

inContact, Inc.  
Form 10-Q  
November 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2014

Commission File No. 1-33762

inContact, Inc.

(Exact name of registrant as specified in its charter)

Delaware 87-0528557  
(State or other jurisdiction of (IRS Employer

incorporation or organization) Identification No.)

7730 S. Union Park Avenue, Suite 500, Salt Lake City, UT 84047

(Address of principal executive offices and Zip Code)

(801) 320-3200

(Registrant's telephone number, including area code)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| Class                            | Outstanding as of November 3, 2014 |
|----------------------------------|------------------------------------|
| Common Stock, \$0.0001 par value | 60,994,316 shares                  |

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## INCONTACT, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS—(Unaudited)

(in thousands, except per share data)

|   | September<br>30,<br>2014 | December<br>31,<br>2013 |
|---|--------------------------|-------------------------|
| <b>ASSETS</b>   |                          |                         |
| Current assets:   |                          |                         |
| Cash and cash equivalents   | \$ 31,085                | \$ 49,148               |
| Restricted cash   | 81                       | 81                      |
| Accounts and other receivables, net of allowance for uncollectible<br>accounts of \$1,652 and \$2,203, respectively   | 23,267                   | 18,682                  |
| Other current assets  | 7,516                    | 4,360                   |
| Total current assets  | 61,949                   | 72,271                  |
| Property and equipment, net   | 33,924                   | 23,716                  |
| Intangible assets, net  | 26,103                   | 3,971                   |
| Goodwill  | 39,432                   | 6,563                   |
| Other assets  | 1,905                    | 1,540                   |
| Total assets  | \$ 163,313               | \$ 108,061              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                          |                         |
| Current liabilities:  |                          |                         |
| Trade accounts payable  | \$ 11,950                | \$ 9,696                |
| Accrued liabilities   | 11,133                   | 8,772                   |
| Accrued commissions   | 2,697                    | 2,072                   |
| Current portion of deferred revenue   | 6,737                    | 2,440                   |
| Current portion of debt and capital lease obligations   | 3,704                    | 3,461                   |
| Total current liabilities   | 36,221                   | 26,441                  |
| Long-term portion of debt and capital lease obligations   | 13,885                   | 4,580                   |
| Deferred rent   | 37                       | 487                     |
| Deferred tax liability  | 795                      | 232                     |
| Deferred revenue  | 4,861                    | 3,981                   |
| Total liabilities   | 55,799                   | 35,721                  |
| Commitments and contingencies   |                          |                         |
| Stockholders' equity:   |                          |                         |
| Common stock, \$0.0001 par value; 100,000 shares authorized;<br>60,981 and 55,346 shares issued and outstanding as of<br>September 30, 2014 and December 31, 2013, respectively | 6                        | 6                       |
| Additional paid-in capital  | 207,626                  | 167,422                 |
| Accumulated deficit   | (100,118)                | (95,088 )               |

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|  |            |            |
|--|------------|------------|
| Total stockholders' equity                 | 107,514    | 72,340     |
| Total liabilities and stockholders' equity | \$ 163,313 | \$ 108,061 |

See accompanying notes to condensed consolidated financial statements.

## INCONTACT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS and COMPREHENSIVE LOSS

(Unaudited)

(in thousands, except per share data)

|  | Three months<br>ended September<br>30, |            | Nine months<br>ended September<br>30, |            |
|--|--|------------|---------------------------------------|------------|
|  | 2014                                   | 2013       | 2014                                  | 2013       |
| <b>Net revenue:</b>                                |  |            |                                       |            |
| Software   | \$26,286                               | \$17,133   | \$70,493                              | \$49,490   |
| Network connectivity                               | 17,909                                 | 15,106     | 51,867                                | 45,477     |
| Total net revenue                                  | 44,195                                 | 32,239     | 122,360                               | 94,967     |
| <b>Costs of revenue:</b>                           |  |            |                                       |            |
| Software   | 12,018                                 | 7,078      | 30,486                                | 19,857     |
| Network connectivity                               | 11,316                                 | 9,693      | 33,009                                | 29,336     |
| Total costs of revenue                             | 23,334                                 | 16,771     | 63,495                                | 49,193     |
| Gross profit                                       | 20,861                                 | 15,468     | 58,865                                | 45,774     |
| <b>Operating expenses:</b>                         |  |            |                                       |            |
| Selling and marketing                              | 13,541                                 | 9,574      | 36,602                                | 27,004     |
| Research and development                           | 6,316                                  | 3,043      | 15,554                                | 8,778      |
| General and administrative                         | 7,500                                  | 5,550      | 20,525                                | 15,924     |
| Total operating expenses                           | 27,357                                 | 18,167     | 72,681                                | 51,706     |
| Loss from operations                               | (6,496 )                               | (2,699 )   | (13,816 )                             | (5,932 )   |
| <b>Other income (expense):</b>                     |  |            |                                       |            |
| Interest expense                                   | (83 )                                  | (88 )      | (278 )                                | (238 )     |
| Other income (expense)                             | 1                                      | 1          | (148 )                                | (24 )      |
| Total other expense                                | (82 )                                  | (87 )      | (426 )                                | (262 )     |
| Loss before income taxes                           | (6,578 )                               | (2,786 )   | (14,242 )                             | (6,194 )   |
| Income tax benefit (expense)                       | (106 )                                 | (41 )      | 9,262                                 | (90 )      |
| Net loss and comprehensive loss                    | \$(6,684 )                             | \$(2,827 ) | \$(4,980 )                            | \$(6,284 ) |
| <b>Net loss per common share:</b>                  |  |            |                                       |            |
| Basic and diluted                                  | \$(0.11 )                              | \$(0.05 )  | \$(0.09 )                             | \$(0.12 )  |
| <b>Weighted average common shares outstanding:</b> |  |            |                                       |            |
| Basic and diluted                                  | 60,429                                 | 55,317     | 58,448                                | 54,375     |

See accompanying notes to condensed consolidated financial statements.





## INCONTACT, INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY—(Unaudited)

(in thousands)

|   | Common Stock |        | Additional<br>Paid-in<br>Capital | Treasury<br>Stock |        | Accumulated<br>Deficit | Total      |
|---|--------------|--------|----------------------------------|-------------------|--------|------------------------|------------|
|   | Shares       | Amount |                                  | Shares            | Amount |                        |            |
| Balance at December 31, 2013            | 55,346       | \$ 6   | \$ 167,422                       | -                 | \$ -   | \$ (95,088)            | \$ 72,340  |
| Common stock issued for options         |              |        |                                  |                   |        |                        |            |
| exercised                               | 565          | -      | 2,009                            | -                 | -      | -                      | 2,009      |
| Common stock issued under the           |              |        |                                  |                   |        |                        |            |
| employee stock purchase plan            | 60           | -      | 454                              | 17                | 126    | (14)                   | 566        |
| Common stock received for settlement    |              |        |                                  |                   |        |                        |            |
| of taxes and forfeited restricted stock | -            | -      | -                                | (69)              | (162)  | -                      | (162)      |
| Issuance of common stock                | 3,822        | -      | 31,951                           | -                 | -      | -                      | 31,951     |
| Issuance of restricted stock            | 1,188        | -      | -                                | 52                | 36     | (36)                   | -          |
| Stock-based compensation                | -            | -      | 5,790                            | -                 | -      | -                      | 5,790      |
| Net loss                                | -            | -      | -                                | -                 | -      | (4,980)                | (4,980)    |
| Balance at September 30, 2014           | 60,981       | \$ 6   | \$ 207,626                       | -                 | \$ -   | \$ (100,118)           | \$ 107,514 |

See accompanying notes to condensed consolidated financial statements.

## INCONTACT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

|  | Nine months ended<br>September 30, |            |
|--|------------------------------------|------------|
|  | 2014                               | 2013       |
| Cash flows from operating activities:                                      |                                    |            |
| Net loss   | \$(4,980 )                         | \$(6,284 ) |
| Adjustments to reconcile net loss to net cash from operating activities:   |                                    |            |
| Depreciation of property and equipment                                     | 5,447                              | 4,469      |
| Amortization of software development costs                                 | 4,300                              | 3,475      |
| Amortization of intangible assets  | 2,316                              | 270        |
| Amortization of note financing costs                                       | 21                                 | 14         |
| Interest accretion   | 3                                  | 5          |
| Stock-based compensation   | 5,790                              | 2,961      |
| Loss on disposal of property and equipment                                 | 626                                | 120        |
| Write-off of contingent liability  | (146 )                             | -          |
| Deferred income taxes  | (9,368 )                           | -          |
| Changes in operating assets and liabilities, net of business acquisitions: |                                    |            |
| Accounts and other receivables, net  | (3,843 )                           | (3,162 )   |
| Other current assets   | (1,793 )                           | (1,140 )   |
| Other non-current assets   | (333 )                             | (477 )     |
| Trade accounts payable   | 1,875                              | 1,137      |
| Accrued liabilities  | (238 )                             | 279        |
| Accrued commissions  | (122 )                             | 612        |
| Deferred rent  | (145 )                             | 134        |
| Deferred revenue   | 3,309                              | 2,514      |
| Net cash provided by operating activities                                  | 2,719                              | 4,927      |
| Cash flows from investing activities:                                      |                                    |            |
| Payments made for deposits   | (32 )                              | (12 )      |
| Acquisition of assets  | -                                  | (2,746 )   |
| Acquisition of a business, net of cash acquired                            | (11,992)                           | (2,700 )   |
| Capitalized software development costs                                     | (8,052 )                           | (4,583 )   |
| Purchases of property and equipment  | (10,920)                           | (3,365 )   |
| Net cash used in investing activities                                      | (30,996)                           | (13,406)   |
| Cash flows from financing activities:                                      |                                    |            |
| Proceeds from exercise of options  | 2,009                              | 6,475      |
| Proceeds from sale of stock under employee stock purchase plan             | 566                                | 326        |
| Borrowings under term loans  | 1,000                              | 4,000      |
| Payment of debt financing fees   | (45 )                              | (43 )      |
| Principal payments under debt and capital lease obligations                | (3,154 )                           | (2,504 )   |
| Purchase of treasury stock   | (162 )                             | -          |
| Borrowings under revolving credit agreement                                | 10,000                             | -          |
| Payments under the revolving credit agreement                              | -                                  | (1,000 )   |
| Net cash provided by financing activities                                  | 10,214                             | 7,254      |

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|  |          |          |
|--|----------|----------|
| Net decrease in cash and cash equivalents        | (18,063) | (1,225 ) |
| Cash and cash equivalents at beginning of period | 49,148   | 48,836   |
| Cash and cash equivalents at end of the period   | \$31,085 | \$47,611 |

Supplemental schedule of non-cash investing and financing activities: