inContact, Inc.
Form 10-K
March 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

x Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2015

Or

¨Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File No. 1-33762

inContact, Inc.

(Exact name of registrant as specified in its charter)

Delaware	87-0528557
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

(Address of principal executive offices and Zip Code)

(801) 320-3200

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Act: Common Stock, Par Value $0.0001

Securities registered under Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large Accelerated Filer ¨	Accelerated Filer x
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 x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $578,595,616.

The number of shares outstanding of the registrant's class of $0.0001 par value common stock as of February 26, 2016 was 62,088,119.

DOCUMENTS INCORPORATED BY REFERENCE: Information required by Items 10 through 14 of Part III of this Form 10-K, to the extent not set forth herein, is incorporated herein by reference to portions of the registrant's definitive proxy statement for the registrant's 2016 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 2015. Except with respect to the information specifically incorporated by reference in this Form 10-K, the registrant's definitive proxy statement is not deemed to be filed as a part of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

In addition to historical information, this annual report on Form 10-K contains forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “will,” “expect,” “project,” “estimate,” “intend,” “anticip “plan,” “continue” or similar expressions. In particular, information appearing under “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some, but not all, of the factors that could cause actual results or events to differ materially from those anticipated:

- The highly competitive and evolving nature of the industry in which we compete;
- Rapid technological changes;
- Failure by us to implement our strategies;
- Our ability to keep pace with changing customer needs;
- Financial difficulties experienced by any of our top customers;
- Our debt and debt service requirements that restrict our operating and financial flexibility, and impose interest and financing costs;
- Our ability to attract and retain key personnel;
- The effects of government regulation;
- Claims of patent infringement by us or against us; and
- General economic conditions.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking statements. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. You should carefully read the factors described in the “Risk Factors” section of this Form 10-K for a description of certain risks that could, among other things, cause our actual results to differ from these forward-looking statements.

All forward-looking statements speak only as of the date of this Form 10-K and are expressly qualified in their entirety by the cautionary statements included in this Form 10-K. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, we file periodic reports and other information with the Securities and Exchange Commission (“SEC”). We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports available through our Internet site, www.inContact.com, as soon as reasonably practicable after electronically filing such materials with the SEC. They may also be obtained by writing to inContact, Inc., 7730 S. Union Park Avenue, Suite 500, Salt Lake City, Utah 84047. In addition, copies of these reports may be obtained through the SEC website at www.sec.gov, by visiting the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 800-SEC-0330. Our common stock trades on The NASDAQ Capital Market under the symbol

“SAAS.”

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PART I

ITEM 1. BUSINESS

Overview

What We Do

inContact ("inContact," "we," "us," "our," or the "Company") is a leading provider of contact center solutions that help companies around the world achieve their customer experience goals. We are at the intersection of two major long-term disruptions: first, with the cloud, and second with the "Age of the Customer" wherein customers now have more voice and more choice. Customer experience is rapidly evolving for organizations of any size, a result of the proliferation of digital channels and social media, mobile technology, the need to reduce customer churn and increase loyalty and "always on" consumers. As a result, enterprises seek a customer experience strategy that successfully connects to consumers throughout the customer journey. Every contact or touchpoint on that customer journey is an opportunity to get the customer onboard, complete the sale, increase their loyalty, reduce churn, and otherwise drive greater customer satisfaction. The contact center is truly the front line in this battle. We see our role as providing the best performing and widest range of tools to make that contact center cost efficient and effective in driving greater revenues and higher customer satisfaction.

Our complete solution includes the inContact Customer Interaction Platform as a Service, our Expert Service Model and Partner Ecosystem. With over eleven years of experience in the cloud and 19 years as a network connectivity provider, inContact is leading the industry adoption of cloud technology so that companies can operate more efficiently, optimize the cost and quality of every customer interaction, and ensure ongoing customer-centric business improvement and growth. This is demonstrated by supporting over:

- 6 billion interactions per year
- 155,000 agents on our connectivity solutions
- 100 countries where our solutions are in use
- 100 Fortune 500 / Global 2000 customers

Our dynamic technology platform provides our customers a pay-as-you-go solution without the costs and complexities of premise-based systems. Our proven cloud delivery model provides compelling total cost of ownership savings over premise-based technology by reducing upfront capital expenditures, eliminating the expense of system management and maintenance fees, while providing agility that enables businesses to scale their technology as they grow.

We operate under two business segments: Software and Network connectivity. The Software segment includes all services related to the delivery of our cloud contact center software solutions. The Network connectivity segment includes all voice and data long distance services provided to customers. Software segment revenue was 65% of total revenue in 2015, 59% in 2014, and 53% in 2013. Please see the financial information on our segments presented in Part IV, Item 15 "Financial Statements" – Note 16 – "Segments."

Business Developments

In March 2015, we issued $115.0 million in aggregate principal amount of 2.50% Convertible Senior Notes (the "Convertible Notes") due April 1, 2022, unless earlier converted pursuant to their terms by the holders. Net proceeds from the Convertible Notes were approximately $111.2 million, net of transaction fees. The Convertible Notes pay interest in cash semiannually in arrears at a rate of 2.50% per annum.

Continuous innovation is part of our DNA at inContact, through our internal R&D efforts, through our partner ecosystem and through strategic acquisitions. In the first quarter of 2016, we closed two technology acquisitions that will greatly accelerate our ability to provide our customers with actionable insights to better understand their customers' needs and intelligently staff omnichannel contact centers. In both cases, the acquired companies were focused primarily on building new technologies to take to market. They have proven their solutions with mid-market and enterprise customers and built the technology in a multitenant cloud environment.

The first acquisition, Attensity, brings us tremendous opportunity in Big Data and Analytics using natural language processing technology to analyze large amounts of unstructured data. That data explosion comes from a variety of channels including email, text, chat, customer surveys, blogs, communities, social media and other channels. High profile consumer brands generate a tremendous amount of customer dialogue, only a portion of which flows through the contact center. The customer intelligence software from Attensity that we've acquired is built on expertise in extracting timely, relevant insights from millions of text-based conversations.

The Attensity big data engine gives us significant capabilities in text-based analytics for all customer experience channels, and it is a significant untapped market for us with an estimated size of $1 billion.

Unstructured data, from emails, text, survey results, trouble tickets, tweets and other social media, includes a wealth of actionable business intelligence. With our newly acquired software, companies can analyze this mountain of unstructured data for compliments or complaints, product or service issues and respond proactively using the resources already available in the contact center. Using patented natural language processing technology, we extract an accurate and meaningful reflection of the underlying sentiment of the comment, the subtle meaning that identifies trends and customer intent. This solution is built for Big Data and can help organizations predict consumer behavior. We expect with this additional solution we will be a leader in the text based channels that are becoming a key part of our omnichannel queue. Nearly 40% of contact centers use text and instant messaging, with this number set to increase to over 60% by 2017, representing one of the fasting growing segments in the customer experience area.

The second technology acquisition is AC2 Solutions, a perfect addition to our workforce optimization solution which continues to be a game-changer in the cloud. The new technology is for workforce management (“WFM”) tools that are covered by 5 U.S. patents and will be a big differentiator for us. As companies seek greater efficiency and utilization of their agents through intelligent scheduling, automated workforce management tools can optimize agent scheduling. These technologies will complement our current workforce optimization solution that we offer to the market today. The new WFM technologies are used by mid-market and enterprise companies.

The combined purchase consideration was approximately $18.5 million cash and 40,456 restricted shares of the Company’s common stock valued at $370,000 that will vest over two years. An additional 505,700 restricted shares of our common stock were issued, but not included in the purchase consideration as the shares will vest as services are provided over a two-year period.

We expect the majority of the purchase price of these acquisitions to be allocated to goodwill and acquired intangible assets as the valuation of certain assets and liabilities is ongoing as of the date of this Form 10-K.

Complete Solution: Technology, People, Partners

Companies moving to the cloud for their contact center are looking at the full picture of what a true partner can provide—beyond the technology, to the essential services and partner ecosystem, that together—add up to a reliable, safe choice. We gain competitive advantage by offering a cloud contact center solution with a depth and breadth of technology, an experienced team of professionals as well as key technology and go to market partnerships.

With inContact’s comprehensive approach in the cloud, we are making it easier and more affordable for companies of all sizes to create and manage stand-out customer experiences while meeting their key business metrics.

Products and Services

inContact Customer Interaction Platform as a Service

The inContact Customer Interaction Platform as a Service includes five components that are unified in an all-in-one cloud system that includes:

- Cloud Infrastructure
- Voice as a Service
- Omnichannel Routing

- Workforce Optimization
- Analytics

Cloud Infrastructure

Highly scalable, reliable, redundant and secure foundation for inContact's 24x7 global, carrier-grade infrastructure. An extensible, open platform with over 200 application programming interfaces ("APIs") that make it easy to customize and integrate with customers' business systems and solutions from innovation and ecosystem partners.

Voice as a Service

inContact Voice as a Service builds on our unique strength as the only contact center provider that has a global, carrier-grade network. Even though multichannel service is growing, voice is still a critical channel. Our Voice as a Service offering is unique in the industry because it optimizes voice quality for contact centers, is built on inContact's carrier-grade, global network and includes the most flexibility, connectivity options and monitoring available from any contact center provider.

As part of the complete solution, we are publicly disclosing our voice quality score as measured by industry-standard benchmarks. inContact's average score for the last four months of 2015 indicates better than very good quality. We now deliver individual voice quality scores for each customer. This is something that no one else in the market can provide.

inContact operates a national connectivity network providing both time-division multiplexing and voice over internet protocol ("VoIP") connectivity as well as toll-free and local-number services. Incoming calls are routed through a portfolio of partners specially selected for call-quality as well as low-cost services to benefit our customers. All outgoing calls are handled on the inContact network that was designed from the ground up to support a broad range of software applications.

Our connectivity network is the backbone of the inContact Customer Interaction Platform as a Service as our customers' calls are routed across our carrier-grade network. Our ability to provide network connectivity as well as cloud software products and services creates a strong competitive advantage for those customers who are looking for a single source supplier for both these services.

Omnichannel Routing

Cloud multimedia routing for all customer interactions, including traditional channels such as inbound / outbound voice, voicemail, email, chat, work items, interactive voice response ("IVR"), voice portal and self-service, as well as newer channels such as social media and short messaging services ("SMS"). Cloud multimedia routing includes pre-built integrations and APIs for customer relationship management ("CRM"), unified communications and other inContact ecosystem partners.

- inContact ACD™: The goal of an Automatic Call Distributor ("ACD") is to get callers to the right agent as quickly as possible. inContact provides advanced multi-channel routing functionality along with the management tools required for our customers to monitor and manage the process. inContact ACD includes skills-based routing, universal contact queues, automatic call back, and inbound/outbound call blending. Dynamic connections with the database enhance the call routing even further by leveraging real-time data for routing decisions to improve the caller experience. inContact ACD is also capable of aggregating multiple contact center sites into a single entity for improved management and reporting of large, complex contact center operations.
- inContact IVR™: inContact Interactive Voice Response is a robust IVR that delivers a typical initial caller experience. IVR is the key to good self-service and assists the caller to get to the appropriate live-agent service. inContact IVR is unique because of the robust drag-and-drop utility that is used to create specialized call flows that are unique to each customer. Customers can retain control and develop the call flows for themselves or engage our professional services team to create a tailor made solution to create unique workflows.
- inContact MAX—My Agent eXperience™ : Designed to improve agent experience and efficiency, this context-sensitive and dynamic interface is architected to support agents handling omnichannel experiences across the customer journey.
- inContact Personal Connection® Outbound: inContact Personal Connection dialer solution is based on patented technology which eliminates legacy dialers' awkward delays in greeting the caller. Since the agent is connected

before the customer answers, the telltale pause and delayed hello are avoided. Agents can have more productive conversations with customers which translates into higher contact center revenues.

- inContact CTI™: Computer Telephony Integration ("CTI") leverages the customer database to deliver a caller experience based on data relevant to the caller. inContact CTI integrates with customer data servers to provide agents with pre-populated customer data that reduce contact handling times. inContact CTI can also link IVR applications with transaction databases, enabling caller self-service and reducing the need for agents where appropriate.
- inContact Integrations: inContact was designed from the ground up to be open and integrate with various hardware and software solutions already in place at our customers' sites. inContact can overlay an existing private branch exchange ("PBX"), while communicating hand-in-hand with the CRM solutions used by our customers.

Workforce Optimization

- inContact Workforce Optimization: Robust solution in the cloud to help organizations transform the quality of customer interactions by improving agent performance, by optimizing operations and by intelligently automating actions and assignments between workforce optimization applications (“WFO”) and the core contact center ACD and routing engine.
- inContact Workforce Management™: inContact Workforce Management (“WFM”) helps our customers forecast demand, schedule their workforce, analyze and optimize staffing and report real-time adherence in their contact centers. inContact WFM includes analysis to predict service levels, abandon rates and queue times as well as a break/lunch optimization wizard to improve staffing efficiency. In addition, agents can review their schedule, set up schedule preferences, request time off, and swap shifts with other agents on their own.
- inContact Quality Management™: inContact’s Quality Management Software provides insights into agent performance and customer satisfaction. It works by scoring agent performance against objectives that a customer can define and monitor. The quality management scorecard then provides specific details about each agent’s performance that can be used to guide training and coaching programs.
- inContact Screen Recording™: inContact Screen Recording provides compliance level screen recording functionality for all voice channel interactions. It captures and stores recordings for quick playback to meet legal and regulatory requirements. inContact ACD communicates directly with the screen recording gateway server to initiate the start and stop of screen recording activity of the agent desktop.
- inContact ECHO®: inContact ECHO gathers the opinion of the user and presents the analysis of the feedback directly to supervisors and agents to identify gaps in service and processes. Most companies try to gather user feedback, but many find it difficult to translate user opinion into meaningful data that promotes better service delivery. inContact ECHO is an effective tool for our customers to close the loop between offering service and evaluating the results of the service for continuous improvement.

Analytics

- inContact Reporting: Flexible and detailed reporting includes pre-built and customer reports as well as direct data access.
- inContact Analytics-Driven Quality: inContact Analytics-Driven Quality software helps customers capture, evaluate, and learn from customer interactions using audio files. This speech analytics solution examines unstructured audio files and automatically surfaces customer behavior indicators. This helps our customers increase revenue, manage performance, processes, and costs, and enhance their customers’ satisfaction.
- inContact inView: inContact inView is an optimization solution that aggregates performance data from disparate systems and acts on the data with proven business improvement processes.

Expert Service Model

inContact provides an expert service model backed by a team of specialists with deep experience in contact center operations, cloud, voice technology and customer interactions. To achieve their goals, inContact customers have access to dedicated business managers who provide the knowledge, processes and best practices that they need to get the full benefit of the inContact solution. We also provide full education and training as well as online knowledge resources.

- Business Partner Service Team: Business partners deliver personalized service starting from implementation and deployment and continuing to support and help optimize the inContact solution to fit the unique needs of individual customers.
- Cloud and Contact Center Experts: Our technologists bring in-depth knowledge and experience to help customize and support customers with sophisticated needs and unique operational requirements.
- Global, 24/7 Service Support and Maintenance: Our customer service personnel are available during extended business hours and also provide emergency service 24 hours a day, seven days a week

Partner Ecosystem

inContact has built a rich ecosystem of partners that includes trusted leaders in CRM, unified communications ("UC") and leading carrier networks. These relationships benefit inContact because they introduce us to new sales channels and they add scalability to our sales, implementation, professional services and support operations.

In 2015, we greatly expanded our third-party developer program, inCloud®. This program supports the rapidly expanding community of partners, third-party developers and customers that are building on the inContact Customer Interaction Platform as a Service. We now have over 75 partners participating in the program. The inContact developer portal includes over 200 API as well as software development kits, code samples and best practices. This has created a powerful competitive advantage in winning deals and provided additional sources of leads and referrals.

The Power of the Cloud Model

The cloud model enables subscribers to access a wide variety of software solutions that are developed specifically for delivery over the Internet on a pay-as-you-go basis. Purchasing cloud software solutions offers advantages to businesses over traditional software licensing and delivery models, including the following:

- Operational expense rather than a capital expense;
- Overlay existing infrastructure without additional investment;
- Low up-front expenditure reduces risk and is especially appealing in a challenging economic climate;
- Remove complexity of day-to-day management;
- Ability to use at-home agents or multi-site workforces because the service is delivered over the Internet and can be accessed from any location;
- Continued access to state-of-the-art technology with no need to install and manage third-party hardware and software in-house and avoidance of technology lock-in;
- Ability to scale as business needs change; and
- Instant built-in scalability, redundancy, security, service delivery and IT expertise.

Market Opportunity

We believe that customers have more choice and voice than ever before and goods and products are rapidly becoming commoditized. Service has become a key competitive differentiator, but today's contact centers are often missing the mark in providing a consistent, high quality experience across the customer's channel of choice. Voice continues to dominate, but new channels like social and mobile are rapidly coming into the mix. We believe the world of the contact center is changing rapidly and is becoming an important way for companies to differentiate their businesses. We believe that the next five years will bring significant changes to the contact center market, as the following five macro trends converge:

- Customer Experience—customers expect personalized, effortless service that is consistent across all communication channels, and research shows that they are likely to switch brands if they do not get the service they expect;
- Self Service—where customers are willing to perform all possible customer service functions themselves;
- Social Media—listening and responding to service issues in the blogosphere where customers have more voice and choice than ever before;
- Smart Phone—with more smart phones than computers accessing the net, multi-channel contact options—including SMS, chat, web and social—are in increasing demand by customers; and
- Big Data Analytics—using the huge store of contact center data to drive intelligent action, better enterprise alignment and more successful customer service outcomes.

Market Leadership

In 2015, inContact was recognized by several leading industry analysts as a market leader. Having key contact center analysts now reporting on the cloud is an important indicator of the growth and widespread interest in the cloud market—among companies of all sizes and in all verticals. In Gartner's inaugural Magic Quadrant for Contact Center as a Service[1], inContact was placed in the leader quadrant with high ratings in both ability to execute and completeness of vision. In addition, Ovum recognized inContact as a Market Leader in the 2015 Ovum Decision Matrix[2], with top scores in technology, ease of implementation and customer satisfaction. Finally,

[1] Gartner Magic Quadrant for Contact Center as a Service, North America, October 2015
[2] Ovum Decision Matrix: Selecting a Multichannel Cloud Contact Center Solution, 2015–16

Frost & Sullivan has recognized inContact with the 2015 Customer Value Leadership Award[3] for the Contact Center Industry. This award is significant to us because it is given once a year to a "company that consistently deepens customer relationships by offering superior products and services that deliver a clear, demonstrable ROI."

Target Market Segments

Using research from our own customer base and third party market data, we have identified the following as key target market segments for the inContact Customer Interaction Platform as a service:

- Small and Medium-sized Business ("SMB");
- Enterprise;
- Government; and
- Business Processing Outsourcing ("BPO").

These target customers are most often found in the following five key vertical markets:

- Customer Services and Sales BPOs – key drivers are adding capacity quickly for new campaigns and customers and decreasing cost, but enhancing quality and service levels;
- Retail and Direct Response – key drivers are seasonality and increasing cross-sell and up-sell opportunities;
- Healthcare Providers – key drivers are healthcare regulations, HIPAA and increased competition for consumer dollars;
- Utilities – key drivers are regulatory pressures, increased competition and proactive service communications; and
- State and Local Government – key driver is increased need for cost-effective citizen services.

We believe these five vertical markets have market dynamics or regulatory requirements that help drive adoption of cloud based solutions.

Sales and Marketing

Marketing continues to be a strategic growth engine for inContact, as we have in place a sophisticated system of generating qualified leads and converting inquiries into sales opportunities and revenue. In 2015, we continued our demand generation programs and targeted marketing activities to accelerate sales growth. We are driving new growth and expansion with customers and partners with these key strategies:

- Build a strong, consistent and recognizable brand across the contact center industry and consistently promote and communicate our value proposition;
- Expand customer advocacy by involving customer champions in field and industry events, thought leadership and media outreach;
- Increase our public relations presence and deepen our relationships with key industry analysts;
- Leverage social media to build a strong inContact community and engage prospects, customers and industry influencers;
- Increase scale and impact of demand generation programs with digital media, search engine optimization and targeted email;
- Increase presence at key industry, partner and vertical events, as well as supporting regional sales teams; and
- Nurture relationships with prospects for more effective conversion to qualified opportunities.

The key audiences for our message include contact center operations management, IT management and C-level executives. Our current marketing efforts are focused on: (1) continued elevation of the inContact brand to a position of industry leadership, (2) identifying, attracting and pre-qualifying prospective leads that can be converted to new sales opportunities, and (3) expanding partner support and integration offerings to enable joint marketing and selling with key partners.

[3] Frost & Sullivan 2015 North American Contact Center Solutions Customer Value Leadership Award

Technology and Research and Development

Technology

We believe that our cloud technology platform enables us to develop functionality and deliver it to customers more efficiently than traditional premise or enterprise software vendors. We do not provide software that must be written to different operating systems, database and hardware platforms, or that is dependent upon a customer's unique systems environment. Rather, we have optimized our inContact cloud software solutions to run on a specific database and operating system using the tools and platforms best suited to serve our customers. Performance, usability and functionality of our inContact cloud software solutions drive our technology decisions and product direction.

We built our inContact cloud software solutions as a highly scalable, multi-tenant application written in C#, Microsoft.Net and SQL server. We use commercially available hardware and a combination of proprietary and commercially available software to provide our inContact cloud software solutions. Our core ACD server is commercially available hardware and runs a proprietary software engine. We have other custom-built core services such as voice-stream session management, database connection pooling and user session management tuned to our specific architecture and environment, allowing us to continue to scale our inContact cloud software solutions.

Our inContact cloud software solutions treats all customers as logically separate tenants in central applications and databases. As a result, we are able to spread the cost of delivering our software services across our customer base. In addition, because we do not have to manage many distinct applications with their own custom business logic and database schemas, we believe we can scale our business faster than traditional software vendors, even those that have modified their products to be accessible over the Internet. This allows us to focus the majority of our resources on building new functionality to deliver to our entire customer base rather than on maintaining an infrastructure to support each of their distinct applications.

The infrastructure of our inContact cloud software solutions and VoIP technologies has both system redundancy within the applications as well as geographical redundancy with data centers in Los Angeles and Dallas in the United States and Munich and Frankfurt in Germany. Full backups of all our core customer data are performed weekly and differential backups are performed nightly. Transaction log backups take place every 30 minutes. We use secure sockets layer ("SSL") encryption to protect sensitive areas of our customer information and service-oriented websites. Remote access to our systems is made possible through a 168-bit encrypted Virtual Private Network. System passwords are changed on a periodic basis and stored in a secure folder with restricted access. All local computers are scanned for viruses on a real-time basis and report to a central server. We believe our backup, maintenance and security systems are adequate for preserving the delivery of service to our customers and operation of our business without significant outages or interruptions.

Research and Development

We incurred research and development expenses of $29.3 million in 2015, $22.4 million in 2014 and $12.6 million in 2013 primarily related to the development of our inContact cloud contact center software solutions. We continue to invest a significant portion of our revenue in research and development to leverage our strategic position as a technology provider. Our research and development efforts are focused on improving the features, functionality and security of our existing service offerings as well as developing new proprietary services. In addition, from time to time we supplement our internal research and development activities with outside development resources and acquired technology. In the case of our inContact cloud software solutions and its common, multi-tenant application architecture, we are able to provide all of our customers with a service based upon a single version of our applications. We are able to upgrade all of our customers at the same time with each release.

Another contributor to our advantage is the diverse technical and communications expertise in our research and development group as it is composed of numerous professionals with backgrounds in software, hardware and network connectivity. This group is structured as product-centric teams each of which follows formal development processes for enhancements, new feature developments, release management and quality assurance.

We have research and development staff located in Bolivia and in the Philippines, which provides us with a low cost approach to additional engineering and support resources for mid-market customers.

Acquiring Intellectual Property

We intend to pursue strategic acquisitions of intellectual property by direct acquisition of the technology or the company that owns the technology. We will rely primarily on our internal technical staff and our executive officers to identify prospective acquisitions, perform due diligence, negotiate contracts, and subsequently integrate the acquired technology or companies. We do not expect to acquire any technology unless the persons responsible for its development will remain, for some period of time, committed on a full-time basis, to further the development and integration of the new technology into our cloud software solutions. We intend to use a combination of available cash, debt, long-term earnout arrangements and equity as consideration in future acquisitions.

Intellectual Property

We rely on a combination of trademark, copyright, trade secret and patent laws in the United States and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, documentation and other proprietary information.

As of December 31, 2015, we hold 17 United States patents and additional United States patent applications are pending. Our patents expire between 2027 and 2035. We cannot predict whether our pending patent applications will result in issued patents. Our patents and patent applications concern our inContact cloud software solutions and platform infrastructure. The following are our registered trademarks in the U.S. and elsewhere:

- inContact®
- inTouch®
- ECHO®
- inCloud®
- Satisfaction as a Service®
- Personal Connection®
- MAX—My Agent eXperience™

We have received in the past, and may receive in the future, communications from third parties claiming that we have infringed on their intellectual property rights. The cost to defend or settle these claims can be significant. Any intellectual property claims, regardless of merit, may also require us to seek licenses to that technology. In addition, we license third-party technologies that are incorporated into some elements of our services. Licenses from third-party technologies may not continue to be available to us at a reasonable cost or on reasonable commercial terms, or at all. Additionally, the steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop technologies that are substantially equivalent or superior to the technologies we employ in our services. If we fail to protect our proprietary rights adequately, our competitors could offer similar services, potentially significantly harming our competitive position and decreasing our revenues.

Competition

The majority of market share in the contact center infrastructure market and in the WFO software market is still held by traditional premise-based equipment providers. The premise-based method of selling solutions, via onsite equipment and software, is now being challenged by cloud providers. According to Gartner, Contact Center as a Service (CCaaS) will support 12.6% of North American contact center agents by 2016[4].

While the cloud contact center market is still highly fragmented, as of the end of 2015, inContact is a pure cloud market leader with over 155,000 agents supported around the world with security, reliability and scalability in a multi-tenant cloud contact center environment.

Because of our diligent efforts over the past several years and our experience with customers of all sizes and especially with now over 110 Fortune 500/Global 2000 customers, we believe we are in a position to capitalize on the market fragmentation and become the clear leader in the market for cloud contact center software solutions.

[4] inContact Management estimates based on Gartner Forecast: Contact Centers, Worldwide 2012-2019

Government Regulation

General

The Telecommunications Act of 1996 (“the Act”) vests the Federal Communications Commission (“FCC”) with jurisdiction over interstate and international network connectivity services, while preserving state and local jurisdiction over many aspects of these services. As a result, network connectivity services are regulated at both the federal and state levels in the United States. In addition, a specific form of Internet-based telephony that interconnects with the Public Switched Telephone Network (“PSTN”) called “interconnected Voice over Internet Protocol” (“I-VoIP”) service is also subject to certain analogous regulations at the federal and, increasingly, state level. More recently, pursuant to statutory requirement, the FCC promulgated regulations extending narrow duties to non-interconnected VoIP (“non-I-VoIP”) service providers.

The FCC regulates providers of interstate and international long distance services, interstate access, I-VoIP and non-I-VoIP services. Most states exercise jurisdiction over intrastate long distance services and local exchange services. A small, but growing number of states also exercise jurisdiction over I-VoIP services for narrow purposes, such as ensuring collection of state universal service and other state regulatory program contributions. Significant changes to applicable laws or regulations imposed by the FCC or state regulatory agencies could negatively impact our business, operating results and financial condition.

The following summarizes important, but not all, present and proposed federal and state regulations that could impact our operations. Federal and state regulations are subject to judicial proceedings and to legislative and administrative proposals that could materially affect how we and others in this industry operate. The specific impact, however, cannot be predicted at this time.

Federal Regulation of Internet Telephony and other IP-Enabled Voice Services

VoIP telephony and other forms of IP-enabled communications are increasingly becoming subject to regulation. As a result, certain cost benefits of IP-based services, which we currently take advantage of, may erode.

The FCC has not classified all IP-enabled or VoIP communications services as unregulated information services or as regulated network connectivity services. Instead, the FCC has imposed certain legacy network connectivity regulations on I-VoIP services in a piecemeal, ad hoc manner. These regulations include requirements concerning emergency communications (“E911”), network connectivity relay services for hearing-impaired individuals (“TRS”), Customer Propriety Network Information (“CPNI”), and the facilitation of wiretaps and government surveillance under the Communications Assistance for Law Enforcement Act (“CALEA”). In addition, the FCC ruled that I-VoIP providers must contribute to the Universal Service Fund (“USF”) regime.

Network connectivity service providers are required, under the Act to make their services available to all people with disabilities. The FCC extended this obligation to I-VoIP providers in 2007. Signed in October 2010, the Twenty-First Century Communications and Video Accessibility Act of 2010 (“CVAA”) required the FCC to adopt various measures to ensure that people with disabilities have access to emerging communications technologies, and to promulgate rules requiring non-interconnected VoIP providers to contribute to the TRS Fund. To implement the CVAA, the FCC adopted rules requiring non-interconnected VoIP service providers to contribute to the TRS Fund on the basis of their interstate end-user revenues. The FCC also adopted record-keeping requirements and annual certification requirements for network connectivity, I-VoIP and non-I-VoIP providers. The rules do not affirmatively impose any other regulatory responsibilities on non-interconnected VoIP providers. Because the new rules are narrow and focused and because the Company has already taken measures to ensure the accessibility of its products and services to those with disabilities, we expect that they will have a minimal cost impact on the Company. But, the CVAA also signals a trend toward expansion of FCC regulations to a broader variety of enhanced communications services.

In addition, the regulatory treatment of IP-based conferencing services is currently under review. In a 2011 decision, the FCC's Wireline Competition Bureau ("WCB") denied MeetingOne.com's request for review of a decision of the USF administrator, the Universal Service Administrative Company ("USAC") concluding that MeetingOne.com's IP conferencing service is regulated telecommunications; MeetingOne appealed the decision to the full Commission. While the outcome of this appeal remains to be seen, it could have an impact on the regulatory treatment of IP conferencing services, and how our business treats these services.

In addition, providers of online collaboration solutions that have both software and communications components have been impacted by the current regulatory uncertainty, as evidenced by an open proceeding before the WCB that has stimulated numerous comments and active participation in the adjudicatory process by a variety of industry players.

This flurry of activity stems from Cisco WebEx's Request for Review of a USAC audit that reclassified a portion of revenue from its online collaboration service as telecommunications. Specifically, USAC concluded that the audio features of WebEx are "separable" from other features because participants can use third-party audio services and can use the audio services without using the other features.

In its audit determination, USAC rejected the notion that the WebEx service constituted a single, integrated information service. Instead, USAC reclassified revenue from WebEx's audio minutes as telecommunications revenue, while finding that revenue from the desktop and document sharing services, as well as WebEx's active talker and active speaker features, was information service revenue. USAC based its finding regarding the existence of separable telecommunications revenue on the fact that participants can use the audio features of the service without using the other features. Therefore, USAC concluded that WebEx more closely resembles a bundle of telecommunications and non-telecommunications and not an integrated information service. USAC also found that the service was not integrated for classification purposes because customers are not required to use telecommunications to access the information service components of the service.

In its Request for Review, Cisco WebEx maintains that USAC's determination is contrary to Supreme Court and FCC precedent, as well as the language of the Act, in that USAC focused not on the capabilities of the service in question, but instead on how a customer might use the service. In particular, Cisco WebEx maintains that eliminating portions of its integrated features would severely degrade the service offering.

Similarly, the appropriate regulatory treatment of SMS/text messaging for USF purposes remains uncertain. Both industry participants and USAC have sought clarification from the FCC on this issue. To date, however, the FCC has not responded to multiple requests for guidance on this issue.

Based on the nature of our IP-enabled services, we do not believe the FCC decisions to date will have a significant impact on our business, operating results, financial condition or future prospects. Nonetheless, we acknowledge that the regulatory classification of many IP-enabled services remains uncertain, and changes to the regulatory treatment of IP-based communications services could significantly affect our business.

Federal Regulation of Broadband Internet Access Services

In the past, the FCC maintained a "hands-off" policy with regard to the regulation of Internet access services and adopted a series of decisions that classified broadband Internet access services as unregulated information services. Recently, however, the FCC has relied on its ancillary jurisdiction to regulate broadband Internet access services. In 2010, the FCC adopted the "Open Internet" or "Network Neutrality" rules, which require providers of fixed broadband Internet access services to disclose information regarding their network management practices, performance, and commercial terms. Further, the rules prohibit fixed broadband providers from unreasonably discriminating in their transmission of lawful network traffic and from blocking lawful content, applications, services or non-harmful devices unless such blocking is a part of a provider's reasonable network management. Subsequently, in two decisions, the U.S. Court of Appeals for the D.C. Circuit struck down most of the FCC's Open Internet rules adopted in 2010, with the exception of certain transparency requirements. Following these decisions, the FCC initiated a Notice of Proposed Rulemaking ("NPRM") seeking comments on proposed rules for the regulation of the network management practices of broadband Internet access service ("BIAS") providers.

Thereafter, in March 2015, the FCC released its highly anticipated "Net Neutrality" Order. The Order has sweeping implications for providers of broadband Internet access services (offering a fixed or mobile "mass market" retail broadband connection to the Internet). First, the Commission adopted bright-line rules to promote an open Internet, namely prohibiting blocking, throttling and paid prioritization. Second, the Commission reclassified broadband Internet access service as a "telecommunications service" under Title II of the Act. The Commission adopted a "light touch" regulatory approach by exercising its forbearance authority to refrain from applying 27 provisions of Title II of the Act, and over 700 Commission rules and regulations (including immediate contribution obligations to all Title II funding mechanisms, including the USF). The Commission, however, preserved its authority to revisit a number of these forbearance decisions, through open proceedings (such as evaluating the contribution obligations of BIAS providers in its ongoing USF Contribution Reform proceeding) or by initiating new matters (such as considering new rules, specific to BIAS providers, to protect CPNI).

We rely on third parties to provide or supply Internet access services and do not operate a broadband network. At this time, we do not believe the Open Internet rules impact us.

Intercarrier Compensation and Universal Service Reform

As a long distance provider, we remit access fees directly to local exchange carriers or indirectly to our underlying long distance carriers for the origination and termination of our long distance traffic pursuant to the FCC's "intercarrier compensation" rules. In 2011, the FCC adopted reforms to the existing intercarrier compensation regime. The new rules subject VoIP traffic to the FCC's intercarrier compensation rules. The FCC set the default charge for toll traffic exchanged between a VoIP provider and a local carrier at the interstate access rate. The charge for local traffic exchanged will be the reciprocal compensation rate.

In addition to undertaking intercarrier compensation reform, the FCC is considering comprehensive reforms to its USF regime. The FCC is seeking comment on proposals to expand the scope of USF contributors. While USF contribution reform is anticipated, no timetable for implementation has been set.

As a regulated service provider, we contribute to the USF. We expect that reform may include an expansion of the range of contributors to include a broader scope of enhanced communications services. Further, as part of its efforts to reform the USF system, the FCC has directed wholesale providers to move from an entity-wide exemption process to a service-by-service exemption process in order to demonstrate compliance with the so-called Carrier's Carrier Rule ("CCR"). In short, the CCR is the mechanism by which wholesale providers must determine what revenues are attributable to non-contribution eligible resale revenue and which revenue is assessable end-user revenue for USF contribution purposes. As a wholesaler of network connectivity, our failure to procure evidence of the contribution status of our resellers may result in revenue reclassification and increased USF costs. As a purchaser of network connectivity inputs, we are also required to provide evidence of our contribution status to suppliers. Our failure to comply with the CCR could result in increased supplier costs. We have implemented policies and procedures necessary to comply with the CCR as both a wholesaler and consumer of interstate network connectivity.

While any material changes to the USF contribution system could impact the Company's business, because the Company passes through USF fees on an equitable and non-discriminatory basis to end users, either as a component part of the rate charged for assessable services or as a separately invoiced line item, we do not anticipate any material financial impact.

In addition, some states are expanding the base of service providers required to contribute to state USF. Such expansions could impact our business, but we do not expect a material effect on the Company.

Data Protection Regulations

Each company that collects, processes, shares, stores, or disposes of personal data must protect this data with the appropriate security measures. Numerous federal, state and international laws, regulations, and industry standards create requirements and restrictions that affect our corporate or commercial transactions, marketing and business development activities, and interaction with our workforce. We have procedures in place to ensure that we properly comply with all data protection and privacy regulations. To the extent that new regulations are adopted that significantly impact our business, our costs of providing service could increase.

On July 10, 2015, the FCC released its Telephone Consumer Protection Act ("TCPA") Omnibus Declaratory Ruling and Order ("Omnibus Order"). The Omnibus Order addresses nineteen petitions for declaratory ruling, some of which have been pending for years. It also addresses a letter from the National Association of Attorneys General and two petitions for the Commission to initiate a rulemaking regarding the TCPA. The Omnibus Order primarily strengthens the TCPA's consumer protections; however, it offers some limited protections for callers.

In participation, the FCC added some clarity in the Omnibus Order to its earlier Dish Declaratory Order by providing factors that it would consider in determining who initiates a call under the TCPA. Specifically, the FCC outlined factors to evaluate whether a party is "so involved in the placing of a call as to be considered to have initiated the call." Service and app/software providers that allow the user to determine the recipients of a call/text, the timing of a call/text, and at least some of the content of the call/text would have a valid argument that they did not initiate the call/text. However, providers that require users to take several affirmative steps in choosing who receives a message and when a message is sent can potentially still avoid being treated as having "initiated the call" even if the service provider created the entire message. inContact does not believe the added clarifications in the Omnibus Order will impact its operations.

Other General Regulations

The regulatory scheme associated with the competitive communications market will continue to evolve and can be expected to change the competitive environment for communications in general. It is not possible to predict how such evolution and changes will affect, if at all, our business or the industry in general.

Employees

As of December 31, 2015, we employed a total of 1,015 employees. Our employees are not represented by a labor union. We have not experienced any work stoppages and believe relations with our employees are good.

Executive Officers of inContact

The executive officers of inContact are elected each year at the organizational meeting of the Board of Directors, which follows the annual meeting of the shareholders, and at other Board of Directors' meetings, as appropriate. We have employed each of the executive officers in the position or positions indicated in the list and pertinent notes below.

At December 31, 2015, the following were executive officers of inContact:

Name	Age	Position	Since
Paul Jarman	46	Director and Chief Executive Officer	1997
Gregory S. Ayers	54	Executive Vice President and Chief Financial Officer	2009
William Robinson	49	Executive Vice President of Sales	2012
Julian Critchfield	51	Executive Vice President and Chief Technology Officer	2014

Paul Jarman has served as President of inContact since December 2002 and as Chief Executive Officer of inContact since January 2005.

Gregory Ayers was elected and has served as an Executive Vice President and Chief Financial Officer of inContact since March 2009.

William Robinson was elected Executive Vice President of Sales of inContact in July 2012. Prior to joining inContact, Mr. Robinson provided strategy and go to market consulting for various technology companies from June 2011 through June 2012. Prior to that, Mr. Robinson was Vice President of the Americas for software-as-a-service content management provider Alfresco Software from April 2009 through June 2011.

Julian Critchfield was elected as Executive Vice President and Chief Technology Officer of inContact in January 2014. Prior to joining inContact, Mr. Critchfield was the Chief Technology Officer and General Manager for GE Healthcare from October 2011 to January 2014. Prior to GE Healthcare, Mr. Critchfield was the Executive Vice President of Product Development at Micro Focus Inc. from March 2010 to September 2011. Prior to Micro Focus Inc. Mr. Critchfield was the Vice President of Engineering in the Oracle Fusion Middleware Division from June 2004 to March 2010.

ITEM 1A. RISK FACTORS

The following is a discussion of risks we believe to be significant with respect to our business, operations, financial condition and other matters pertaining to our business and an investment in our common stock. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below, in addition to the other cautionary statements and risks described elsewhere as well as the other information contained in this report and in our other filings with the SEC, including our reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business and Industry

Our quarterly and annual results of operations may fluctuate significantly, may not reflect the underlying performance of our business and may result in decreases in the price of our stock.

Our quarterly and annual results of operations, including revenue, profitability and cash flow may significantly fluctuate in the future. Accordingly, the results of any one quarter or period should not be relied upon as an indication of future performance. Our quarterly and annual financial results may fluctuate as a result of a variety of factors, many of which are outside our control and, as a result, may not fully reflect the underlying performance of our business.

Fluctuations in our results of operations may be due to a number of factors, but not limited to, those listed below and identified throughout this "Risk Factors" section:

- Our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;
- Changes in the mix of revenue between our segments because the gross margin is significantly higher for the Software segment than for the Network connectivity segment;

- The timing and success of new product introductions and enhancements or product initiation by us or our competitors;
- Changes in our pricing policies or those of our competitors;
- The amount and timing of expenditures related to expanding our operations;
- The purchasing and budgeting cycles of our customers; and
- General economic, industry and market conditions.

Our recent rapid growth may not be indicative of our future growth, and if we continue to grow rapidly, we may fail to manage our growth effectively.

For the years ended December 31, 2015, 2014 and 2013, our revenue was $222.0 million, $171.8 million and $130.0 million, respectively, representing year-over-year growth of 29% and 32%, respectively. Revenue increases in the future may not represent the same or comparable rates of revenue growth.

We believe growth of our revenue depends on a number of factors, including our ability to:

- Capture market share from providers of legacy on-premise contact center systems as contact center systems are refreshed;
- Attract new customers, increase our existing customers' use of our solution and further develop our partner ecosystem;
- Introduce our solution to new markets outside of the United States and increase global awareness of our brand;
- Strengthen and improve our solution through significant investments in research and development; and
- Selectively pursue acquisitions.

If we are not successful in achieving these objectives, our revenue may be harmed. In addition, we plan to continue our investment in future growth, including expending substantial financial and other resources on:

- Sales and marketing, including a significant expansion of our sales organization and of third-party channel partners;
- Our technology infrastructure, including systems architecture, management tools, scalability, availability, performance and security, as well as disaster recovery measures;
- Solution development, including investments in our solution development team and the development of new applications and features for existing solutions;
- International expansion; and
- General administration, including legal and accounting.

Moreover, we have recently experienced a period of rapid growth in our headcount and operations. We have also significantly increased the size of our customer base. We anticipate that we will significantly expand our operations and headcount in the near term. This growth has placed, and future growth will place, a significant strain on our management, administrative, operational and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. Failure to effectively manage growth could result in difficulty or delays in adding new customers, declines in quality or customer satisfaction, increases in costs, system failures, difficulties in introducing new features or solutions or other operational difficulties, and any of these difficulties could harm our business performance and results of operations.

The expected addition of new employees and the capital investments that we anticipate will be necessary to manage our anticipated growth will make it more difficult for us to generate earnings or offset any future revenue shortfalls by reducing costs and expenses in the short term. If we fail to manage our anticipated growth, we will be unable to execute our business plan effectively.

The stability and growth of our revenues depends on our ability to attract and retain on-going customers.

The revenue model for companies selling software services under the cloud model, such as inContact, is to attract customers, retain these customers through the renewal of their monthly subscription contracts and encourage the addition of additional agent seats and functionality to these existing customers.

As our industry matures, as our customers experience seasonal trends in their business, or as competitors introduce lower cost and/or differentiated products or services that are perceived to compete favorably with our services, our ability to add new customers and renew, maintain or upsell existing customers based on pricing, technology and functionality could be impaired.

We also have relationships with third-party channel partners to attract new customers. Current third-party channel partner relationships may terminate and reduce the number of new customers we can attract to our product offering and cause disruptions with existing customer relationships, which could adversely impact our results of operations. Our current relationships with third-party channel partners may be terminated by either party in the future. The termination of a reseller partner relationship may cause existing customers who have relationships with that third-party channel partners to become more likely to discontinue their services, which could have a significant adverse effect on our results of operations. In addition, acquisitions of our customers or of our third-party channel partners could lead to cancellation of our contracts with those customers or by the acquiring companies.

We have a lengthy product sales and implementation cycle, which has contributed and may continue to contribute to the variability of operating results.

We have experienced a lengthy initial sales and implementation cycle for our software solutions, averaging approximately five to eight months. The lengthy sales and implementation cycle is one of the factors that has caused, and may continue to cause, our revenues and operating results to vary significantly.

As our inContact cloud software solutions is relatively new in the marketplace, we must provide a significant amount of education to prospective customers about the use and benefits of our products and services, which can cause potential customers to take many months to make these decisions and results in less predictability in completing our sales. The length of the sales cycle can also be affected by other factors over which we have little or no control, including, customer budgetary constraints, timing of customer budget cycles, and concerns by the customer about the introduction of new products by us or by our competitors.

As we target our sales efforts at larger customers, we face longer implementation cycles. These larger organizations typically require more configuration and integration services, which increases our upfront investment in the deployment efforts.

As a result, sales and implementation cycles for our customers vary substantially from customer to customer and could contribute to the variability of our results of operations.

Our operating results may be negatively impacted by the pricing decisions of our competitors and our providers. We may not be able to mitigate this impact with our other services.

Our costs of revenues in our Network connectivity segment from period to period are affected by the pricing for network connectivity service we can obtain from the wholesale providers of these services. We must price our services at levels that are competitive, so costs of revenues affect the rates we offer to customers and our resulting revenues. This industry has a history of downward pressure on network connectivity service rates as a result of competition among providers. To acquire and retain customers, we offer these services at prices that are competitive in conjunction with the other benefits we provide. Consequently, falling prices will likely result in lowering our rates to users, which will reduce revenues. On the other hand, higher prices charged by our providers will increase our costs of revenues and cut into operating results, unless we raise prices to our customers, which may be difficult for us to do if our competitors are not subject to the same upward pricing pressures or choose not to increase prices notwithstanding such pressure. From period to period pricing volatility could adversely affect our result of operations and financial condition.

We depend on our senior management team and the loss of one or more key employees or an inability to attract and retain highly skilled employees could harm our business and results of operations.

Our success largely depends upon the continued services of our key executive officers. We also rely on our leadership team in the areas of research and development, marketing, sales, services and general and administrative functions, and on mission-critical individual contributors. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. The loss of one or more of our executive officers or key employees could seriously harm our business. We currently do not maintain key person life insurance policies on any of our employees.

To execute our growth plan, we must attract and retain highly qualified personnel and we may incur significant costs to do so. Competition for these personnel is intense, especially for engineers with high levels of experience in designing and developing cloud software and for senior sales executives. We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached legal obligations, resulting in a diversion of our time and resources and, potentially, damages.

Volatility or lack of performance in the trading price of our common stock may also affect our ability to attract and retain qualified personnel because job candidates and existing employees often emphasize the value of the stock awards they receive in connection with their employment when considering whether to accept or continue employment. If the perceived value of our stock awards is low or declines, it may harm our ability to recruit and retain highly skilled employees.

In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them and increases our costs. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects would be harmed.

Failure to effectively develop and expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our solutions.

Increasing our customer base and achieving broader market acceptance of our solutions will depend to a significant extent on our ability to expand our sales and marketing operations. We plan to continue to expand our direct sales force and engage additional third-party channel partners.

We may not achieve anticipated revenue growth from expanding our direct sales force if we are unable to hire and develop talented direct sales personnel, if our new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, or if we are unable to retain our existing direct sales personnel.

We also may not achieve significant revenue growth from our third-party channel partners if we are unable to attract and retain motivated channel partners, if any existing or future channel partners fail to successfully market, resell, implement or support our solutions for their users, or if they represent multiple providers and devote greater resources to market, resell, implement and support competing products and services.

In addition, identifying new third-party channel partners, and negotiating and documenting relationships with them, requires significant time and resources. As the complexity of our solution and our third-party relationships increases, the management of those relationships and the negotiation of contractual terms sufficient to protect our rights and limit our potential liabilities will become more complicated. Our inability to successfully manage these complex relationships or negotiate sufficient contractual terms could harm our business.

We are expanding the sales of our services to customers located outside of the United States so our business will be susceptible to risks associated with international operations.

We currently have offices outside of the United States and have operations, sales personnel or independent consultants in several foreign countries. We have limited experience operating in foreign jurisdictions. Our inexperience in operating our business outside of the United States increases the risk that our services and any future international expansion efforts will not be successful, which could result in us not meeting our revenue goals. Operating in international markets also requires management attention and financial resources. We cannot be certain that the investment and additional resources required in establishing, acquiring or integrating operations in other countries will produce desired levels of revenues or profitability. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States. These may include:

- Fluctuations in currency exchange rates;
- Unexpected changes in foreign regulatory requirements;
- Longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- Difficulties in managing and staffing international operations;
- Potentially adverse tax consequences, including the complexities of foreign value added tax systems and restrictions on the repatriation of earnings;

- General economic conditions in international markets, including ongoing uncertainty in the economic conditions of global financial markets;
- Localization of our services, including translation into foreign languages and associated expenses;
- Dependence on certain third parties to increase customer sales;
- The burdens of complying with a wide variety of foreign laws and different legal standards, including laws and regulations related to privacy and network connectivity;
- Compliance with bribery and corruption commercial practices law that prohibit certain commercial conduct worldwide;
- Increased financial accounting and reporting burdens and complexities;
- Increased risk for international network connectivity fraud;
- Political instability abroad, terrorist attacks and security concerns in general; and
- Reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of these risks could negatively affect our international business and, consequently, our results of operations generally.

Incremental revenue from reseller partners and international sales may not exceed expenditures, which could adversely impact our results of operations.

We continue to expend a significant amount of money to develop our infrastructure and international delivery systems to be able to serve new customers we expect will come from the reseller sales channel and new sales opportunities we hope to develop in the future. We expect to make additional expenditures for this purpose in 2016. Revenue from our reseller arrangements may not be sufficient to cover our investment in infrastructure and facilities or our continuing cost of operating the expanded service capacity, which would have a significant adverse effect on our results of operations.

If we are not able to integrate acquisitions successfully, our operating results and prospects could be harmed.

We have acquired new technology and operations in the past, including Uptivity in May 2014, AC2 Solutions Inc. in January 2016 and certain technology, customers and equipment from Attensity, Inc in February 2016. We will continue to look for opportunities to acquire technologies or operations that we believe will contribute to our growth and development. The success of our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions. Acquisitions are inherently risky, and any acquisitions we complete may not be successful. Any acquisitions we pursue would involve numerous risks, including the following:

- Difficulties in integrating and managing the operations and technologies of the companies we acquire;
- Diversion of our management's attention from normal daily operations of our business;
- Our inability to maintain the customers, the key employees, the key business relationships and the reputations of the businesses we acquire;
- Our inability to generate sufficient revenue from acquisitions to offset our increased expenses associated with acquisitions;
- Our responsibility for the liabilities of the businesses we acquire, including, without limitation, liabilities arising out of their failure to maintain effective data security, data integrity, disaster recovery and privacy controls prior to the acquisition, or their infringement or alleged infringement of third party intellectual property, contract or data access rights prior to the acquisition;
- Difficulties in complying with new markets or regulatory standards to which we were not previously subject;
- Delays in our ability to implement internal standards, controls, procedures and policies in the businesses we acquire; and
-

- Adverse effects of acquisition activity on the key performance indicators we use to monitor our performance as a business.

Unanticipated events and circumstances may occur in future periods which may affect the realizability of our intangibles assets recognized through acquisitions. The events and circumstances that we consider include significant under-performance relative to projected future operating results and significant changes in our overall business and/or product strategies. These events and circumstances may cause us to revise our estimates and assumptions used in analyzing the value of our other intangible assets with indefinite lives, the revision could result in a non-cash impairment charge that could have a material impact on our financial results.

Our results of operations have shown significant losses over the past several years, which could impact the resources we have to pursue our business and adversely affect an investment in inContact.

Our net loss was $22.8 million, $10.6 million and $10.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. Continued losses will diminish the working capital we have available to pursue development of our business. Sales within the Software segment continue to improve, but we have not achieved positive annual operating results and whether inContact will ultimately achieve positive results and cash flow should be considered a substantial risk with respect to our business.

We may not be able to utilize a significant portion of our net operating loss carryforwards, which could harm our profitability.

We have federal and state net operating loss carryforwards due to prior period losses, which if not utilized will begin to expire in 2018 for federal purposes, and for state purposes, expiration is dependent on the rules of the various states to which the net operating losses were allocated. If we are unable to generate sufficient taxable income to utilize our net operating loss, these carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could harm our profitability.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, our ability to utilize net operating loss carryforwards or other tax attributes in any taxable year may be limited if we experience an “ownership change.” A Section 382 “ownership change” generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. Future issuances or sales of our stock (including certain transactions involving our stock that are outside of our control) could cause an “ownership change.” If an “ownership change” occurs, Section 382 would impose an annual limit on the amount of pre-ownership change net operating loss carryforwards and other tax attributes we can use to reduce our taxable income, potentially increasing and accelerating our liability for income taxes, and also potentially causing those tax attributes to expire unused. It is possible that such an ownership change could materially reduce our ability to use our net operating loss carryforwards or other tax attributes to offset taxable income, which could harm our profitability.

Disruptions in the operation of our technology could adversely affect our operations.

We are dependent on our computer databases, billing systems and accounting computer programs, network and computer hardware that houses these systems to effectively operate our business and market our services. Our customers may become dissatisfied by any system failures that interrupt our ability to provide our service to them. Substantial or repeated system failures would significantly reduce the attractiveness of our services. Significant disruption in the operation of these systems would adversely affect our business and results of operations.

Our ability to continue to enhance our solution is dependent on adequate research and development resources. If we are not able to adequately fund our research and development efforts, we may not be able to compete effectively and our business and operating results may be harmed.

In order to remain competitive, we must continue to develop new solution offerings and enhancements to our existing cloud contact center software. Maintaining adequate research and development personnel and resources to meet the demands of the market is essential. If we are unable to develop products, applications or features internally due to certain constraints, such as high employee turnover, inability to hire sufficient research and development personnel or a lack of other research and development resources, we may miss market opportunities.

Our enhanced services are dependent on leased network connectivity lines, and a significant disruption or change in these services could adversely affect our business.

Our inContact cloud software solutions are provided to customers through a dedicated network of equipment we own connected through leased network connectivity lines with capacity dedicated to us that is based on Internet protocol. Communication initiated by the user is converted to data packs that are transmitted through the dedicated network and managed by our software that resides on our equipment attached to the network. We also move a portion of our voice long distance service over this dedicated network because it lowers our cost of providing the service from using traditional transmission methods.

We lease network connectivity lines and space at co-location facilities for our equipment from third-party suppliers, which represents the backbone of our dedicated network. If any of these suppliers is unable or unwilling to provide or expand their current levels of service to us, the services we offer to customers would be adversely affected. We may not be able to obtain substitute services from other providers at reasonable or comparable prices or in a timely fashion. Any resulting disruptions in the services we offer that are provided over our dedicated network would likely result in customer dissatisfaction and adversely affect our operations. Furthermore, pricing increases by any of the suppliers we rely on for the dedicated network could adversely affect our results of operations if we are unable to pass pricing increases through to our customers.

If there are interruptions or delays in our services through third-party error, our own error or the occurrence of unforeseeable events, delivery of our solutions could become impaired, which could harm our relationships with customers and subject us to liability.

We provide our services through computer hardware that we own and that is currently located in third-party web hosting co-location facilities maintained and operated in California, Texas, Utah, Germany, England, Hong Kong and the Philippines. Our hosting providers do not guarantee that our customers' access to our solutions will be uninterrupted, error-free or secure. Our operations depend on our providers' ability to protect their and our systems in their facilities against damage or interruption from natural disasters, power or network connectivity failures, criminal acts and similar events. Our back-up computer hardware and systems have not been tested under actual disaster conditions and may not have sufficient capacity to recover all data and services in the event of an outage occurring simultaneously at all facilities. In the event that our hosting facility arrangements were terminated, or there was a lapse of service or accidental or willful damage to such facilities, we could experience lengthy interruptions in our service as well as delays and/or additional expense in arranging new facilities and services. Any or all of these events could cause our customers to lose access to the services they are purchasing from us. In addition, the failure by our third-party hosting facilities to meet our capacity requirements could result in interruptions in our service or impede our ability to scale our operations.

Design and mechanical errors, spikes in usage volume and failure to follow system protocols and procedures could cause our systems to fail, resulting in interruptions in our customers' service to their customers. Any interruptions or delays in our services, whether as a result of third-party error, our own error, natural disasters or security breaches, whether accidental or willful, could harm our relationships with customers and our reputation. This in turn could reduce our revenue, subject us to liability, and cause us to issue credits or pay penalties or cause customers to fail to continue service, any of which could adversely affect our business, financial condition and results of operations. In the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur.

If our solutions fail to perform properly or if they contain technical defects, our reputation could be harmed, our market share may decline and we could be subject to product liability claims.

Our software products and services may contain undetected errors or defects that may result in product failures, slow response times, or otherwise cause our products to fail to perform in accordance with customer expectations. Because our customers use our products and services for important aspects of their business, any errors or defects in, or other performance problems with, our products and services could hurt our reputation and may damage our customers' businesses. If that occurs, we could lose future sales, or our existing customers could elect to not renew or to delay or withhold payment to us, which could result in an increase in our provision for uncollectible accounts and an increase in collection cycles for accounts receivable. Customers also may make account adjustment claims against us, which could result in the expense and risk of litigation. Product performance problems could result in loss of market share, failure to achieve market acceptance and the diversion of development resources. If one or more of our products fails to perform or contains a technical defect, a customer may assert a claim against us for substantial damages, whether or not we are responsible for the product failure or defect.

Product liability claims could require us to spend significant time and money in litigation or to pay significant settlements or damages. Although we maintain general liability insurance, including coverage for errors and omissions, this coverage may not be sufficient to cover liabilities resulting from such product liability claims. Also, our insurer may disclaim coverage. Our liability insurance also may not continue to be available to us on reasonable terms, in sufficient amounts, or at all. Any product liability claims successfully brought against us would cause our business to suffer.

We employ third-party licensed software for use in or with our solution, and the inability to maintain these licenses or errors in the software we license could result in increased costs, or reduced service levels, which could harm our business.

Our solution incorporates certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools from third parties in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to transition to other providers. In addition, integration of the software used in our solution with new third-party software may require significant work and require substantial investment of our time and resources. To the extent that our solution depends upon the successful operation of third-party software in conjunction with our software, any undetected errors or defects in this third-party software could prevent the deployment or impair the functionality of our solution, delay new product or solution introductions, result in increased costs, or a failure of our solution and injure our reputation. Our use of additional or alternative third-party software would require us to enter into license agreements with third parties.

There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently utilized by us or other technology which we may seek to license in the future, will be available to us at a reasonable cost or on commercially reasonable terms, or at all. The loss of, or inability to maintain, existing licenses could result in implementation delays or reductions until equivalent technology or suitable alternative solutions could be developed, identified, licensed and integrated, and could harm our business.

We provide service level commitments to our customers, which could cause us to provide credits for future services if the stated service levels are not met for a given period and could significantly harm our revenue.

Our customer agreements provide service level commitments. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our service, we may be contractually obligated to provide these customers with credits for future services. Our revenue could be significantly impacted if we suffer unscheduled downtime that exceeds the allowed downtimes under our agreements with our customers. In light of our historical experience with meeting our service level commitments, we do not currently have any reserves on our balance sheet for these commitments. The failure to meet this level of service availability may require us to credit qualifying customers for the value of an entire month of their subscription fees, not just the value of the subscription fee for the period of the downtime. As a result, a failure to deliver services for a relatively short duration could cause us to issue these credits to all qualifying customers. Any extended service outages could harm our reputation, revenue and operating results.

We rely on third party network service providers to originate and terminate substantially all of our public switched telephone network calls, so significant failures in these networks could be detrimental to our operations.

We leverage the infrastructure of third party network service providers to provide telephone numbers, PSTN call termination and origination services, and local number portability for our customers rather than deploying our own network throughout the United States. If any of these network service providers cease operations or otherwise terminate the services that we depend on, the delay in switching our technology to another network service provider, if available, and qualifying this new service could have a material adverse effect on our business, financial condition or operating results.

Our business could be harmed if our customers are not satisfied with the professional services and technical support provided by us or our partners.

Our business depends on our ability to satisfy our customers, not only with respect to our solution but also with the professional services and technical support that are performed to enable our customers to implement and use our solution to address their business needs.

Professional services and technical support may be performed by our own staff or, with respect to a select subset of our solution, by third parties. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. We also may be unable to modify the format of our support services to compete with changes in support services provided by our competitors. Increased customer demand for these services, without corresponding revenues, could increase costs and harm our operating results. If a customer is not satisfied with the deployment and ongoing services performed by us or a third party, then we could lose customers, miss opportunities to expand our business with these customers, incur additional costs, or lose, or suffer reduced margins on our service revenue, any of which could damage our ability to grow our business.

Our growth depends in part on the success of our strategic relationships with third parties and our failure to successfully grow and manage these relationships could harm our business.

We leverage strategic relationships with third parties such as system integrators, technology and telephony providers. We also license technology from certain third parties. Certain of these license agreements permit either party to terminate all or a portion of the license without cause at any time. As we grow our business, we will continue to depend on both existing and new strategic relationships. Our inability to establish and foster these relationships could adversely affect the development of our business, our growth and our results of operations.

If the security of our customers' confidential information contained in our systems or stored by use of our software is breached or otherwise subjected to unauthorized access, our service or our software may be perceived as not being secure and customers may curtail or stop using our service and our solutions.

Our systems and software store and transmit proprietary information and critical data belonging to our customers and their users. Any accidental or willful security breaches or other unauthorized access could expose us to a risk of information loss, litigation and other possible liabilities. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our software are exposed and exploited, and, as a result, a third party obtains unauthorized access to any of our customers' data, our relationships with customers and our reputation will be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we and our third-party hosting co-location facilities may be unable to anticipate these techniques or to implement adequate preventative measures.

If outside unauthorized parties succeed in penetrating our network security or otherwise misappropriate our customer information, we could be subject to liability. Our liability could include claims for unauthorized purchases with credit card or banking information, identity theft or other similar fraud claims, as well as for other misuses of personal information, including for unauthorized marketing purposes. These claims could result in litigation and adverse publicity, which could have an adverse effect on our reputation, business and results of operations. As we continue to gain higher profile customers, the risk that unfriendly parties will attempt and succeed in penetrating our network security also increases.

Risks Related to Our Intellectual Property

If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our rights.

Our success depends to a significant degree upon the protection of our software and other proprietary technology rights. We rely on trade secret, copyright, patent, and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. The steps we have taken to protect our intellectual property may not prevent misappropriation of our proprietary rights or the reverse engineering of our solutions. We may not be able to obtain any further trademarks, and our pending applications may not result in the issuance of patents or trademarks. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in other countries are uncertain and may afford little or no effective protection of our proprietary technology. Consequently, we may be unable to prevent our proprietary technology from being exploited abroad, which could affect our ability to expand to international markets or require costly efforts to protect our technology. Policing the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management resources, either of which could harm our business. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

Our development of enhanced services could subject us to claims of patent infringement, such as the Microlog lawsuit, that would adversely affect our results of operations.

We offer enhanced telecommunications and related software services through our dedicated network. Certain enhanced services similar to some of the services we offer have been the subject of litigation regarding patents and intellectual property rights. In addition, many companies in intellectual property-dependent industries, including the call center management and telecommunications industry, have employed intellectual property litigation as a means to gain an advantage over their competitors. As a result, we may be required to defend against claims of intellectual property infringement that may be asserted by our competitors against us and, if the outcome of any such litigation is adverse to us, it may affect our ability to compete effectively. We may not be aware of claims that have arisen alleging enhanced services we offer infringe on intellectual property rights of others. Currently, we are defending against a lawsuit filed by Microlog alleging we have infringed its patent for a contact center system capable of handling multiple media types of contacts and methods for the using the system. This lawsuit began in January 2014, and at this time we cannot make any estimate or prediction regarding how this lawsuit may progress in the future. Our involvement in litigation, opposition proceedings, or other intellectual property proceedings may divert management time from focusing on business operations, could cause us to spend significant amounts of money, and may have no guarantee of success. Any current and future intellectual property litigation also could force us to do one or more of the following:

- Stop selling, incorporating, manufacturing or using our service offerings that use the subject intellectual property;
- Obtain from a third party asserting its intellectual property rights, a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all;

- Redesign those services or processes that use any allegedly infringing or misappropriated technology, which may result in significant cost or delay to us, or which redesign could be technically unfeasible; or
- Pay damages, including the possibility of treble damages in a patent case if a court finds us to have willfully infringed certain intellectual property rights.

We are aware of a significant number of patents and patent applications relating to aspects of our technologies filed by, and issued to, third parties. We cannot assure you that we will ultimately prevail if any of this third-party intellectual property is asserted against us or that we will ultimately prevail in the patent infringement litigation with Microlog.

Risks Related to Regulatory Matters

Regulation of IP telephony services is unclear, so the imposition of significant regulation in the future could adversely affect our operations.

We deliver our inContact cloud contact center solutions and move other network connectivity service through our VoIP Network. We view government regulation as one of the conditions of the environment within which we conduct business that does impact, and will continue to impact, our business as we endeavor to comply with existing regulations and what may come in the future. At both the federal and state level there are initiatives, proposals, proceedings and investigations pending with respect to telecommunications, IP telephony and the Internet that we describe in some detail above in the “Government Regulation” section of Item 1. Business. This section describes areas where the regulatory landscape could change and significantly impact our business, and you should review that section carefully. Our failure to anticipate, plan for, and comply with new regulation as it comes along on a cost effective basis is a continuing risk of our business that could have a significant adverse effect on our business activity and results of operations.

Increased taxes or fees on our service will increase our customers’ cost of using our service and/or reduce our profit margins (to the extent the costs are not passed through to our customers) and we may be subject to liabilities for past sales and additional taxes, surcharges and fees.

The tax and fee structure relative to network connectivity and enhanced communications services is complex, ambiguous and subject to interpretation. Based on its interpretation of applicable law, the Company believes that it has either remitted or accrued for all taxes and regulatory fees owed as a result of its operations. If, however, taxing and regulatory authorities arrive at different interpretations of applicable law, our ultimate liability could exceed the amount the Company has remitted and accrued. In addition, the collection of additional taxes, fees or surcharges in the future could have the effect of increasing our prices or reduce our profit margins. Compliance with these regulations may also make us less competitive with those competitors who choose not to comply with the regulations.

The FCC adopted orders reforming the system of payments between regulated carriers that we partner with to interface with the public switched telephone network. The rates we pay for the services performed by these carriers may increase as a result of the FCC’s reform order. As a result, we may increase rates for service, making our offerings less competitive with others in the marketplace, or reduce our profitability.

The FCC reformed the system under which providers of network connectivity services compensate each other for transporting and/or terminating various types of traffic, including VoIP traffic that terminates on the PSTN and applied new call signaling requirements to VoIP and other service providers. The FCC’s rules concerning charges for transmission or termination of VoIP traffic could result in an increased cost to terminate the traffic absent specific agreements that include a rate for VoIP-PSTN traffic when exchanged between us and other carriers. For VoIP traffic that terminates on the PSTN, the Order establishes a transitional framework that establishes default intercarrier compensation rates for VoIP-PSTN traffic that are equal to the rates applicable to non-VoIP traffic and allows regulated providers of network connectivity services to tariff these default charges in the relevant federal and state tariffs that apply in the absence of an agreement. The rules also establish a multiyear transition to a national “bill-and-keep” framework as the ultimate end state for traffic exchanged with a local exchange carrier. Under bill-and-keep, providers do not charge one another for terminating traffic and instead recover the costs of termination from their own customers. To the extent that the company transmits VoIP traffic that is not subject to an existing intercarrier compensation arrangement and another provider imposes higher intercarrier compensation charges than we, or the third parties terminating our traffic to the PSTN, pay today, our termination costs could initially increase. In the near term, this change could result in us either increasing our retail charges for services to our customers or, reducing our profitability. However, over the longer term, we expect our costs to terminate traffic to the PSTN to decline.

We may become subject to state regulation for certain service offerings, which could increase our cost of doing business.

Certain states take the position that offerings by VoIP companies are intrastate and therefore subject to state regulation. These states argue that if the beginning and end points of communications are known, and if some of these communications occur entirely within the boundaries of a state, the state can regulate that offering. We believe that the FCC has pre-empted states from regulating VoIP offerings in the same manner as providers of traditional network connectivity services. We cannot predict how this issue will be resolved or its impact on our business at this time.

New regulation of the Internet by governmental agencies could adversely affect the way we operate or increase our cost of doing business.

In addition to regulations addressing Internet telephony and broadband services, other regulatory issues relating to the Internet, in general, could affect our ability to provide our services. Congress has adopted legislation that regulates certain aspects of the Internet including online content, user privacy, taxation, liability for third-party activities and jurisdiction. In addition, a number of initiatives pending in Congress and state legislatures would prohibit or restrict advertising or sale of certain products and services on the Internet, which may have the effect of raising the cost of doing business on the Internet generally. Congress is also considering a permanent extension of the Internet Tax Freedom Act (“ITFA”) which could impact the taxation of Internet access services generally, and thereby the Company’s costs of doing business.

Federal, state, local and foreign governmental organizations are considering other legislative and regulatory proposals that would regulate and/or tax applications running over the Internet. We cannot predict whether new taxes will be imposed on our services, and depending on the type of taxes imposed, whether and how our services would be affected thereafter. Increased regulation of the Internet may decrease its growth and hinder technological development, which may negatively impact the cost of doing business via the Internet or otherwise materially adversely affect our business, financial condition and results of operations.

Our ability to offer services outside the U.S. is subject to different local regulatory environments, which may be unknown, complicated and uncertain.

Regulatory treatment of enhanced communications services outside the United States varies from country to country and often the laws are unclear. We currently distribute our products and services directly to consumers and through resellers and channel partners that may be subject to network connectivity regulations in their home countries. The failure by us or our customers, resellers and channel partners to comply with these laws and regulations could reduce our revenue and profitability. Because of our relationship with the resellers and channel partners, some countries may assert that we are required to register as a network connectivity provider in that country. In such case, our failure to do so could subject us to fines or penalties. In addition, some countries are considering subjecting enhanced communication services to the regulations applied to traditional telephone companies. Regulatory developments such as these could have an adverse effect on the use of our services in international locations and as a result, our growth and results of operations.

Risks Related to Ownership of Our Common Stock

We may not be able to secure additional financing on favorable terms, or at all, to meet our long-term capital needs.

We may determine that additional capital will be necessary in responding to business challenges, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure, fund expansion, respond to competitive pressures, acquire complementary businesses, products and technologies, or for other reasons.

To that end we filed a shelf registration statement on Form S-3 with the SEC that allows us to offer and sell an indeterminate number of shares of our common stock, preferred stock, debt securities, and warrants from time to time, up to a maximum dollar amount of $125 million, which we can use should we decide to raise capital in the future. We may not be able to secure additional debt or equity financing on favorable terms, or at all, at the time when we need such funding to pursue our business objectives. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution in their percentage ownership of the Company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, if we decide to raise funds through debt or convertible debt financings, we may be unable to meet our interest or principal payments.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported operating results.

Generally accepted accounting principles in the United States, or U.S. GAAP, are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in accounting standards or practices can have a significant effect on our reported results and may even affect our financial statements completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and will occur in the future. Changes to existing rules or the questioning of current practices may harm our reported financial results or the way we account for or conduct our business.

Certain factors have in the past, and may in the future, cause us to defer recognition of revenues. For example, the inclusion in our customer contracts of material non-standard terms, such as acceptance criteria, could require the deferral of revenue. To the extent that such contracts become more prevalent in the future our revenue may be harmed. Because of these factors and other specific requirements under U.S. GAAP for revenue recognition, we must have precise terms and conditions in our arrangements in order to recognize revenue when we deliver our solution or perform our professional services. Negotiation of mutually acceptable terms and conditions can extend our sales cycle, and we may accept terms and conditions that do not permit revenue recognition at the time of delivery.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have not received any comments from the Securities and Exchange Commission that remain unresolved.

ITEM 2. PROPERTIES

We lease our principal office space in Salt Lake City, Utah, which is our corporate headquarters, including our principal administrative, marketing, technical support and research and development facilities. At December 31, 2015, our Salt Lake City space consists of approximately 83,000 square feet and the term for this office space is currently month-to-month. We have entered into an agreement to lease a new 125,000 square foot facility also in Salt Lake City, Utah beginning in April 2016 through December 2026. We also lease a 36,000 square foot office facility in Columbus, Ohio, which is the principal location of the employees from the May 2014 acquisition of Uptivity. We also lease smaller office spaces in California, England, Bolivia and the Philippines. We believe that our current and anticipated facilities are suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

The hosting of our equipment and software at co-located third-party facilities is significant to our business and we have entered into agreements with third-party facilities in California, Texas, England, Germany, Hong Kong and the Philippines under multiple agreements that either continue month-to-month or expire by July 2018. We believe that our contracted space for our hardware and software at these facilities is both suitable and adequate for our current development plans and that suitable additional facilities will be available as needed.

ITEM 3. LEGAL PROCEEDINGS

For a discussion of developments in the legal proceedings see Note 14 to the Consolidated Financial Statements contained in Part IV, Item 15, which is incorporated in this item 3 by reference.

ITEM 4. MINE SAFETY DISCLOSURES

This item does not apply to our business.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price, Stockholder Matters, and Unregistered Sales

Our common stock trades on The NASDAQ Capital Market under the symbol "SAAS." The following table presents the high and low closing sales prices per share of our common stock as reported on The NASDAQ Capital Market for the four calendar quarters of 2015 and 2014:

Calendar Quarter Ended:	High	Low
March 31, 2015	$11.90	$8.45
June 30, 2015	11.02	9.11
September 30, 2015	9.80	6.75
December 31, 2015	9.98	6.33

Calendar Quarter Ended:	High	Low
March 31, 2014	$10.49	$8.02
June 30, 2014	9.89	7.50
September 30, 2014	9.66	7.68
December 31, 2014	9.06	7.57

As of February 26, 2016, we had approximately 2,996 holders of record of our common stock. Since inception, no dividends have been paid on the common stock. We intend to retain any earnings for use in our business activities, so it is not expected that any dividends on the common stock will be declared and paid in the foreseeable future.

Stock Performance Graph

Notwithstanding any statement to the contrary in any of our filings with the SEC, the following information shall not be deemed "filed" with the SEC or "soliciting material" under the Securities Exchange Act of 1934 and shall not be incorporated by reference into any such filings irrespective of any general incorporation language contained in such filing.

The line graph below compares the cumulative stockholder return on our common stock with the cumulative total return of the Russell 2000 Index and the NASDAQ Computer and Data Processing Index for the five fiscal years ended December 31, 2015. The stock price information shown on the graph below is not necessarily indicative of future price performance.

Equity Compensation Plan Information

The following table provides information on our compensation plans at December 31, 2015 under which equity securities are authorized for issuance.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights		(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	4,306,569		$ 4.52	2,537,415
Equity compensation plans not approved by security holders	322,556	(1)	$ 2.41	N/A
Total	4,629,125		$ 4.37	2,537,415

(1) This figure includes options issued to officers and employees under individual compensation arrangements.

Repurchases of Securities

Stock repurchases for the year ended December 31, 2015, were as follows (in thousands, except per share data):

Calendar Quarter Ended:	Total number of shares purchased	Average price per share	Total number of shares purchased as part of a publically announced plan or program	Maximum number of shares that may yet be purchased under the plan or program
March 31, 2015 (1)	31	$ 7.35	-	-
June 30, 2015 (2)	45	6.92	-	-
September 30, 2015 (3)	45	3.13	-	-
December 31, 2015 (4)	50	9.04	-	-
Total shares repurchased	171	6.62	-	-

(1) In the first quarter of 2015, we received 25,000 shares of our common stock from an employee for the settlement of the employee's payroll tax obligation of $226,000 associated with the lapsing of the selling restriction of a restricted stock award. Also we received 6,000 shares of our common stock from employees as a result of the cancelation of a restricted stock award upon termination of employment.

(2) In the second quarter of 2015, we received 30,000 shares of our common stock from employees for the settlement of the employees' payroll tax obligation of $313,000 associated with the lapsing of the selling restriction of a restricted stock award. Also we received 15,000 shares of our common stock from an employee as a result of the cancelation of a restricted stock award upon termination of employment.

(3) In the third quarter of 2015, we received 14,000 shares of our common stock from employees for the settlement of the employees' payroll tax obligation of $123,000 associated with the lapsing of the selling restriction of a restricted stock award. Also we received 31,000 shares of our common stock from an employee as a result of the cancelation of a restricted stock award upon termination of employment.

(4) In the fourth quarter of 2015, we received 48,000 shares of our common stock from employees for the settlement of the employees' payroll tax obligation of $435,000 associated with the lapsing of the selling restriction of a restricted stock award. Also we received 2,000 shares of our common stock from an employee as a result of the cancelation of a restricted stock award upon termination of employment.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected financial data for each of the years in the five-year period ended December 31, 2015. The consolidated statements of operations data and balance sheet data are derived from the audited Consolidated Financial Statements of inContact. The following selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements, including the Notes thereto, appearing elsewhere in this report.

Consolidated Statement of Operations Data – (in thousands, except per share data):

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Net revenue	$221,987	$171,784	$130,037	$110,280	$88,472
Net loss	(22,784)	(10,563)	(10,203)	(6,127)	(10,392)
Net loss applicable to common stockholders	(22,784)	(10,563)	(10,203)	(6,127)	(10,392)
Net loss per share:					
Basic and Diluted	(0.37)	(0.18)	(0.19)	(0.13)	(0.26)

Consolidated Balance Sheet Data – (in thousands):

	As of December 31,				
	2015	2014	2013	2012	2011
Total assets	$254,137	$168,770	$108,061	$96,347	$58,414
Long-term obligations	88,300	25,115	9,280	5,200	7,071

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as a supplement to the accompanying Consolidated Financial Statements and Notes to help provide an understanding of inContact's financial condition, cash flows and results of operations. MD&A is organized as follows:

Overview. This section provides a general description of our business, as well as developments we believe are important in understanding the results of operations and financial condition or in understanding anticipated future trends.

Consolidated Results of Operations. This section provides an analysis of our consolidated results of operations for the three years ended December 31, 2015.

Segment Results of Operations. This section provides an analysis of our segment results of operations for the three years ended December 31, 2015.

Liquidity and Capital Resources. This section provides an analysis of our cash flows for the three years ended December 31, 2015, as well as a discussion of our outstanding debt and commitments that existed as of December 31, 2015. Included in the analysis of outstanding debt is a discussion of the amount of financial capacity available to fund our future commitments, as well as a discussion of other financing arrangements.

Contractual Obligations and Off-Balance Sheet Arrangements. This section provides a tabular presentation of our outstanding contractual obligations that existed as of December 31, 2015.

Critical Accounting Estimates. This section discusses accounting estimates that are considered important to our results of operations and financial condition, require significant judgment and require estimates on the part of management in application. Our significant accounting policies, including those considered to be critical accounting policies, are summarized in Part IV, Item 15 "Financial Statements"—Note 1—"Accounting Policies."

Overview

inContact began in 1997 as a reseller of network connectivity services and has evolved to become a leading provider of cloud contact center software solutions. We help contact centers around the world create effective customer experiences through our powerful cloud contact center contact routing, self-service and agent optimization software solutions. Our software solutions and services enable contact centers to operate more efficiently, optimize the cost and quality of every customer interaction, create new pathways to profit and ensure ongoing customer-centric business improvement and growth.

We began offering cloud software solutions to the contact center market in 2005. Our dynamic technology platform provides our customers a pay-as-you-go solution without the costs and complexities of premise-based systems. Our proven cloud delivery model provides compelling total cost of ownership savings over premise-based technology by reducing upfront capital expenditures, eliminating the expense of system management and maintenance fees, while providing agility that enables businesses to scale their technology as they grow.

We provide software which includes the following:

Automatic call distributing

Computer telephony integration
Interactive voice response with speech recognition
Outbound dialer
PBX and CRM integration
ECHO® agent service surveys and reports
Workforce optimization
Quality management

Screen recording
Interactive reporting tool

Taken together, the inContact cloud software creates an integrated solution for contact centers, including those with distributed workforces—either at-home or multi-site.

Business Developments

In March 2015, we issued $115.0 million in aggregate principal amount of 2.50% Convertible Senior Notes (the "Convertible Notes") due April 1, 2022, unless earlier converted pursuant to their terms by the holders. Net proceeds from the Convertible Notes were approximately $111.2 million, net of transaction fees. The Convertible Notes pay interest in cash semiannually in arrears at a rate of 2.50% per annum.

On January 13, 2016, we acquired AC2 Solutions, Inc. AC2, a Delaware corporation, which provides call center workforce optimization products and services. On February 9, 2016, we acquired certain technology, customers and equipment from Attensity, Inc., a Delaware corporation, which provides call center analytics products and services. The combined purchase consideration was approximately $18.5 million cash and 40,456 restricted shares of the Company's common stock valued at $370,000 that will vest over two years. An additional 505,700 restricted shares of our common stock were issued, but not included in the purchase consideration as the shares will vest as services are provided over a two-year period.

We expect the majority of the purchase price of these acquisitions to be allocated to goodwill and acquired intangible assets as the valuation of certain assets and liabilities is ongoing as of the date of this Form 10-K.

Trends in Our Business

We continue to experience increases in Software segment revenue principally due to our continued focus and investment in sales and marketing through our initiatives in direct sales and through referral and reseller sales channel relationships. The Network connectivity segment net growth increase is attributable to the increase in Network connectivity revenue from our inContact customers, exceeding lost revenue from attrition of our Network connectivity only customers. We expect the Network connectivity revenue from our inContact cloud software solutions customers to continue to exceed the attrition of our Network connectivity only customers in 2016. We expect Software and Network connectivity segment revenue to continue to increase during 2016.

There has been an increase in costs of revenue during 2015 due to increased direct costs attributable to fees we pay to network connectivity service providers, for third party licensed technology, greater professional service and customer service personnel costs (including stock-based compensation) as we employ more personnel, including higher-paid employees with more developed skill sets to service larger mid-market and enterprise customers, increased network infrastructure costs to build out and maintain our platform, amortization of acquired technology and an increase in amortization of previously capitalized internal use software costs. However, the costs of revenue as a percentage of sales has decreased in 2015 as compared to 2014 due to the increase in Software segment revenue in general and an increase in Software segment revenue from our reseller sales channel relationships. We expect costs of revenue in absolute dollars to continue to increase as we incur additional costs for network connectivity service providers and licensed technology, continue investing in our network infrastructure and operation and support activities to maintain high availability and quality of service, but we expect the costs of revenue as a percentage of sales to remain the same or to continue to decrease as we anticipate increases in revenue related to realized economies of scale in network infrastructure, personnel and customer support.

Sources of Revenue

Our revenue is reported and recognized based on the type of services provided to the customer as follows:

Software Revenue. Software revenue includes two main sources of revenue:

(1) Software delivery and support of our inContact cloud software solutions that are provided on a monthly subscription basis and associated professional services. Because our customers purchasing software and support services on a monthly recurring basis do not have the right to take possession of the software, we consider these arrangements to be service contracts and are not within the scope of Industry Topic 985, Software. We generally bill monthly recurring subscription charges in arrears and recognize these charges in the period in which they are earned. In addition to the monthly recurring revenue, revenue is also received on a non-recurring basis for professional services or on a recurring basis related to improving a customer's contact center efficiency and effectiveness as it relates to utilization of the inContact cloud software solutions.

For subscription service contracts with multiple elements (hosted software, training, installation and long distance services), we follow the guidance provided in Accounting Standards Codification ("ASC") 605-25, Revenue Recognition for Multiple Element Arrangements. In addition to the monthly recurring subscription revenue, we also derive revenue on a non-recurring basis for professional services included in implementing or improving a customer's inContact cloud software solutions experience. Because our professional services, such as training and implementation, are not considered to have standalone value, we defer revenue for upfront fees received for professional services in multiple element arrangements and recognize such fees as revenue over the estimated life of the customer. Fees for network connectivity services in multiple element arrangements within the inContact cloud software solutions are based on usage and we recognize revenue in the same manner as fees for telecommunication services discussed in the "Network Connectivity Services Revenue" below.

(2) Perpetual product and services revenues are primarily derived from the sale of licenses to our WFO on-premise software products and services. For software license arrangements that do not require significant modification or customization of the underlying software, revenue is recognized when all revenue recognition criteria are met.

Many of our customers purchase a combination of software, service, hardware, post contract customer support ("PCS") and hosting. PCS provided to our customers includes technical software support services and unspecified software upgrades to customers on a when-and-if available basis.

Product revenue derived from shipments to customers who purchase our products for resale and is generally recognized when such products are shipped (on a "sell-in" basis). We have historically experienced insignificant product returns from resellers, and our payment terms for these customers are similar to those granted to our end-users. If a reseller develops a pattern of payment delinquency, or seeks payment terms longer than generally accepted, we defer the revenue until the receipt of cash. Our arrangements with resellers are periodically reviewed as our business and products change.

Through the year ended December 31, 2014, software revenue also includes the quarterly minimum purchase commitments from a related party reseller referred to in Part VI, Item 15 "Financial Statements" - Note 13 – "Related Party Transactions." During 2015 no revenue was earned under this agreement, as it ended in 2014 and was not renewed.

Network Connectivity Service Revenue. Network Connectivity Services revenue is derived from network connectivity, such as dedicated transport, switched long distance and data services. These services are provided over our network or through third party network connectivity providers. Our network is the backbone of our subscription software and allows us to provide the all-in-one inContact cloud contact center software solutions. Revenue for the network connectivity usage is derived based on customer specific rate plans and the customer's call usage and is recognized in the period the call is initiated. Customers are also billed monthly charges in arrears and revenue is recognized for such charges over the billing period. If the billing period spans more than one month, earned but unbilled revenues are recognized as revenue for incurred usage to date.

Further information about our revenue recognition policies are disclosed at Part IV, Item 15 "Financial Statements" - Note 1 – "Description of the Company and Summary of Significant Accounting Policies."

Costs of Revenue and Operating Expenses

Costs of Revenue

Costs of revenue consist primarily of payments to third party network connectivity service providers for resold network connectivity services to our customers and for third party technology licenses. Costs of revenue also include personnel costs (including stock-based compensation) and related expenses for professional services, customer support and network operations organizations and equipment depreciation and expenses relating to our network infrastructure, amortization of acquired intangible assets, amortization of capitalized internal use software development costs, and allocated overhead, such as rent, utilities and depreciation on property and equipment. As a result, overhead expenses are included in costs of revenue and each operating expense category. Cost of revenue can fluctuate based on a number of factors, including the fees we pay to telecommunications providers and for third party technology licenses, which vary depending on our customers' usage of our inContact cloud software solutions, the timing of capital expenditures and related depreciation charges and changes in headcount. We expect costs of revenue in absolute dollars to continue to increase as we incur additional costs for network connectivity service providers and for third party technology licenses, continue investing in our network infrastructure and operation and support activities to maintain high availability and quality of service. As our business grows, we expect to realize economies of scale in network infrastructure and personnel costs related to professional services, customer support and network operations organizations.

Selling and Marketing

Selling and marketing expenses consist primarily of personnel costs (including stock-based compensation) and related expenses for employees in sales and marketing, including commissions and bonuses, advertising, marketing events, corporate communications, expenses, travel costs and allocated overhead. Since our Software segment revenue is delivered and, therefore, recognized over time, we have experienced a delay between increasing sales and marketing expenses and the recognition of the corresponding revenue. We believe it is important to continue investing in selling and marketing to create brand awareness and lead generation opportunities, to increase market share and to support our reseller channels. Accordingly, we expect selling and marketing expenses to increase in absolute dollars as we continue to support growth initiatives, although these expenses as a percentage of our revenue are expected to decrease over time.

Research and Development

Research and development expenses consist primarily of the non-capitalized portion of personnel costs (including stock-based compensation) and related expenses for development personnel and costs related to the development of new products, enhancement of existing products, quality assurance, market research, testing, product management and allocated overhead. We expect research and development expenses to increase in absolute dollars in the future as we intend to release new features and functionality on a frequent basis, expand our content offerings, upgrade and extend our service offerings and develop new technologies, although these expenses as a percentage of our revenue are expected to decrease over time.

General and Administrative

General and administrative expenses consist primarily of personnel costs (including stock-based compensation) and related expenses for management, finance and accounting, legal, information systems and human resources personnel, professional fees, other corporate expenses and allocated overhead. We anticipate that we will incur additional employee salaries and related expenses, professional service fees and other corporate expenses related to the growth of our business and operations in the future. As such, we expect general and administrative expenses fluctuate in absolute dollars from period to period, although these expenses as a percentage of our revenue are expected to decrease over time.

Results of Operations

Results of 2015 versus 2014

The following is a tabular presentation of our condensed operating results for the year ended December 31, 2015 compared to our condensed operating results for the year ended December 31, 2014 (in thousands, except percentages):

	2015	2014	$ Change	% Change
Net revenue	$221,987	$171,784	50,203	29 %
Costs of revenue	107,945	88,144	19,801	22 %
Gross profit	114,042	83,640	30,402	
Gross margin	51 %	49 %		
Operating expenses:				

Selling and marketing	66,381	51,175	15,206	30	%
Research and development	29,307	22,379	6,928	31	%
General and administrative	35,225	29,358	5,867	20	%
Total operating expenses	130,913	102,912	28,001		
Loss from operations	(16,871)	(19,272)	2,401		
Other expense	(5,384)	(362)	(5,022)		
Loss before income taxes	(22,255)	(19,634)	(2,621)		
Income tax benefit (expense)	(529)	9,071	(9,600)		
Net loss	$(22,784)	$(10,563)	$(12,221)		

Revenue: Total revenues increased $50.2 million or 29% to $222.0 million during 2015 compared to revenues of $171.8 million during 2014. The increase relates to an increase of $42.9 million in Software segment revenue due to our continued focus and investment in sales and marketing efforts of our inContact cloud contact center software solutions through our direct sales and referral and reseller partner arrangements. The increase is also the result of the addition of revenue generated from the sale of Uptivity products and services since the acquisition in May 2014. Network connectivity segment revenue increased $7.3 million as the increase of Network connectivity revenue associated with our inContact cloud software solution customers exceeded the attrition of our Network connectivity only customers.

We recognized $3.6 million of software revenue during 2014 under our reseller agreement with Unify, which principally represents revenue from Unify's minimum purchase commitments. We did not recognize any revenue from Unify's minimum purchase commitments during 2015, as the minimum purchase commitment expired in the third quarter of 2014. See additional information about the Unify relationship in Part IV, Item 15 "Financial Statements" – Note 13 – Related Party Transactions. The growth in Software revenue during the period more than offset the decrease in Unify minimum purchase commitment revenue.

Costs of revenue and gross margin: Costs of revenue increased $19.8 million or 22% to $107.9 million during 2015 compared to $88.1 million during 2014. Our gross margin increased 2 percentage points to 51% during 2015 from 49% during 2014. The increase in revenue from our inContact cloud contact center solutions offset increased costs attributable to third party licensed technology, greater professional service personnel costs incurred to service larger mid-market and enterprise customers, increased network operations personnel costs and expenses relating our continued investment in network infrastructure and operation and increased amortization of intangible assets from business acquisitions. In addition, lower network connectivity costs due to increased efficiencies in call routing related to a continued investment in technology and lower negotiated direct costs contributed to the increase of gross margin.

Selling and marketing: Selling and marketing expense increased $15.2 million or 30% to $66.4 million during 2015 from $51.2 million during 2014. This increase is primarily a result of headcount additions for direct and channel sales employees, increased commissions as a result of increased revenues, higher levels of investment in marketing efforts to create increased awareness of our products and services as well as increased lead generation efforts for our Software segment.

Research and development: Research and development expense increased $6.9 million or 31% to $29.3 million during 2015 compared to $22.4 million during 2014. The increase relates to our efforts to expand our content offerings, upgrade and extend our product and service offerings and develop new technologies primarily through headcount additions, including the Uptivity acquisition.

General and administrative: General and administrative expense increased $5.9 million or 20% to $35.2 million during 2015 compared to $29.4 million during 2014. The increase is primarily due to increased personnel costs and costs incurred to support our domestic and international business expansion. These increases were offset in part by decreases in acquisition costs and fees accrued for state sales taxes as we commenced collecting state sales taxes from our customers for applicable states in July 2015.

Other expense: Other expense increased $5.0 million to $5.4 million during 2015 from $362,000 for 2014. The increase is primarily due to $5.2 million of interest related to the $115.0 million in aggregate principal amount of 2.50% Convertible Notes we issued on March 30, 2015. See Part IV, Item 15 "Financial Statements" – Note 7 – "Long-Term Debt and Capital Lease Obligations."

Income taxes: The provision for income taxes for 2015 was $529,000 compared to $9.1 million benefit for the same period in 2014. The income tax benefit in 2014 was due to recording a deferred tax liability upon acquisition of

Uptivity related to a reduction of carrying value of deferred revenue and acquisition of intangibles for which no tax benefit will be derived. The reduction of carrying value and acquired intangibles resulted in a partial reversal of the valuation allowance upon consolidation.

Results of 2014 versus 2013

The following is a tabular presentation of our condensed operating results for the year ended December 31, 2014 compared to our condensed operating results for the year ended December 31, 2013 (in thousands, except percentages):

	2014	2013	$ Change	% Change
Net revenue	$171,784	$130,037	41,747	32 %
Costs of revenue	88,144	67,377	20,767	31 %
Gross profit	83,640	62,660	20,980	
Gross margin	49 %	48 %		
Operating expenses:				
Selling and marketing	51,175	37,220	13,955	37 %
Research and development	22,379	12,605	9,774	78 %
General and administrative	29,358	22,314	7,044	32 %
Total operating expenses	102,912	72,139	30,773	
Loss from operations	(19,272)	(9,479)	(9,793)	
Other expense	(362)	(351)	(11)	
Loss before income taxes	(19,634)	(9,830)	(9,804)	
Income tax expense	9,071	(373)	9,444	
Net loss	$(10,563)	$(10,203)	$(360)	

Revenue: Total revenues increased $41.7 million or 32% to $171.8 million during 2014 compared to revenues of $130.0 million during 2013. The increase relates to an increase of $31.9 million in Software segment revenue due to our continued focus and investment in sales and marketing efforts of our inContact cloud contact center software solutions through our direct sales and referral and reseller partner arrangements. The increase is also the result of the $12.6 million of revenue generated from the sale of Uptivity software products and service since the acquisition in May 2014. Network connectivity segment revenue increased $9.8 million as the increase of Network connectivity revenue associated with our inContact cloud software solution customers exceeded the attrition of our Network connectivity only customers.

We recognized $3.6 million of software revenue during 2014 and $6.8 million software revenue during 2013 under our reseller agreement with Unify, which principally represents revenue from Unify’s 2014 and 2013 quarterly minimum purchase commitments. Under the arrangement, revenue from resold software services reduces Unify’s obligation up to the amount of the quarterly minimum purchase commitments. These minimum purchase commitments were negotiated, in part to mitigate the risks associated with the investment in infrastructure to support our expanded reseller sales and marketing efforts and expired in the third quarter of 2014. See additional information about the Unify relationship in Part IV, Item 15 “Financial Statements” – Note 13 – “Related Party Transactions.”

Costs of revenue and gross margin: Costs of revenue increased $20.8 million or 31% to $88.1 million during 2014 compared to $67.4 million during 2013. Our gross margin increased one percentage point to 49% during 2014 from 48% during 2013. The increase in revenue from our inContact cloud contact center solutions offset increased costs attributable to greater professional service personnel costs incurred to service larger mid-market and enterprise customers and increased amortization of intangible assets from business acquisitions. In addition, lower network connectivity costs due to increased efficiencies in call routing related to a continued investment in technology and lower negotiated direct costs contributed to the increase of gross margin.

Selling and marketing: Selling and marketing expense increased $14.0 million or 37% to $51.2 million during 2014 from $37.2 million during 2013. This increase is primarily a result of headcount additions, including from the Uptivity acquisition, for direct and channel sales employees, increased commissions as a result of increased revenues and headcount and to a lesser extent, higher levels of investment in marketing efforts to create increased awareness of our products and services as well as increased lead generation efforts for our Software segment.

Research and development: Research and development expense increased $9.8 million or 78% to $22.4 million during 2014 compared to $12.6 million during 2013. The increase relates to our efforts to expand our content offerings, upgrade and extend our product and service offerings and develop new technologies primarily through headcount additions, including the Uptivity acquisition.

General and administrative: General and administrative expense increased $7.0 million or 32% to $29.4 million during 2014 compared to $22.3 million during 2013. The increase is primarily due to increased personnel costs and costs incurred to support our domestic and international business expansion, including Uptivity acquisition related costs.

Income taxes: Benefit (provision) for income taxes during 2014 was $9.1 million compared to ($373,000) for the same period in 2013. The income tax benefit during 2014 was due to recording a deferred tax liability upon acquisition of Uptivity related to a reduction of carrying value of deferred revenue and acquisition of intangibles for which no tax benefit will be derived. The reduction of carrying value and acquired intangibles resulted in a partial reversal of the valuation allowance upon consolidation.

Segment Reporting

We operate under two business segments: Software and Network connectivity. The Software segment includes all monthly recurring subscription revenue related to the delivery of our software solutions, revenue related to Uptivity products, associated professional services and setup fees, and revenue related to minimum purchase commitments from Unify through July 2014. The Network connectivity segment includes all voice and data long distance services provided to customers.

Management evaluates segment performance based on operating data (revenue, costs of revenue, and other operating expenses). Management does not evaluate and manage segment performance based on assets.

For segment reporting, we classify operating expenses as either "direct" or "indirect." Direct expense refers to costs attributable solely to either selling and marketing efforts or research and development efforts. Indirect expense refers to costs that management considers to be overhead in running the business. Management evaluates expenditures for both selling and marketing and research and development efforts at the segment level without the allocation of overhead expenses, such as rent, utilities and depreciation on property and equipment.

Software Segment Results

The following is a tabular presentation and comparison of our Software segment condensed operating results for the years ended December 31, 2015, 2014 and 2013 (in thousands, except percentages):

	Year ended December 31,			2015 vs. 2014		2014 vs. 2013	
				$	%	$	%
	2015	2014	2013	Change	Change	Change	Change
Net revenue	$143,719	$100,805	$68,897	42,914	43 %	31,908	46 %
Costs of revenue	59,193	42,991	28,012	16,202	38 %	14,979	53 %
Gross profit	84,526	57,814	40,885				
Gross margin	59 %	57 %	59 %				
Operating expenses:							
Direct selling and marketing	60,067	45,439	31,722	14,628	32 %	13,717	43 %
Direct research and development	27,639	21,030	11,601	6,609			