the large enterprise accounts that have come in over the last 24 months are now expanding with inContact. For example, we reported substantial expansion deals this quarter with two Fortune 500 companies. Both of these deals included our integrated workforce optimization suite and one of them includes analytics-driven quality; our cloud speech analytics product powered by Verint.

Our channel and strategic partnerships are also creating great leverage for inContact. We had a very strong quarter with Verizon, and we had a very strong Q3 pipeline with them as well. We are increasing traction across our channel with telecom partners, CRM partners, system integrators, VARs and OEM relationships. A great example from this quarter is a 500-seat deal that was brought in with a CRM partner. Our distribution channel is a strategic advantage for us and is further differentiating us from our competitors. All of these areas add up to an outstanding quarter with excellent progress across the Company.

Now let's look at the market overall and how we are positioned for continuing leadership and growth. I want to emphasize four reasons why we are winning over both legacy and cloud competitors. First, we own and maintain our cloud infrastructure with a proven solution that has been in the market for over nine years and is highly scalable, supporting over 92,000 agents in the cloud. Our focus is unwavering, unlike other companies with premise solutions who are just getting started with the cloud and have less mature solutions. This experience cannot be overstated. Our nine years of operating a multi-tenant software cloud platform and our 12 years of providing a carrier-grade telecommunications network to deliver a high-availability, mission-critical solution in the cloud is a huge distinction for inContact.

The second reason we are winning is that we are established in the enterprise on multiple fronts. We have a full featured cloud solution that is running in many large multi-location enterprises. We also succeed because of our world-class service model, our significant network connectivity capabilities and our international presence. Our experts are helping major enterprise organizations solve their toughest customer service challenges.

The third reason we are winning is our expanding distribution model. You can recall that one of the assets that we gained as part of the Uptivity deal was a strong portfolio of channel partners and we are working closely with each of these through the transition. Many of them are interested in having cloud options available to their customers and we see this as an opportunity to increase the number of VARs that sell inContact by tenfold. To help us to continue this momentum in channels we recently hired Ben Miller, who formerly was the channel leader at Interactive Intelligence.

The fourth reason we continue to win is innovation. We have fine-tuned all of the key systems and tools needed to run contact center operations with a high degree of efficiency in the cloud. We have been aggressively adding talent in our R&D teams and we are delivering next-generation features that will raise the bar even higher. We are seeing success with our rapidly expanding developer portal, that includes a broad set of production grade APIs and tools that we can use internally, which are being used by our partners and customers.

We are also seeing success with our newer products, including Personal Connection Outbound Solution, our agent console for sales force, our advanced agent scorecards and speech analytics. These solutions have all been launched in the last year, are helping us differentiate against our competition and are helping us win great new customers. Our strength and commitment in these areas is paying off at a time of tremendous opportunity. We have an edge, which we will continue to expand in coming quarters based on the scalability of our mature cloud solution and our ability to successfully close and implement new deals.

Now I'd like to provide an update on workforce optimization. We had a very successful quarter with our solutions offering, and we are at the forefront of an important industry trend. Companies are looking for an all-in-one solution that tightly integrates contact center infrastructure and workforce optimization, or WFO. In April we introduced a market-leading solution called the Workforce Intelligent Contact Center. Both customers and industry analysts have praised this new way of automating actions between the ACD, or the core routing engine and the data in WFO.

We are making progress on all fronts with the Uptivity acquisition. We are working successfully with their partners and preparing for a launch of the combined solutions this fall. On the sales front the Uptivity team has been brought together with ours for a joint pipeline development and cross training. We are currently engaged with several major opportunities with some of Uptivity's largest enterprise customers, who are interested in our cloud contact center platform. In September we will hold a combined users conference for Uptivity and inContact, where end-users and partners will have direct interactions with inContact executives and enthusiastic inContact customers. We are expecting record attendance for these three days of training, demonstrations, professional development and thought leadership.

In summary, quarter-over-quarter software revenue growth has climbed and I am pleased to report that we have met our previous guidance to reach 30-plus % growth, excluding the Siemens guarantee. We surpassed that this quarter, achieving a 36% growth rate, excluding Siemens and Uptivity. This was an exceptional quarter and inContact's position in the market is stronger than ever. We have a proven and enterprise-ready cloud contact center platform, a steady cadence of bringing new solutions to market and our strategic moves in WFO are taking us further ahead. The market is moving faster and we are accelerating our leadership position.

Now I'd like to take it and turn it over to Greg.

Gregory Ayers: Thank you, Paul. We achieved very positive results in Q2, and now I will provide more details about the financials.

Our first segment is the software segment, which includes all recurring revenue related to the delivery of our software applications, associated professional services and setup fees, as well as minimum purchase commitment revenue, and now with the acquisition of Uptivity, a small percentage of perpetual software license revenue. For Q2 2014, I'm happy to report that software segment revenue increased to 24.2 million, a 50% increase over last year's 16.2 million. Excluding unified guaranteed amounts and the contribution from the Uptivity acquisition, software revenues grew 36%. The three key drivers of our recurring software revenue are customer retention, existing customer utilization, and new contracts. Our software revenue retention rate for the quarter remained very strong, posting at a rate above 92%. Remember we measure retention as a percentage of revenues, not based on the number of customer accounts.

The second driver of quarterly recurring software revenue growth is the variable utilization of software services by existing customers. This metric fluctuates due to seasonality, macroeconomic conditions and customer service activities, as well as the revenue generated from the sale of additional services to existing customers. This measurement is similar in concept to same-store sales as used in the retail industry. It excludes attrition and new customer revenues. For the June quarter, we experienced a 50 basis points sequential increase. Historically we've experienced as much as a 1 to 3% drop in sequential existing customer utilization revenues in the June quarter. So this is a great result.

The third and final driver of our Q2 software revenue growth is revenue from new SaaS contracts, that is contracts not yet included in the same-store sales metric. We closed 100 new contracts in the quarter, 52 of which came from new customers and 48 were up-sales to existing accounts. We estimate that the expected future value of these contracts will be approximately 32% higher than the estimated value of bookings in Q2 2013. A quick reminder of 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. This conservative approach to the bookings calculation accurately reflects the true software revenue run rate that will be added to the business.

In Q2 2014 software segment gross margin was 58% on a GAAP basis and 72% with non-cash charges added back, compared to 61% and 73% respectively in Q2 2013. The slight decline in GAAP gross margin is principally attributable to increased professional service costs, higher levels of depreciation and amortization related to previously capitalized software development costs and amortization of acquired intangibles.

Our second segment is network connectivity, which includes all communication services provided to our software customers, as well as to legacy Telco clients. Network connectivity segment revenue for Q2 2014 was 16.9 million, a 13.5% increase over the 14.9 million in Q2 of last year. Approximately 85% of the network connectivity segment revenue is generated by customers using our contact center software. With the exception of accounts sold by telecom-based partners such as Verizon, software prospects typically request that we provide their connectivity services.

The June quarter network connectivity segment gross margin was 36% in 2014 compared to 35% last year. We continue to benefit from leveraging our fixed cost over an expanding customer base. Q2 network connectivity segment operating margin was 25%. Consolidated results for Q2 are as follows; consolidated revenue increased to 41.1 million, a 32% increase from last year's 31.1 million. Increased software revenues are the main factor driving this growth. We derive 94% of our consolidated revenue from customers deploying our contact center software and utilizing our software-related network connectivity services.

Consolidated gross margin was 49% in Q2 2014, the same as in Q2 of last year. On a non-GAAP basis consolidated gross margin was 58% versus 56% last year. Operating expenses were 25.6 million in Q2, a 52% increase from Q2 2013 levels of 16.8 million. Sales and marketing expenditures rose 44%. R&D spending was up 85% and G&A spending was 47% above the levels in the corresponding period a year ago. Operating expenses in the quarter were impacted by 1.3 million of Uptivity purchase price adjustments.

GAAP net income for the quarter of 4.5 million reflects a one-time tax benefit of 10.2 million in the quarter. The tax benefit, which arises upon consolidation of the Uptivity business is due to the release of a portion of the deferred tax asset valuation allowance.

Adjusted EBITDA, a non-GAAP measure, is an important metric of our operating results due to the significant amount of depreciation and amortization, resulting from acquisitions of software, customer bases and network technology, as well as the amortization of capitalized software development costs and stock-based comp. Adjusted EBITDA, excluding purchase price adjustments, was 3.5 million for the quarter. Adjusted EBITDA, including the adjustments was 430,000 for Q2 2014 compared to 1.9 million in 2013, marking the 10th consecutive quarter with positive Adjusted EBITDA.

As of June 30, we had 32 million in cash and access to an additional 15 million under our line of credit. Subsequent to quarter-end we have obtained an additional 5 million under a term note facility. So all-in we have cash and availability of 52 million.

Now let me turn to our outlook for the balance of this year. We expect the strong momentum established in the first half to carry over into our efforts for the rest of 2014. Excluding the impact of purchase price adjustments on Uptivity's contribution we continue to anticipate non-GAAP recurring software revenue of 90 to 92 million for the full year. This figure excludes perpetual license revenues from Uptivity. The range for total non-GAAP software revenues is expected to be in the range of 99 to 101 million for all of 2014. These amounts are consistent with the guidance range established last quarter. We anticipate consolidated non-GAAP revenues for the full year to be in the range of 168 to 171 million. Again, that's unchanged from previous guidance and we are raising the guidance range for full year 2014 non-GAAP Adjusted EBITDA from a range of 3 to 4 million, up to a range of 6 to 7 million.

In summary, we're pleased with inContact's results for Q2 of 2014 and we're looking forward to continuing success in upcoming quarters. Operator, we're now ready to open it up for questions.

Operator: Thank you. At this time if you would like to ask a question, you may do so by pressing star, then one on your touchtone phone. Once again that is star, one to ask a question.

We'll take our first question from Jeff Van Rhee with Craig-Hallum. Please go ahead.

Jeffrey Van Rhee: Hey, guys. Thanks. A couple of questions, first, I guess just, Paul, if you would on the pipeline, I think you commented last quarter, the pipe was up roughly 50% on a year-over-year basis, and I think in that context, you were trying to help us see through the year-over-year compare. You referenced the year-over-year compare issue again this quarter. So maybe if you could just touch on the pipeline and give us a sense of the growth there and then also, along those lines, you've spoken of this 30 to 50% fairly consistently in terms of bookings. Is that still the right range? Is that—do you feel any biases or any need to tweak that range?

Paul Jarman: Okay, so couple of questions. So first of all, last quarter, I mentioned that the pipeline year-over-year was up around 50% and going into the third quarter it's a similar strong number. So we see good strength in that pipeline and a lot of good deals at multiple different sizes. So first of all, from a pipeline perspective we have a lot of comfort where we're going and what's out there.

Secondly, the second question was the—is the guidance of about 30 to 50% in bookings. We don't formally guide there, Jeff. But certainly we're not uncomfortable with that range and as we start to add some of the Uptivity bookings in there, as more of that's reoccurring that will help us as well and remember, the bookings number I gave of 32% would be just the recurring revenues that we brought in for the quarter. Anything that would be non-recurring would be outside that number.

Jeffrey Van Rhee: Got it, and then along those lines, and I guess, as it relates to Uptivity, any more—I guess, any better understanding of how that revenue stream transitions to subscriptions now that you've had a little longer to look at the business, the mix and sort of formulate your plans?

Paul Jarman: Yes, so first of all, as you know, in the guidance we have a portion of that that's already reoccurring and we feel we have very good visibility into that. Secondly, we see nice movements in the pipelines and in the customers we've begun talking to, to move to recurring or to make that as a choice. So I just think you're going to see quarter-over-quarter, a larger percent of the WFO bookings will be recurring from Uptivity.

Jeffrey Van Rhee: Any way you can quantify that? I mean, are we—are you thinking like that revenue mix a year from now, subscription versus license; can you give us any sense of a ratio or what it might look like?

Paul Jarman: Well, I mean, first of all, as you look at the numbers we've given you so far in the guidance, the perpetual or one-time number is a small number. It's less than 10% for us. We see that probably over the next 12 months it'll probably get cut in half with recurring revenues replacing them, meaning as a percentage of the new revenues.

Jeffrey Van Rhee: Okay. Then last one for me, just as it relates to deal counts. Can you help us see through the deal counts? Because you've got different product sets that you're bringing to bear here. How would the, just the core business deal counts have been ex-Uptivity? Thanks.

Paul Jarman: Yes, so really, first of all, most of those hundred are inContact and so in the high-90s, because we really only had a very small part of the quarter to move subscription revenues. So really, everything for the most part is inContact, number one. Number two is we saw nice deals of all sizes. We saw some very nice larger deals, some nice mid-sized deals and a lot of small to mid as well. So certainly, across the board our ASP was up about 11%, but a great quarter for us with the types of deals, the size of deals, the ability to implement them easily in the near future. Since most of it, frankly, was inContact—because it's just the recurring part—it gives us a lot of blue sky going forward with the Uptivity piece.

Jeffrey Van Rhee: Got it, thank you.

Operator: Thank you. We'll take our next question from Brian Schwartz with Oppenheimer. Please go ahead.

Brian Schwartz: Yes, hi. Thanks for taking my questions here today. Paul, a quick follow-up, just on your answer there on kind of segmenting the deals in the quarter. Can you maybe talk qualitatively on the new customers that you added in the quarter, if they're fairly consistent in size with the recent quarters?

Paul Jarman: Probably the easiest way, like I just said, was with ASP being up about 11%, they'll be a little larger. But really, as we look at them across the business, I'd say you had probably five or six, which I would consider large. You had probably 40 or 50, which I'd consider medium and then you have the rest that were smaller and about half were new logos and about half were upsells, cross-sells into new divisions or new products on existing customers. So no outliers in size and some very nice wins in the Fortune 500; some very credible companies that we brought in as part of the new deals; really, really a great bookings quarter for us.

Brian Schwartz: Paul, one follow-up, just on the bookings again, on the strength in the quarter and the comments that you made. I'm just wondering, do you think that the strength that's coming, it's a function more of the sales that are ramping in the channel, in the direct sales or again, better productivity these days from the force? Or is it coming from the strength of the pipeline here? Just wondering if you can maybe drill into those two inputs into the strength of the bookings, because it seems like it's going to be continuing here for a while.

Paul Jarman: So in the quarter, about 48% of our bookings came through the channel, about 52 were direct. I think a couple of things are happening. As I mentioned before, Verizon had a great quarter, and a lot of our channel is moving forward. It was really nice to see some of the CRM partners bring in deals. As I mentioned, surrounding Uptivity we have a lot of blue sky in the VAR area, and most of that frankly is not showing up in the bookings yet, but will continue to show up in the third and fourth and all of next year. So we have additional sales people with a combination of us and Uptivity. So I see strength, frankly, in the direct side. I see strength in the partner side. I see strength in new channels, strength in newer OEM type partners and I also see more people willing to move to the cloud. So in my mind we feel good across the board.

Brian Schwartz: Terrific, a couple of metric questions here for Greg. Let Paul catch his breath. I do have one more for you Paul. But Greg, I think Paul actually gave this metric, it was a real interesting metric; you mentioned that you had 60% win rates against the cloud peers in the quarter. I'm wondering if you could talk a little bit how that win rate fares historically against the cloud peers.

Gregory Ayers: Yes, Brian. I would say that it's probably up 10 percentage points over kind of a historical run rate. So we certainly see it trend in the right direction.

Brian Schwartz: Terrific, and then the other metric question I had was just on the sales rep count. Just wondering if there was any churn in the core inContact sales rep base? Maybe you had some attrition from some of the low performers in the quarter?

Paul Jarman: We really didn't have any voluntary attrition, as you look at that. As we merged the two groups together we did consolidate a couple of positions based on how the two fit together. But from a voluntary standpoint, I think we—I can't think of, really, any of the field team and really not—really can't think of any of the inside teams. So I think we had a strong retention quarter.

Brian Schwartz: Good, and then, Paul, last question from me, and then I'll pass it along. It's really a macro-related question. I wanted to get your latest assessment here. Where do you think we are in terms of contact center solutions' buyers' appetites for a cloud platform? I'm wondering if it's possible to maybe segment the Enterprise buyers, the mid-market buyers. When you look at the percentage of deals or the opportunity that's out there, do you feel the ones that would viably consider a cloud solution for the contact center software—how does that look, the opportunity, compared to say, 18 to 24 months ago?

Paul Jarman: Yes, so a couple of answers to that. Let me start at the lower-end first. I think that—I think you have a similar or a better appetite at the low end, but I also think that we're getting more awareness that they know that we're here and it's available. So I think they were excited about a cloud option potentially a year, year and a half ago, but I don't think they knew quite where to go. I think that, certainly our name is getting out there as an alternative and it's getting easier for them to come to us versus us having to go find them in the sales process.

In the mid-market I feel like it's getting easier. It might mean that if a year ago it took two or three extra months to convince them it was the right solution to go to the cloud, we don't have to do near that level of convincing to go to the cloud. It's just more about why we're the right fit for them and then it is about what does the cloud mean for them. At the enterprise, I think we're definitely seeing acceleration versus a year or two ago. This quarter, two of those customers were easily Fortune 100s. We wouldn't have seen that kind of interest a year or two ago, and these were Fortune 100s that gave us a really nice chunk of seats from the first day on. Where they might have tested us with 50 or 100 seats before, they're now willing to give us hundreds of seats right upfront. So I feel that, that's kind of how you see it across the board. If that didn't answer the whole question, just ask me any parts of it that I missed.

Brian Schwartz: No, that was great, Paul. I really appreciated your latest assessment here of the cloud trend and congratulations again on a terrific bookings quarter. Thanks

Operator: Thank you. We'll take our next question from Mark Schappel with Benchmark. Please go ahead.

Mark Schappel: Hi, good evening and nice job in the quarter. Paul, with respect to your sales force, are you pretty much pleased with the size of the direct sales force at the moment? Or do you plan to continue to hire pretty aggressively for the remainder of the year?

Paul Jarman: So first of all we felt good at the 64 as far as how the two combined. The good news for us is not only do we have more products to sell but we have a wider portfolio and we have more to sell back into our current customers. So I feel, Mark, that we're going to keep growing that sales team and we'll grow it a little more this year and certainly, a good bit more in '15. So we're in a good position. We have good geographic coverage, but we—now we are at a point where we can verticalize a little more. We can do a little bit more into our own base and we have a wider product set that we feel like can add to what we're selling. So it's a good stage right now where we're at, but we'll keep adding.

Mark Schappel: With respect to overseas expansion and possibly even adding sales sites overseas, I mean what's the plan, Paul? Is it just to continue to focus on the core market here domestically? Or are you just trying to think about going overseas a little bit more aggressively?

Paul Jarman: So first of all, we are capable of going into Europe today, because we have all of the infrastructure in place. We have some direct sales today in England and then we have partners in the Nordic, we have partners in Germany. Obviously, through Siemens, we have a lot of coverage throughout Europe. So certainly that's the next area that we put some time into, and it would be a combination of partners and in some instances where would be some direct sales.

Mark Schappel: Great, and then, Greg, just one question for you. I did not catch the purchase accounting adjustment for Uptivity. I was wondering if you have that handy?

Gregory Ayers: Yes, Mark. Actually, there's a fair amount of detail, if you look in the back of the press release.

Mark Schappel: Okay.

Gregory Ayers: We've got a schedule there on a non-GAAP basis of inContact, Uptivity, the purchase price adjustments, and then how we get to the GAAP numbers.

Mark Schappel: Okay, I'll take a peek, thanks.

Operator: Thank you and we'll take our next question from Mike Latimore with Northland Capital. Please go ahead.

Michael Latimore: Thanks, excellent quarter there. In terms of the usage pattern being maybe seasonally a little stronger than normal, I guess can you—do you have any idea why that occurred in this quarter?

Gregory Ayers: Yes, Mike. We had a number of customers, which came in to the same-store sales metric that actually had an uptick in usage. So you still had a large percentage of the population, which has their normal seasonal downturn. But that was more than offset by some folks that were clearly countercyclical to the Q2, usually tail off a little bit in usage there.

Michael Latimore: Okay, and then you talked about sort of 50% increase in implementations. What was that running last year, a year ago, was more in line with kind of revenue growth or...?

Paul Jarman: Yes, I think it was closer to the bookings number.

Michael Latimore: Okay, and then Paul, you talked—you mentioned OEM a couple of times. Can you just elaborate on that a little bit? Is that a relatively new opportunity, the OEM?

Paul Jarman: Yes, so really what we're seeing out there Mike, is we've got a couple of different types of partners. We have those that refer us business. We have those that are OEMs, which are similar to a Siemens Unify or a Verizon and then we have a chunk of new groups that are more of a reseller, where they're reselling our product. That could be a VAR, that could be some of the other carriers and so we are seeing probably the most growth today in what I'll call the reseller market and we've seen some nice additional wins there.

Michael Latimore: But the two you mentioned, Verizon Unify, OEMs, they obviously are big opportunities. So I guess are there other OEMs you're looking at, kind of, in those kind of categories?

Paul Jarman: You know what, we are certainly working with and talking to people of that significance.

Michael Latimore: Okay, and then the final payment from Siemens, that's in the third quarter here, right? I think that's $500,000, is that right?

Gregory Ayers: That's correct, Mike. That's what we anticipate the net guaranteed amount to be in Q3.

Michael Latimore: Okay, and then just thinking about Uptivity generating cloud revenue for you guys, do you see that more kind of as an independent sale of their product as a cloud option, or is it more, you built it as a feature into your core offering and that's what's going to drive the incremental part of revenue? Which will be more impactful from a cloud standpoint?

Paul Jarman: They're both going to be impactful. So we see a lot of opportunities to tie it to our existing products and we're launching that solution here in a month or two. We see opportunities in the market period where they want to tie it to other ACDs or other switches and we'll take advantage of both of those opportunities.

Michael Latimore: I think you talked about a few big wins here, but I guess is the Company's focus still sort of 50 to 500, that's going to be the sweet spot for the foreseeable future?

Paul Jarman: You bet. So our focus is primarily in that area. But seemingly, every quarter now we have larger deals outside of that, that are coming in. So we feel it's prudent that we target our sales team there. But we're also very opportunistic, as larger deals come to take advantage of them.

Michael Latimore: Okay, and just last question there. Can you give like your top two or three verticals that you sell into, or any percentages that you might have there as well?

Paul Jarman: Yes, you bet. So first of all we have a lot of success with the outsourcers themselves. That's probably the largest vertical from a revenue perspective. We've done nicely with healthcare, financial, retail, technology or services. What you find in general is that, most companies have contact centers and they have a need and a process to interact with people, and so there's really not a significant vertical that far overshadows the rest, except for perhaps outsourcers, that really do it for all verticals, as you look at who they're servicing. So we're seeing nice success and what's important also, is traditionally, some of these verticals have been slower because of additional regulations or worries around security or other things such as finance and healthcare. But we've seen some nice growth in both of those areas and primarily because; A, they're more willing to come to the cloud; and B, as a Company, we've done the work necessary to fulfill the expectations of the regulations or the security needs of those customers.

Michael Latimore: Great, thank you.

Operator: We have no further questions at this time.

Paul Jarman: Well, we'd like to thank everyone for their time today. We're very excited about our results for the second quarter, and what that means for us for the rest of the year. We appreciate your time, and have a great day.