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inContact, Inc.

Fourth Quarter 2014 Earnings Conference Call

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Brian Schwartz, *Oppenheimer*

Mark Schappel, *Benchmark*

Mike Latimore, *North Land Capital*

PRESENTATION

Operator:

Good day, and welcome to the inContact Inc. Fourth Quarter 2014 Earnings Conference Call. Currently, all lines are in a listen-only mode. Later there will be an opportunity to ask questions during a question and answer session. You may register to ask a phone question at any time by pressing the star, then one on your touchtone phone. Please be advised today's program may be recorded.

It is now my pleasure to turn the program over to Mr. Greg Ayers, CFO of inContact. You may begin sir.

Gregory Ayers:

Thank you, and good afternoon. This is Greg Ayers, CFO of inContact. Welcome to our Q4 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 fourth quarter and year end 2014 results. Finally, I will provide additional detail on our financial results for the quarter as well as guidance for 2015 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 and full year 2014 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 or may or may not be provided in the future.

Now I'll turn the call over to Paul Jarman.

Paul Jarman:

Thank you, Greg. Today I'm pleased to report the results of another record quarter and the close to an outstanding year for inContact. We continue to win market share at a faster pace than competitions and are leading the space in both new cloud contact center bookings and recurring software revenues. In Q4 and across all of 2014 we achieved record results including new bookings, customer expansion, competitive wins, new implementation, software revenue run rate, and EBITDA.

In Q4 our record bookings represented a 44% year-over-year growth in estimated annual contract value. We closed 109 contracts including 66 new logo customers and 43 expansion deals. For the full year 2014 we are proud to announce we had the most new contracts in the Company's history: 390, with 222 new customers and 168 expansion. We have continued our march up market and ended the year with more than 70 customers from the Fortune 500 and Global 2000 and more than 60 customers with billings over $500,000 per year.

In Q4 we set a new record in implementation which was double the comparable period in 2013. We are doing this with both our internal professional services team and increasingly with certified implementation partners. We now have 11 certified implementation partners and are bringing more online every quarter.

Total software revenue for Q4 came in at an all time high of 30.3 million, up 56% year-over-year. For the full year 2014, we surpassed an important milestone with over 100 million in total software revenues, up a record 46% for the year. We are pleased with this growth and we have also seen steady improvement in gross margin and G&A expense.

I'd like to share some examples of key wins we achieved in the fourth quarter. In Q4, we added a leader in vacation travel services with 640 agents in 10 locations across the US and internationally. Previously, this company operated in a siloed environment with some centers on a competitive cloud solution and others on the premise. Now all business units will be connected through the inContact cloud for a completely unified system and the ability to collaborate and share best practices and resources across all operations. Deciding factors in this important win for inContact included our advanced multi-channel contact routing platform, end-to-end visibility in reporting, a completely integrated cloud WFO solution and our high touch specialized support services.

We are consistently winning against legacy premise solution providers and we are also taking customers from cloud competitors because of our deep expertise and more advanced all-in-one solution. As an example, our new customer Direct Interactions is upgrading to inContact from a previous cloud solution. To grow their business, Direct Interactions needed a more sophisticated solution to power its unique business model that includes 150 work-from-home staff. Direct Interactions is a Seattle-based contact center outsourcer who is dedicated in creating jobs for virtually anyone in any location. We had several significant expansion deals with current customers including a large global staffing company who extended inContact cloud system by adding another 350 agents following a recent acquisition. In the post-implementation survey the customer said, "The service and support we have received has been exceptional thus far, we know we'll be in good hands going forward." This customer satisfaction has a meaningful impact on cross-sell and upsell, expansion business and continued increase in reoccurring revenues.

In all of these examples inContact was selected over competing solution. Our win rate against our most direct competitors exceeded 65% in Q4 and over 60% in 2014. We are pulling ahead in the race to the cloud because one, we have the most integrated and proven full featured contact cloud solution; two, we are able to implement sizable operations across multiple locations in a timely manner; and lastly, we have a powerful personalized service model that drives customer loyalty. While others are promising future cloud products, inContact has over 10 years experience and proven delivery on a multi-tenant cloud platform. One of our biggest success stories in 2014 is the continued growth of our channel partnerships and program, inContact now has the broadest, most diverse channel of all cloud contact center providers including retailers like Verizon, referral partners like MicroCorp, well established VARs like Black Box and Carousel Industries, and technology partners like CellForce and Zendesk.

In Q4 over 50% of bookings came through channel partners. Our relationship with Verizon continues to expand and prosper especially with large enterprise deals as well as federal state and local government accounts. In fact one of inContact's largest deals of the year was through Verizon, a deal that moved from pipeline to turn up in less than 30 business days. This global outsourcer operating in over 40 countries was seeking to deliver high quality omnichannel service as a competitive advantage. The company rapidly implemented 2,000 agents on the Verizon inContact solution with another 2,000 agents coming in later phases. The Verizon sales team is well equipped to identify and close this deal and Verizon customers are increasingly looking for cloud solutions.

We recently announced our partnership with Black Box Network Services, a leading value-added reseller. Black Box has been an important partner in the Uptivity channel and is now working with the entire inContact offering to meet growing demand among enterprises looking for a smooth migration pass through the cloud. We're working to convert the rest of the approximately 50 Uptivity VARs to selling inContact. Our growing partner channel is a key contributor to our 44% bookings growth in Q4 and increases our ability to reach the total addressable market in 2015 and beyond. Channel partners are choosing the inContact cloud solution over other competitors, in many cases switching from long-term relationships with other providers. This further validates the strength of inContact's solution and our other leadership position.

Two-thousand-fifteen promises to be another outstanding year for inContact. Every year more companies are reaching an inflection point with their aging premise software and are looking to the cloud and to inContact. We're confident in our growth projections because we have the leading cloud offering in a 9 billion global contact center software market.

There is a broad acceptance that improved customer experience is the key to growth for companies in all industries, yet the complexity and scale of consumer expectations is dramatically affecting the ability of most companies to keep up. We have the answer to that in our innovative contact center platform. When combined with workforce optimization plus connectivity, it is difficulty for our competitors to answer.

Because of these trends, our leadership position in our 2014 result is a very positive outlook for 2015. There are three areas of priority for the coming year: continuing growth in software revenues through direct sales, our expanding partner channel, and by cross-sell and upsell with current customers. Number two is continuing innovation in our advanced cloud platform to sustain our outstanding win rate against competitors and to expand our market opportunity; and lastly increasing leverage in our model by improving gross margin, G&A, and Adjusted EBITDA.

Now I'd like to turn the time over to Greg for a more detailed discussion of financial performance.

Greg Ayers:

Thank you, Paul. We achieved strong results in the fourth quarter and for the full 2014 and now I'll provide more details about the financial performance.

The financial results I will discuss are presented on both a GAAP and a non-GAAP basis. However, all revenue figures are GAAP. Please refer to the press release for non-GAAP revenue amounts. At this point I'd also like to remind everyone of the Safe Harbor statement made at the beginning of the call.

First let's look at the Software segment which includes all revenue related to the delivery of our software applications and associated professional services. For Q4 2014 I'm happy to report that software segment revenue increased to 30.3 million, a 56% increase over last year's 19.4 million. The Uptivity business which we acquired last summer contributed 5.3 million in revenues in Q4. Excluding the Uptivity contribution our software segment revenues grew 29% year-over-year. Please note that in Q4 for the first time in 11 quarters we did not recognize any guaranteed revenues from our partnership with Unify.

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 above 93%, a level we are very pleased with. Remember, unlike some of the other companies in this space, we measure retention as a percentage of revenues, not the number of customer accounts, and we exclude upsells from this calculation.

The second driver of quarterly recurring software revenue growth is the variable utilization of software services by existing customers. This metric fluctuates due to the 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 December quarter we experienced a 5.8% sequential increase which is typical for a Q4 as we see spikes in usage during the holiday season.

The third and final driver of our Q4 recurring software revenue growth is revenue from new SaaS contracts. That is contracts not yet included in the same-store sales metric. We closed 109 new contracts in the quarter, 66 from new customers and 43 upsells to existing accounts. As Paul noted, we set a new record for bookings in a single quarter. We estimate that the expected future value of these contracts will be approximately 44% higher than the estimated value of bookings in Q4 of 2013.

A quick reminder on how inContact calculates bookings. Unlike certain other players in the space, bookings are an estimate of the annual contract value of new SaaS sales. It does not reflect the full value of a multi-year contract, estimated network connectivity revenues, nor perpetual license software revenues. This conservative approach to the bookings calculation accurately reflects the true software revenue run rate that will be added to the business.

For the full year 2014, software segment revenues grew 46% to 100.8 million. Uptivity contributed 12.6 million from the closing date of the acquisition through year-end. Excluding the revenue contribution from Uptivity, software revenues demonstrated a 28% year-over-year growth. In Q4 2014, software segment gross margin was 58.7% compared to 59.3% a year ago. GAAP software segment gross margin was impacted by non-cash charges related to the Uptivity acquisition.

On a non-GAAP basis, software gross margin was 72.4% compared to 70.9% a year ago. The improvement was driven by incremental software revenue supported by fixed costs. For the full year, software segment gross margin on a non-GAAP basis was 71.6%, down only 10 basis points when compared to 2013's 71.7%, yet minimum guaranteed software revenues from Unify decreased 3.2 million.

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 Q4 2014 was 19.1 million, a 22% increase over the 15.7 million in Q4 last year. On a sequential basis, network connectivity revenues increased by 1.2 million or 7%. Approximately 95% of our revenue is generated by customers using our contact center software and software-related network connectivity, up from 92% a year ago. With the exception of accounts sold by telecom based channel partners such as Verizon, software prospects typically request that we provide their connectivity services and this is a distinct competitive advantage for inContact. For the full year 2014, network connectivity revenues grew 16% to 71 million. Gross margin for the network connectivity segment was 36.5% in Q4 and 36.4% for the full year. This is essentially unchanged from 2013 levels.

Operating income for the network connectivity segment grew by 25% in Q4 with the segment's operating margin a robust 24.6%. Consolidated revenue for Q4 increased to 49.4 million, a 41% increase from last year's 35.1 million. GAAP consolidated gross margin was 50% in Q4 2014, compared to 48% in Q4 of last year. On a non-GAAP basis, consolidated gross margin increased to 59% versus 56% last year. Total operating expenses were 30.2 million in Q4, a 48% increase from Q4 2013 levels of 20.4 million.

Sales and marketing expenditures rose 43% while the rate of growth in R&D spending moderated from 108% year-over-year in Q3 to 78% in Q4. For the fourth quarter, G&A spending was 38% above the levels in the corresponding period a year ago.

Operating loss for Q4 was 5.5 million, a 54% increase over Q4 a year ago but $1 million less than the operating loss in Q3 2014. On a non-GAAP basis the operating loss for Q4 was 2.8 million compared to 2.1 million in Q4 of 2013. We expect to approach breakeven on a non-GAAP operating income by the fourth quarter of 2015.

GAAP net loss for the quarter of 5.6 million increased compared to the GAAP net loss of 3.9 million in Q4 of 2013. The increase was attributable to increased non-cash amortization and stock-based compensation charges of 1.6 million, principally related to the Uptivity acquisition.

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 the acquisitions of software, customer bases, and network technology, as well as the amortization of capitalized software development costs and stock-based comp. Adjusted EBITDA, which also excludes purchase price adjustments arising from the acquisition of Uptivity, was 2.1 million for Q4, an increase 109% from Q4 last year. This was our 12th consecutive quarter with positive Adjusted EBITDA. For the full year, Adjusted EBITDA was 8.1 million, up from 6.2 million in 2013. At year-end, we had 32 million in cash and cash equivalents and access to an additional 4 million under our line of credit.

Turning now to guidance for 2015, I'd like to remind everyone of the Safe Harbor statement at the beginning of today's call. In 2015, we anticipate consolidated revenues to be between 205 and 210 million for the full year. We expect total software revenues to be between 129 and 134 million for the full year. This would represent a 28 to 33% growth for software revenues. We expect Adjusted EBITDA will be between 9 and 10 million, representing an increase of 11 to 23%. On a GAAP basis, we anticipate a net loss of $0.34 to $0.39 per share in 2015. On a non-GAAP basis, we expect a net loss of $0.12 to $0.17 per share for the full year.

Operator, we're now ready to take questions.

Operator:

Certainly. At this time, if you would like to ask a question, please press the star, then one on your touchtone phone. You may withdraw your question at any time by pressing the pound key. Once again it is star, then one to ask a question and we'll pause briefly to allow questions to queue. Again, it is star, then one to ask a question today.

We'll take our first question from Jeff Van Rhee with Craig-Hallum. Your line is open.

Jeff Van Rhee:

Great, thank you. Congratulations guys. It looks like a great quarter here. A few questions for you, I guess just high level, first would you just talk about the pipeline, the characteristics that you're seeing in the pipeline as you're starting off the New Year here, whether it's deal sizes, where the deals are coming from, any other notable changes. Along those same lines, does it feel like overall the industry is accelerating as well—clearly you're taking share, you commented on the higher win rates—but does it feel like the industry is accelerating?

Paul Jarman:

Jeff, I'll take that one first, this is Paul. So, first I would say as I mentioned in the fourth quarter, we came into the quarter with strong pipelines and we achieved a very good result with the 44%. We also feel very good coming in the first quarter. We've got what we believe is a very good pipeline coming into first and we have strong pieces going into the other parts of the year and what's most visible to us is first, it looks very good so far. Secondly, a couple of things on the dynamics of our environment, we're seeing really on both sides Jeff, we're seeing that our mid-market is strong. The growth rate in the mid-market deals has been very good but also on top of that, we are seeing larger deals come through and in many cases those larger deals just take less time to get through the process and you don't quite sell the cloud as long or use inContact as long and so, we are, I feel seeing a little bit of industry pickup as well.

Jeff Van Rhee:

Okay, great, and then along the lines of sales and sales capacity, how do you think about '15, clearly your channel side is picking up—picked up nicely again as a percent of the pipe or as a percent of the bookings but how do you think about your sales and sales capacity? What do you need to put in place to continue to drive the bookings growth underpinning the software guide?

Paul Jarman:

Yes, so in general Jeff, what we will be doing is investing about a same percent of revenue in '15 as we did in '14 and that investment will be spread across the quota-bearing sales people, the partner teams, the demand gen teams, the sales engineering teams, and it's really across the board we'll make those appropriate investments to take advantage of additional partner interest and also keep driving our direct sales focus so that's what we look at today.

Jeff Van Rhee:

Okay. I guess two last then from me, you had referenced—I guess this is going back into the earlier part of '14, a 20 to 40% range on bookings and then clearly as the year has gone on, you've obviously solidly beaten that with another strong quarter, this quarter. Any thoughts you can give us in terms of how you think bookings are likely to grow here in '15, both what's implicit in the guide I guess and then what you're thinking in terms of overall bookings growth?

Paul Jarman:

Well, so we really haven't given a formal guidance here Jeff, but I would just say that we've said for years 20 to 40 and we were fortunate last year that the last three quarters be above 30, so I say we're optimistic, we're not putting a specific guide there and also we want to be conservative because it's the whole year as we go out but walking into the year Jeff, we feel very good.

Jeff Van Rhee:

Okay and then Greg, you had given the EBITDA, I wonder if you could give us a sense of either cash from ops or free cash flow expectations for ’15, what’s—how does that shake out? I guess you’re filling in cap ex to get us there?

Gregory Ayers:

Yes, so Jeff we haven’t provided any significant formal guidance around cash flow other than as Paul mentioned, we’re going to expect to see leverage in the model, on the gross margin line we’re going to leverage G&A, I think that the investment in PP&E would probably be in the 7 to $9 million range, which is probably significantly down from the wholesale step investment that we made in ’14 in order to put some infrastructure in place. But again we have adequate cash or cash availability and access to cash, so we’re adequately funded for the time being.

Jeff Van Rhee:

Got it, sounds good. Really nice quarter.

Paul Jarman:

Yes, thanks Jeff.

Operator:

We will take our next question from Katherine Egbert with Piper Jaffray. Your line is now open.

Katherine Egbert:

Hi, good afternoon, I just want to follow up on the comments you just made about larger deals taking less time to come through the process. Can you elaborate?

Paul Jarman:

Well, some—there’s a couple of things to that Katherine. One is as we have more deals that come from partners, partners often have an existing relationship already, and they have the ability to move some of those faster that’s part of it. Part of it is the fact that it takes less time to sell the benefits of the cloud than it used to; and the third thing is that, now that we have over 60 customers that bill over half a million a year and a lot of great logos in the Fortune 500, it’s easier to show the creditability of inContact and those are probably the three key drivers to what we’re seeing is more deals that are larger and that those larger deals can take less time because of those three things I just mentioned.

Katherine Egbert:

Okay, thanks, and then you made a number of three typically new customers’ announcements since the beginning of the year. Are these contributing presently?

Paul Jarman:

Let’s see, so, of those three probably the one would be for sure which is the one we referenced with Verizon and the other two would be kind of either being turned up or recently turned up.

Katherine Egbert:

Got it, and then your software gross guidance fiscal ’15 on the high end exceeds the 30% you guys talked about last quarter. Have you indeed seen an acceleration in booking to indicate sort of upward pressure?

Paul Jarman:

Well I mean if you look at the last three quarters we’re in the 30s to 30s and last was 44 so that certainly supports the software growth rate that comes from those bookings numbers.

Katherine Egbert:

Okay and then last one from me. The overall gross margin is at the all time high, is that—should we continue sort of to project that forward, I think it’s implied in guidance but I want to double check.

Paul Jarman:

Yes and the nice thing about the gross margin is not only is it moving up but it’s moving up even though in the fourth quarter there was no benefit from any guaranteed revenue.

Katherine Egbert:

(Inaudible).

Paul Jarman:

Obviously there will be a step down in guaranteed revenue in ’15 relative to ’14.

Katherine Egbert:

Right, but you called for operating breakeven exiting this year so does this gross margin contribute to that?

Paul Jarman:

Yes, it certainly does, that and the leverage in G&A.

Katherine Egbert:

Got it. Okay, well very nice job.

Operator:

We will take our next—excuse me—we will take our take our next question from Brian Schwartz with Oppenheimer. Your line is now open.

Brian Schwartz:

Yes, thank you for taking my questions this afternoon. I too add my congratulations, great job on the quarter Greg and Paul.

Paul Jarman:

Great, thank you.

Brian Schwartz:

Paul, I wanted to ask you about the products, you know, over the last 12 months in 2014 there's been a lot of platform enhancements and new capabilities added on WFO, dialer predictive, analytics, et cetera, congratulations on that innovation. Obviously you want to build a base of reference customers and bookings and then revenue but can you talk about how early demand trends or customer interest levels are shaping out for the newer products versus your expectation so far?

Paul Jarman:

You bet. So first of all Brian, I would say two things to the first part of the question is that these new products are helping us in two ways, one is it's giving us more width in every sale so we can get more revenue per customer and two is having this width is helping our competitive win rate. As it relates to what we're seeing in the market, we're seeing nice momentum in the Personal Connection which is the innovation and the patents around predictive and outbound dialing. We've seen some nice movement in workforce optimization which we've recently talked about and have both the (inaudible) and the Uptivity product sets to sell into the market and there are other pieces from reporting to analytics to some other things that we do that we see nice uptick with. So, I would say in really all three of those categories, we've seen nice new bookings and nice advantage and deals because having those products helped win the deal.

Brian Schwartz:

Thank you and Greg, I had a question just on the software revenue guidance and the bookings performance here over the last 12 months. I think Katherine referenced this, if you look at the midpoint at least of the software revenue guidance for 2015 it's 30% plus here growth, it's a little bit better than what I had forecast at but it's actually below what the bookings performance in the growth rate it looks to me 35% in 2014. So, can you help me out with the delta between the revenue guide, the software revenue guide, and the bookings performance last 12 months? Is there a point in the future where maybe we could expect the bookings growth to correlate more closely to your software revenue growth?

Gregory Ayers:

Yes, Brian so first of all I think it's prudent for us to be conservative at this point when we establish full year software growth from a guidance standpoint and historically when we've spoken about software growth, we principally focused on core software revenue growth, so if you exclude the contribution from Unify and you exclude the contribution from Uptivity, we would still be looking at a core software revenue growth of 30 plus percent. In '15, we will have a bit of a headwind with regard to the stepdown of about 3.6 million in software revenue from the guarantees that Unify provided in '14. So, we would be happy to be able to move guidance up later in the year but at this point, we feel it's appropriate. Then with regard to bookings, keep in mind that the bookings number are pre-attrition and so again the bookings growth for '14 varied anywhere between 21 and 44% so to continue with a 20 to 40% range although it might be a little bit larger than some folks might want, we feel that it's appropriate.

Brian Schwartz:

Great and last question from me, question for Paul and this is more of a philosophy question here and kind of thinking about shareholder value because I get this question all the time from investors, we just love to hear how you are thinking about balancing your investments versus the growth profile or the really the future operating leverage in the business. Because if I look at the numbers, I look at your business here in 2014, it looks like you outperformed your initial revenue target by about $17 million, even if I strip out Uptivity it still looks like you outperformed by about $10 million plus and your software revenue, at least the organic growth rate on your software revenue, it's accelerating now at a much higher revenue base which is amazing but the question is why are we seeing more of the upside flow to the bottom line or said another way Paul, what are you currently seeing in your pipelines or you're hearing from customers that's enticing you to aggressively reinvest proceeds from the continuing outperformance of the business? Thanks.

Paul Jarman:

Yes, so first of all Brian I would say is that when you look at 2015 remember that the EBITDA target that we gave includes basically a $3.2 million compare on the guarantee with Siemens from last year. So if you add that into '15 that shows you little better the leverage that we'll actually be achieving. Secondly I would say is that we do balance this opportunity for growth and for revenue creation and a very attractive bookings and growth rate with how do we create leverage through the year. So what we basically have said here is that, we're going to continue a similar investment in sales and marketing and in R&D but we will find leverage in gross margin. We will find leverage in G&A and we will create more EBITDA than we created previously. It also, as we start the year, gives a little bit of latitude as opportunities come to be able to take them maybe a large partner or another opportunity that comes at us, if we need to invest in that I think it will be prudent for us to do it. So we kind of mix here between staying aggressive on the top line and prudent to create leverage and as opportunities come at us we'll make good decisions on what to chase and where to create leverage.

Brian Schwartz:

Thank you.

Operator:

We will take our next question from Mark Schappel with Benchmark. Your line is now open.

Mark Schappel:

Hi, good evening thanks for taking my question, again nice, nice job on the quarter. Paul, your guidance implies considerably meaningfully lower telco revenue next year, I just wondering if there is anything going on, on that line item or just general conservatism?

Paul Jarman:

Again it's just a little bit of conservatism because we now have more than one partner that is selling the telecommunications on their own and the software through us. So, as that mix continues through 2015, we're just being careful if more of that comes from any of the telco related partners. Other than that, I feel like the attach rates are consistent with what we said before which is really over 90, 95% of those that buy directly from inContact buy our telecommunications as well.

Mark Schappel:

Okay, great and then in your prepared remarks, you talked a little bit about your program to convert the Uptivity partners to inContact, just wondering if you could just go through that one more time?

Paul Jarman:

You bet. So, basically in the past Uptivity sold their WFO solution to many of the Avaya, Cisco, and other VARs in the market, and with the acquisition, we picked up the relationships of about 50 of the value-added resellers and we've continued to sell the Uptivity products through those resellers and we've been meeting with many of them to have them also sell our full cloud product line that we've been selling for years and so we've actually announced recently the Black Box relationship and we've converted others that haven't been announced and we expect to convert many others through the year, so that instead of just selling the Uptivity solution, they're also selling all of our products.

Mark Schappel:

Great and then, one question for Greg, Greg what was the annual bookings growth except Uptivity?

Paul Jarman:

We don't have that right here in front of us but we can follow up.

Mark Schappel:

Okay, that would be great. Thank you.

Operator:

Our next question comes from Mike Latimore with North Land Capital. Your line is open.

Mike Latimore:

Yes, thanks, outstanding quarter and year there. I guess on the—you talked about a lot the larger deals, I guess on the low end maybe smaller deals are you seeing less price discounting going on there or better pricing, what's pricing like on the lower end of the market?

Paul Jarman:

Yes, Mike I'd say right now it really looks pretty stable. As I talk to the team and we saw some nice growth rates in our bookings and that mid-market area and we haven't seen a significant change in pricing pressure. In fact, in some cases we're finding we can offer some of these extra products into those mid-market accounts, so we're getting even a little more revenue per customer.

Mike Latimore:

If you were to look across your entire base I guess, is your ARPU trending up a little bit or more stable as well?

Paul Jarman:

I'd say it's pretty stable, I'd say it trends up in some cases where we're adding these extra products to it and then on the core products I'd say it's reasonably flat.

Mike Latimore:

I think in the prior comments there you said that you have more than one telco partner I think contributing so you had a second telco, were they material to bookings in the quarter, (inaudible)?

Paul Jarman:

We do have more than one telecommunications partner and we've actually got a couple of relationships and I'd say Verizon was the most significant partner in fourth quarter; the others are really ramping up.

Mike Latimore:

Okay. Then, what percent of your sales were sort of indirect in the quarter?

Paul Jarman:

Well we said that partners contributed over 50%.

Mike Latimore:

All right, got it. Then from an implementation timeframe and process, did that improve again this quarter or was it similar to last quarter, which was excellent.

Paul Jarman:

It is actually very similar to last quarter. I mean this was by far our biggest quarter ever for implementation and about 33% of it was done by outside partners and really I would say it was consistent. We have additional staff here, we have additional partners, and as I mentioned before it was actually double the number from last year.

Mike Latimore:

All right, okay. Great, thanks a lot.

Operator:

This does conclude our question and answer session. I would like to turn the program back over to our speakers for any additional remarks.

Paul Jarman:

Well, we'd like to thank you for your time and for the questions today, 2014 has been the strongest year in our history and we begin 2015 in a very powerful position based on our platform, our model, and our partners that we're coming through. We'd just like to thank everybody for being on the call and we'd like to express our confidence in 2015 and our excitement for the year and again thanks for listening.

Operator:

Thank you for participation. This does conclude today's program. You may disconnect at any time.