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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

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

Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2014

Commission File No. 1-33762

inContact, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices and Zip Code)

(801) 320-3200

(Registrant’s telephone number, including area code)

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

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

¨ Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Class	Outstanding as of August 4, 2014
Common Stock, $0.0001 par value	60,818,889 shares

Explanatory Note

Subsequent to the issuance of inContact, Inc.'s ("we", the "Company" or "inContact") 2014 Quarterly Condensed Consolidated Financial Statements as of and for the three and six months ended June 30, 2014, we identified errors related to the calculation and assessment of state sales tax for certain of our products and services and the appropriate accounting for the related state sales tax obligations. We also reflected an adjustment to correct an immaterial error in the accounting for the fair value allocation of the May 6, 2014 acquisition purchase price allocation of CallCopy, Inc., a Delaware corporation doing business as Uptivity ("Uptivity") to the preliminary tangible and identifiable intangible assets. We determined that the errors were not material to any period presented, but concluded that the related control deficiency that allowed the sales tax error to occur and not be detected on a timely basis amounted to a material weakness in our internal controls over financial reporting.

As a result, we are filing this amendment (Amendment) to our Quarterly Report on Form 10-Q for the period ended June 30, 2014 (Original Form 10-Q) filed with the Securities and Exchange Commission ("SEC") on August 8, 2014 (Original Filing Date) to reflect changes in our assessment of internal controls over financial reporting and disclosure controls and procedures. We have restated our financial statements and related disclosures to correct the immaterial errors in each period presented.

Concurrently with the filing of this Amendment, the Company is filing an amendment to its Annual Report on form 10-K and Quarterly Report on Form 10-Q for the three months ended March 31, 2014.

Revisions to the Original Form 10-Q include the following:

Effects of Restatement and Revision

See Part I, Item 1, "Financial Statements"—Note 2—"Restatement of Financial Statements." Management believes the effects of these errors are not material to its previously issued Condensed Consolidated Financial Statements. In addition, corresponding changes have been made to the following other items to reflect the restatement described above:

(A) Amendments to Part I, Item I - Financial Statements, to reflect the restatement of our financial results.
(B) Amendments to Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations, to reflect the restatement of our financial results.
(C) Amendments to Part I, Item 4 - Controls and Procedures, to (i) describe changes in our disclosure controls and procedures and our internal controls over financial reporting to address a material weakness and (ii) modify management's opinion on the effectiveness of our internal controls over financial reporting as of June 30, 2014.
(D) Amendments to Part II, Item 1A - Risk Factors, to add an additional risk factor regarding the potential adverse impact the material weakness could have on our business, results of operations, financial condition and liquidity.
(E) Part II, Item 6 – Exhibits and Financial Statement Schedule, including exhibits 31.1 and 31.2

Except as described in this Explanatory Note, the Condensed Consolidated Financial Statements and financial statement footnote disclosures in the original Form10-Q are unchanged. In particular, except for the events described above, this Amendment has not been updated to reflect any events that have occurred after the original Form 10-Q was filed or to modify or update disclosures affected by other subsequent events, except where required by GAAP. Accordingly, forward-looking statements included in this Amendment represent management's views as of the Original Filing Date and should not be assumed to be accurate as of any date thereafter. This Amendment should be read in conjunction with the Company's other filings with the SEC, together with any amendments to those filings.

TABLE OF CONTENTS

ITEM NUMBER AND CAPTION

INCONTACT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS—(Unaudited)

(in thousands, except per share data)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$32,097	$ 49,148
Restricted cash	81	81
Accounts and other receivables, net of allowance for uncollectible accounts of $2,390 and $2,203, respectively	23,591	18,682
Other current assets	5,862	4,360
Total current assets	61,631	72,271
Property and equipment, net	30,324	23,716
Intangible assets, net	27,374	3,971
Goodwill	39,433	6,563
Other assets	1,746	1,540
Total assets	$160,508	$ 108,061
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Trade accounts payable	$13,953	$ 9,696
Accrued liabilities	13,517	8,772
Accrued commissions	3,071	2,072
Current portion of deferred revenue	4,767	2,440
Current portion of debt and capital lease obligations	3,770	3,461
Total current liabilities	39,078	26,441
Long-term portion of debt and capital lease obligations	4,784	4,580
Deferred rent	62	487
Deferred tax liability	794	232
Deferred revenue	5,158	3,981
Total liabilities	49,876	35,721
Stockholders’ equity:		
Common stock, $0.0001 par value; 100,000 shares authorized; 60,809 and 55,346 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	6	6
Additional paid-in capital	204,046	167,422
Accumulated deficit	(93,420)	(95,088)
Total stockholders’ equity	110,632	72,340
Total liabilities and stockholders’ equity	$160,508	$ 108,061

See accompanying notes to condensed consolidated financial statements.

4

INCONTACT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS and COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net revenue:				
Software	$24,198	$16,185	$44,207	$32,357
Network connectivity	16,913	14,898	33,958	30,371
Total net revenue	41,111	31,083	78,165	62,728
Costs of revenue:				
Software	10,233	6,344	18,468	12,779
Network connectivity	10,855	9,610	21,693	19,643
Total costs of revenue	21,088	15,954	40,161	32,422
Gross profit	20,023	15,129	38,004	30,306
Operating expenses:				
Selling and marketing	13,005	9,008	23,061	17,430
Research and development	5,478	2,964	9,238	5,735
General and administrative	7,417	5,065	13,025	10,374
Total operating expenses	25,900	17,037	45,324	33,539
Loss from operations	(5,877)	(1,908)	(7,320)	(3,233)
Other income (expense):				
Interest expense	(84)	(90)	(195)	(150)
Other income (expense)	2	—	(149)	(25)
Total other expense	(82)	(90)	(344)	(175)
Loss before income taxes	(5,959)	(1,998)	(7,664)	(3,408)
Income tax benefit (expense)	9,387	(32)	9,368	(49)
Net income (loss) and comprehensive income (loss)	$3,428	$(2,030)	$1,704	$(3,457)
Net income (loss) per common share:				
Basic	$0.06	$(0.04)	$0.03	$(0.06)
Diluted	$0.06	$(0.04)	$0.03	$(0.06)
Weighted average common shares outstanding:				
Basic	58,753	54,196	57,441	53,897
Diluted	61,448	54,196	59,865	53,897

See accompanying notes to condensed consolidated financial statements.

INCONTACT, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY—(Unaudited)

(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit	Total
Balance at December 31, 2013	55,346	$ 6	$ 167,422	—	$ —	$ (95,088)	$ 72,340
Common stock issued for options exercised	411	—	1,375	—	—	—	1,375
Common stock issued under the employee stock purchase plan	45	—	345	2	—	—	345
Common stock received for settlement of taxes and forfeited restricted stock	—	—	—	(54)	(36)	—	(36)
Issuance of common stock	3,822	—	31,951	—	—	—	31,951
Issuance of restricted stock	1,185	—	—	52	36	(36)	—
Stock-based compensation	—	—	2,953	—	—	—	2,953
Net income	—	—	—	—	—	1,704	1,704
Balance at June 30, 2014	60,809	$ 6	$ 204,046	—	$ —	$ (93,420)	$ 110,632

See accompanying notes to condensed consolidated financial statements.

INCONTACT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six months ended June 30, 2014	2013
Cash flows from operating activities:		
Net income (loss)	$ 1,704	$ (3,457)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of property and equipment	3,399	2,929
Amortization of software development costs	2,823	2,312
Amortization of intangible assets	1,044	105
Amortization of note financing costs	14	9
Interest accretion	2	3
Stock-based compensation	2,953	1,511
Loss on disposal of property and equipment	544	87
Deferred income taxes	(9,368)	—
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts and other receivables, net	(4,167)	(2,816)
Other current assets	(141)	(148)
Other non-current assets	(73)	(339)
Trade accounts payable	2,110	741
Accrued liabilities	187	152
Accrued commissions	252	420
Deferred rent	(66)	28
Deferred revenue	1,636	2,379
Net cash provided by operating activities	2,853	3,916
Cash flows from investing activities:		
Payments made for deposits	(31)	(11)
Acquisition of assets	—	(2,296)
Acquisition of a business, net of cash acquired	(10,164)	—
Capitalized software development costs	(5,004)	(2,880)
Purchases of property and equipment	(5,162)	(3,017)
Net cash used in investing activities	(20,361)	(8,204)
Cash flows from financing activities:		
Proceeds from exercise of options	1,375	4,849
Proceeds from sale of stock under employee stock purchase plan	345	194
Borrowings under term loan	1,000	4,000
Payment of debt financing fees	—	(43)
Principal payments under debt and capital lease obligations	(2,227)	(1,479)
Purchase of treasury stock	(36)	—
Payments under the revolving credit agreement	—	(1,000)
Net cash provided by financing activities	457	6,521
Net increase (decrease) in cash and cash equivalents	(17,051)	2,233

Cash and cash equivalents at beginning of period	49,148	48,836
Cash and cash equivalents at end of period	$ 32,097	$ 51,069
Supplemental schedule of non-cash investing and financing activities:		
Payments due for property and equipment included in trade accounts payable	$ 2,340	$ 116
Property and equipment financed through capital leases	$ 1,702	$ —
Common stock received for settlement of accounts receivable	$ —	$ 2,731
Issuance of common stock for acquisition of a business	$ 31,951	$ —
Consideration for acquisition of business included in accrued liabilities likely to be paid in cash based on the final calculation of net closing current assets	$ 3,080	$ —
Acquisitions of assets included in accounts payable	$ —	$ 450

See accompanying notes to condensed consolidated financial statements.

INCONTACT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

inContact, Inc. (“inContact,” “we,” “us,” “our,” or the “Company”) is incorporated in the state of Delaware. We provide cloud contact center software solutions through our inContact® portfolio, an advanced contact handling and performance management software application. Our services provide a variety of connectivity options for carrying inbound calls to our inContact portfolio or linking agents to our inContact applications. We provide customers the ability to monitor agent effectiveness through our user survey tools and the ability to efficiently monitor their agent needs. We are also an aggregator and provider of network connectivity services (formerly telecommunications). We contract with a number of third party providers for the right to resell the various network connectivity services and products they provide, and then offer all of these services to our customers. These services and products allow customers to buy only the network connectivity services they need, combine those services in a customized enhanced contact center package, receive one bill for those services, and call a single point of contact if a service problem or billing issue arises.

Basis of Presentation

These unaudited condensed consolidated financial statements of inContact and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States and the rules and regulations of the SEC. Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, so long as the statements are not misleading. In the opinion of management, these financial statements and accompanying notes contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position and results of operations for the periods presented herein. These condensed consolidated financial statements should be read in conjunction with the consolidated audited financial statements and notes thereto contained in the Annual Report on Form 10-K/A for the year ended December 31, 2013, filed with the SEC on November 14, 2014. The results of operations for the three and six month periods ended June 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014. Our significant accounting policies are set forth in Note 1 to the Consolidated Financial Statements in the 2013 Annual Report on Form 10-K/A and changes, if any, are included below.

Revenue Recognition

Revenue is recognized when all of the following four criteria are met: (1) persuasive evidence of an arrangement exists, (2) the fee is fixed or determinable, (3) collection is reasonably assured, and (4) delivery has occurred or services have been rendered. Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report.

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 portfolio products 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 portfolio.

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 portfolio 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 portfolio are based on usage and 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 software licenses of products within our inContact portfolio. For software license arrangements that do not require significant modification or customization of the underlying software, revenue is recognized when all four criteria listed above are met.

Many of our customers purchase a combination of software, service, hardware, post contract customer support ("PCS") and hosting. For software and software related multiple element arrangements that fall within the scope of the software revenue guidance in Topic 985, Software, we allocate revenue to the delivered elements of the arrangement using the residual method, whereby revenue is allocated to the undelivered elements based on vendor-specific objective evidence of fair value ("VSOE") of the undelivered elements with the remaining arrangement fee allocated to the delivered elements and is recognized as revenue assuming all other revenue recognition criteria are met. If we are unable to establish VSOE for the undelivered elements of the arrangement, including PCS, revenue recognition is deferred for the entire arrangement until all elements of the arrangement are delivered. PCS provided to our customers includes technical software support services and unspecified software upgrades to customers on a when-and-if available basis. PCS revenue is recognized ratably over the term of the maintenance period, which is typically 15 months. When PCS is included within a multiple element arrangement, we utilize the bell-shaped curve approach to establish VSOE for the PCS. Under the bell-shaped curve approach of establishing VSOE, we perform a VSOE compliance test on a quarterly basis to ensure that a substantial majority of our actual PCS renewals are within a sufficiently narrow range.

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.

Software revenue also includes the quarterly minimum purchase commitments from a related party reseller (Note 13).

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 services portfolio and allows us to provide the all-in-one inContact solution. 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.

Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." The core principle behind ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and services. This model involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction prices to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies the performance obligations. The guidance in the ASU supersedes existing revenue recognition guidance and is effective for annual reporting periods beginning after December 15, 2016 with early application not permitted. The ASU allows two methods of adoption; a full retrospective approach where three years of financial information are presented in accordance with the new standard, and a modified retrospective approach where the ASU is applied to the most current period presented in the financial statements. We are currently evaluating the impact of adopting the new revenue standard on our consolidated financial statements.

NOTE 2. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Company's second quarter 2014 Condensed Consolidated Financial Statements, we determined that errors existed in the Company's previously issued Condensed Consolidated Financial Statements. As a result, the accompanying Condensed Consolidated Financial Statements have been restated to correct for such errors, as described below.

Management's decision to restate the aforementioned financial statements was made as a result of the identification of errors related to the calculation and assessment of state sales tax for certain of our products and services and the appropriate accounting for the related state sales tax obligations which cannot now be collected from customers due to the amount of time that has lapsed. Additionally, the Company identified an immaterial error related to the accounting for the fair value allocation of the May 6, 2014 acquisition purchase price of CallCopy, Inc., a Delaware corporation doing business as Uptivity to the preliminary tangible and identifiable intangible assets. See Note 6 for the revised purchase price allocation adjustment as of May 6, 2014.

The principal effect of the restatement adjustments for both the sales tax and purchase price allocation errors is to decrease net income by $1.0 million and $1.4 million (including increasing General and administrative expense by $341,000 and $681,000) for the three and six months ended June 30, 2014, respectively. The restatement adjustment for the sales tax error also increased accrued liabilities by $681,000 for the period ended June 30, 2014. The restatement adjustments related to the purchase price allocation error are to decrease Accounts and other receivables by $2.8 million, increase Intangible assets by $1.3 million, increase Goodwill by $1.3 million, increase Current portion of deferred revenue by $558,000, decrease Other current assets by $53,000 and decrease Deferred tax liability by $89,000 for the period ended June 30, 2014.

The restatement adjustments for the sales tax error increased net loss by $254,000 and $518,000 (including increasing General and administrative expense by the same amount) for the three and six months ended June 30, 2013, respectively, and increase accrued liabilities by the corresponding amount.

The impact of the restatement adjustments on specific line items on the Company's previously issued Condensed Consolidated Balance Sheet as of June 30, 2014, its Condensed Consolidated Statements of Operations, Comprehensive Loss and Cash Flows for the three and six months ended June 30, 2014 and 2013 and its Consolidated Statement of Stockholders Equity for the six months ended are presented below (in thousands, except per share amounts):

	Condensed Consolidated Balance Sheet as of June 30, 2014		
	As Previously Reported	Adjustments	As Restated
Accounts and other receivables	$ 26,424	$ (2,833)	$ 23,591
Other current assets	5,915	(53)	5,862
Total current assets	64,517	(2,886)	61,631
Intangible assets	26,103	1,271	27,374
Goodwill	38,118	1,315	39,433
Total assets	160,808	(300)	160,508
Accrued liabilities	10,541	2,976	13,517
Current portion of deferred revenue	4,209	558	4,767
Total current liabilities	35,544	3,534	39,078
Deferred tax liability	883	(89)	794
Total liabilities	46,431	3,445	49,876
Accumulated deficit	(89,675)	(3,745)	(93,420)
Total stockholders' equity	114,377	(3,745)	110,632
Total liabilities and stockholders' equity	160,808	(300)	160,508

Condensed Consolidated Statement of Operations and Comprehensive Income

three months ended June 30 2014

Adjustments

	As Previously Reported		As Restated
General and administrative	$ 7,076	$ 341	$ 7,417
Total operating expenses	25,559	341	25,900
Loss from operations	(5,536)	(341)	(5,877)
Loss before income taxes	(5,618)	(341)	(5,959)
Income tax benefit	10,080	(693)	9,387
Net income (loss) and comprehensive income (loss)	4,462	(1,034)	3,428
Net income (loss) per common share:			
Basic	$ 0.08	$ (0.02)	$ 0.06
Diluted	$ 0.07	$ (0.01)	$ 0.06

10

	Condensed Consolidated Statement of Operations and Comprehensive Loss		
	three months ended June 30 2013		
	As Previously Reported	Adjustments	As Restated
General and administrative	$ 4,811	$ 254	$ 5,065
Total operating expenses	16,783	254	17,037
Loss from operations	(1,654)	(254)	(1,908)
Loss before income taxes	(1,744)	(254)	(1,998)
Net loss and comprehensive loss	(1,776)	(254)	(2,030)
Net loss per common share:			
Basic and diluted	$ (0.03)	$ (0.01)	$ (0.04)
Diluted	$ (0.03)	$ (0.01)	$ (0.04)

	Condensed Consolidated Statement of Operations and Comprehensive Income		
	six months ended June 30 2014		
	As Previously Reported	Adjustments	As Restated
General and administrative	$ 12,344	$ 681	$ 13,025
Total operating expenses	44,643	681	45,324
Loss from operations	(6,639)	(681)	(7,320)
Loss before income taxes	(6,983)	(681)	(7,664)
Income tax benefit	10,053	(685)	9,368
Net income and comprehensive income	3,070	(1,366)	1,704
Net income per common share:			
Basic	$ 0.05	$ (0.02)	$ 0.03
Diluted	$ 0.05	$ (0.02)	$ 0.03

	Condensed Consolidated Statement of Operations and Comprehensive Loss		
	six months ended June 30 2013		
	As Previously Reported	Adjustments	As Restated

General and administrative	$ 9,856	$ 518	$ 10,374
Total operating expenses	33,021	518	33,539
Loss from operations	(2,715)	(518)	(3,233)
Loss before income taxes	(2,890)	(518)	(3,408)
Net loss and comprehensive loss	(2,939)	(518)	(3,457)
Net loss per common share:			
Basic	$ (0.05)	$ (0.01)	$ (0.06)
Diluted	$ (0.05)	$ (0.01)	$ (0.06)

	Consolidated Statement of Cash Flows for the six months ended June 30, 2014		
	As Previously Reported	Adjustments	As Restated
Net income	$ 3,070	$ (1,366)	$ 1,704
Deferred income taxes	(10,053)	685	(9,368)
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(3,609)	(558)	(4,167)
Other current assets	(31)	(110)	(141)
Accrued liabilities	(604)	791	187
Deferred revenue	1,078	558	1,636

	Consolidated Statement of Cash Flows for the six months ended June 30, 2013		
	As Previously Reported	Adjustments	As Restated
Net loss	$ (2,939)	$ (518)	$ (3,457)
Changes in operating assets and liabilities:			
Accrued liabilities	(366)	518	152

	Consolidated Statement of Stockholders Equity for the six months ended June 30, 2014		
	As Previously Reported	Adjustments	As Restated
Net income (loss)	$ 3,070	$ (1,366)	$ 1,704

The Company believes that the effects of these errors are not material to the previously issued Condensed Consolidated Financial Statements.

NOTE 3. ASSET ACQUISITION

In March 2013, we acquired technology for $1.9 million in cash, which we used to add mobile and social features in our existing applications. In April and June 2013, development earnout measures were achieved resulting in additional payments totaling $800,000. The value of the assets acquired was recorded as in process technology and is included in internal use software. In December 2013, we determined that $545,000 of the acquired technology would not be utilized in the foreseeable future and therefore was disposed.

NOTE 4. BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE

Basic earnings per common share is computed by dividing the net income or loss applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing the net income or loss by the sum of the weighted-average number of common shares outstanding plus the weighted average common stock equivalents, which would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding options and restricted stock. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury method. The following table sets forth the calculation of basic and diluted net income per share (in thousands, except per share amounts):

	Three months ended June 30, 2014	Six months ended June 30, 2014
Net income, as reported	$3,428	$1,704
Weighted average shares of common stock outstanding	58,753	57,441
Dilutive effect of employee stock options and restricted stock awards	2,695	2,424
Shares used to compute diluted net income per share	61,448	59,865
Basic net income per share	$0.06	$0.03
Diluted net income per share	$0.06	$0.03

As a result of incurring a net loss for the three and six months ended June 30, 2013, no potentially dilutive securities are included in the calculation of diluted earnings per share because such effect would be anti-dilutive. We had potentially dilutive securities representing approximately 3.9 million shares of common stock at June 30, 2013.

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The accounting guidance for fair value measurements defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. The guidance is applicable whenever assets and liabilities are measured and included in the financial statements at fair value. The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The fair value hierarchy prioritizes the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Fair Value of Other Financial Instruments

The carrying amounts reported in the accompanying Condensed Consolidated Balance Sheets for cash and cash equivalents, accounts and other receivables, and trade accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments and are considered to be classified within Level 2 of the fair value hierarchy, except for cash and cash equivalents which is Level 1. The fair values of the promissory notes payable and term loans were computed using a discounted cash flow model using estimated market rates adjusted for our credit risk as of June 30, 2014 and 2013. We consider the input related to our credit risk to be within Level 3 of the fair value hierarchy due to the limited number of our debt holders and our inability to observe current market information. We estimated our current credit risk as of June 30, 2014 and 2013 based on recent transactions with our creditors. The carrying value and estimated fair value of our promissory notes payable and term loans are as follows (in thousands):

	June 30, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Promissory notes	$278	$ 278	$694	$ 694
Term loans	$6,556	$ 6,556	$6,223	$ 6,223

NOTE 6. ACQUISITIONS

Uptivity Acquisition

On May 6, 2014, we acquired 100% of the outstanding shares of CallCopy, Inc., a Delaware corporation doing business as Uptivity. Uptivity provides a complete mid-market workforce optimization suite of software products and services to call centers comprised of speech and desktop analytics, agent coaching, call and desktop recording, as well as quality, performance, workforce management and satisfaction surveys. inContact acquired Uptivity for an aggregate purchase price of $49.1 million of primarily cash and stock. The purchase consideration was paid with cash in the amount of $12.1 million, estimated fair market value of vested stock options converted to cash of $1.9 million, 3,821,933 shares of the Company's common stock valued at approximately $32.0 million and $3.1 million likely to be paid in cash based on the final calculation of net closing current assets. An additional 434,311 shares of restricted common stock were issued, but not included in the purchase consideration because the shares are subject to repurchase rights which will lapse as services are provided over a three year period. The acquisition of Uptivity was accounted for under the purchase method of accounting in accordance with ASC 805, Business Combinations. Under the purchase method of accounting, the total purchase price is allocated to the preliminary tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values, as determined by management. The total purchase price was allocated using the information currently available. As a result, we may continue to adjust the preliminary estimated purchase price allocation after obtaining more information regarding asset valuations, liabilities assumed, and revision of preliminary estimates. Total allocation of the estimated purchase consideration is as follows (in thousands):

	May 6, 2014
Assets acquired:	
Cash	$3,894
Accounts receivable	742
Other current assets	1,363
Property, plant and equipment and other assets	584
Intangible assets	24,448
Goodwill	32,870
Total assets acquired	63,901
Liabilities assumed:	
Trade accounts payable	1,124
Accrued liabilities	1,934
Current portion of deferred revenue	1,516
Long-term portion of deferred revenue	353
Deferred tax liability	9,884
Total liabilities assumed	14,811
Net assets acquired	$49,090

In connection with the acquisition, we incurred professional fees of $934,000, including transaction costs such as legal and valuation services, which were expensed as incurred. These costs are included within general and administrative expenses in the Condensed Consolidated Statements of Operations. The premium paid over the fair value of the net assets acquired in the purchase, or goodwill, represents future economic benefits expected to arise from synergies from combining operations and assembled workforce acquired. All of the goodwill was assigned to the software segment. The entire amount allocated to goodwill is not expected to be deductible for tax purposes.

Intangible assets acquired resulting from the acquisition include customer relationships which are amortized on a double declining basis, technologies, which are amortized on a straight-line basis and in-process research and development which has an initial indefinite life and is expected to be amortized once technical feasibility is established. The fair values of the intangible assets were determined primarily using the income approach and the discount rates range from 17.0% to 20.6%. The following sets forth the intangible assets purchased as part of the Uptivity acquisition and their economic useful life at the date of acquisition (in thousands, except useful life):

	Amount	Economic Useful Life (in years)
Customer relationships	$11,460	8
Trade name and trademarks	1,942	5
Technology	7,686	7
In-process research and development	3,360	Indefinite
Total intangible assets	$24,448	

The Company recorded a deferred tax benefit of $9.4 million for the quarter ended June 30, 2014. The tax benefit related 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 resulted in a partial reversal of the deferred tax asset valuation allowance upon consolidation.

In the quarter ended June 30, 2014, our consolidated financial statements include approximately $2.9 million and $1.8 million of net revenue and net loss, respectively, related to the operations of Uptivity. The following table presents our unaudited pro forma results of operations of the Company and Uptivity as if the companies had been combined as of January 1, 2013, and includes pro forma adjustments related to the fair value of deferred revenue, amortization of acquired intangible assets and share-based compensation expense. Direct and incremental transaction costs are excluded from the period ended June 30, 2014 pro forma condensed combined financial information presented below, and included in the period ended June 30, 2013 pro forma condensed combined financial information presented below. The tax benefit of $9.4 million that resulted from the acquisition is recorded in the period ended June 30, 2013 pro-forma period.

	Three months ended June 30, 2014		Six months ended June 30, 2014	
	As Reported	Pro Forma	As Reported	Pro Forma
Net revenue	$ 41,111	$42,982	$ 78,165	$85,298
Net income (loss)	3,428	(5,458)	1,704	(8,485)

	Three months ended June 30, 2013		Six months ended June 30, 2013	
	As Reported	Pro Forma	As Reported	Pro Forma

Net revenue	$31,083	$34,964	$62,728	$69,628
Net income (loss)	(2,030)	(4,274)	(3,457)	(101)

The unaudited pro forma information set forth above is for informational purposes only. The pro forma information should not be considered indicative of actual results that would have been achieved had Uptivity been acquired at the beginning of 2013 or of results that may be obtained in any future period.

Transcend Acquisition

In December 2012, we entered into an agreement with Transcend Products LLC ("Transcend") pertaining to the potential acquisition of Transcend to provide enhanced functionality for our existing service offerings. The option to purchase Transcend was exercised and the purchase closed in July 2013 for $2.7 million in cash and 376,459 shares of our common stock valued at $2.9 million, which was discounted from $3.0 million in the purchase agreement for the lack of marketability. Furthermore, if the acquisition generates certain levels of revenue during the two-year period beginning in August 2013, we will pay to Transcend an additional earnout payment of $1.0 million in cash or shares of our common stock. As of the date of acquisition, this contingent liability has been recorded in accrued liabilities at its fair market value of $145,000 and was included as part of the purchase consideration. At June 30, 2014, the fair market value remained unchanged.

The purchase price allocations for our acquisition of Transcend Products were prepared by the Company's management utilizing a valuation report, which was prepared in accordance with the provisions of ASC 805 Business Combination, and other tools available to the Company, including conversations with Transcend's management and projections of revenues and expenses. The fair values of the intangible assets were determined primarily using the income approach and the discount rates range from 13.4% to 16.4%. The total purchase consideration, which includes the contingent consideration liability above, was preliminarily allocated as follows (in thousands):

	July 2, 2013
Property and equipment, net	$29
Intangible assets, net	3,249
Goodwill	2,477
Total assets acquired	$5,755

In connection with the acquisition, we incurred professional fees of $23,000, including transaction costs such as legal and valuation services, which were expensed as incurred. These costs are included within general and administrative expenses in the Condensed Consolidated Statements of Operations.

The premium paid over the fair value of the net assets acquired in the purchase, or goodwill, was primarily attributed to buyer synergies and assembled workforce. All of the goodwill was assigned to the software segment.

Intangible assets acquired resulting from the acquisition include customer relationships, patents and technology, which are amortized on a straight-line basis. The following sets forth the intangible assets purchased as part of the Transcend acquisition and their economic useful life at the date of acquisition (in thousands, except useful life):

	Intangible Assets	Economic Useful Life (in years)
Customer relationships	$ 168	3.5
Patents	2,168	10.0
Technology	913	5.0
Total intangible assets	$ 3,249	

NOTE 7. INTANGIBLE ASSETS

Intangible assets consisted of the following (in thousands):

	June 30, 2014			December 31, 2013		
	Gross Assets	Accumulated Amortization	Intangible Assets, net	Gross Assets	Accumulated Amortization	Intangible Assets, net
Customer lists and relationships	$28,122	$ (16,877)	$ 11,245	$16,663	$ (16,354)	$ 309
Technology and patents	20,998	(10,766)	10,232	13,312	(10,347)	2,965
Trade names and trade marks	3,136	(653)	2,483	1,194	(551)	643
In-process research and development	3,360	—	3,360	—	—	—

Domain name	54	—	54	54	—	54
Total intangible assets	$55,670	$ (28,296)	$ 27,374	$31,223	$ (27,252)	$ 3,971

Amortization expense was $1.0 million and $105,000 during the six months ended June, 2014 and 2013, respectively

Based on the recorded intangibles at June 30, 2014, estimated amortization expense is expected to be $2.7 million during the remainder of 2014, $4.4 million in 2015, $3.8 million in 2016, $3.1 million in 2017, $3.0 million in 2018 and $7.0 million thereafter.

NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Accrued payroll and other compensation	$4,034	$ 3,687
Excess recovery reserve	798	1,157
Accrued state sales taxes	2,970	2,289
Accrued vendor charges	629	594
Acquisition related liabilities	3,225	145
Other	1,861	900
Total accrued liabilities	$13,517	$ 8,772

NOTE 9. DEBT AND CAPITAL LEASE OBLIGATIONS

Revolving Credit Agreement

On July 16, 2009, we entered into a revolving credit loan agreement (“Revolving Credit Agreement”) with Zions First National Bank (“Zions”), which was subsequently amended in June 2013. Under the terms of the Revolving Credit Agreement, Zions agreed to loan up to $15.0 million. The Revolving Credit Agreement is collateralized by substantially all the assets of inContact. The balance outstanding under the Revolving Credit Agreement cannot exceed the lesser of (a) $15.0 million or (b) the sum of 85% of eligible billed receivables, and 65% of eligible earned, but unbilled receivables as calculated on the 5th and 20th of each month. The interest rate on the Revolving Credit Agreement with Zions is 4.0% per annum above the ninety day LIBOR and the term is until July 2015. There was $15.0 million of unused commitment at June 30, 2014, based on the maximum available advance amount calculated on the June 20, 2014 borrowing base certificate. Interest under the Revolving Credit Agreement is paid monthly in arrears, and any outstanding principal is due in July 2015. There was no outstanding balance on our Revolving Credit Agreement at June 30, 2014 and December 31, 2013.

The Zions Revolving Credit Agreement contains certain covenants, which were established by amendment to the Revolving Credit Agreement in June 2013. As of June 30, 2014, the most significant covenants require that the aggregate value of cash, cash equivalents and marketable securities shall not be less than the outstanding balance on the Revolving Credit Agreement plus $2.5 million, and if at any time the aggregate value is less than the minimum liquidity position, a minimum quarterly EBITDA of $2.5 million, calculated as of the last day of each calendar quarter, is required. We are in compliance with the covenants at June 30, 2014.

The Revolving Credit Agreement imposes certain restrictions on inContact’s ability, without the approval of Zions, to incur additional debt, make distributions to stockholders, or acquire other businesses or assets.

Promissory Note

During the three and six months ended June 30, 2014, we paid $209,000 and $417,000, respectively, of the promissory note payable (“Promissory Note”) to Zions. The Promissory Note balance was $278,000 at June 30, 2014.

Term Loan

In April 2012, we entered into a term loan agreement (“2012 Term Loan”) with Zions for $4.0 million, which matures in May 2016. We drew $4.0 million on the 2012 Term Loan in April 2013. Interest is paid monthly in arrears and the principal is paid in 36 equal monthly installments and commenced in September 2013. The interest rate under the Term Loan is 4.5% per annum above the ninety day LIBOR rate, adjusted as of the date of any change in the ninety day LIBOR. The financial covenants are the same as the Revolving Credit Agreement.

In June 2013, we also entered into a term loan agreement (“2013 Term Loan”) with Zions for $4.0 million, which matures in June 2017. We were allowed to draw on the 2013 Term Loan through June 2014 and the interest rate is 4.25% per annum above the ninety day LIBOR. We drew $3.0 million and $1.0 million on the 2013 Term Loan in December 2013 and June 2014, respectively. The principal will be paid in 36 equal monthly installments commencing in August 2014 and we may prepay any portion of the 2013 Term Loan without penalty or premium. The 2013 Term Loan is collateralized by the same assets as the Revolving Credit Agreement.

During the three and six months ended June 30, 2014, we paid $334,000 and $667,000, respectively, of total term loan principal to Zions. The total balance of the term loans was $6.6 million at June 30, 2014.

Capital Leases

During the six months ended June 30, 2014, we paid $1.1 million of capital lease obligations. The balance of the capital lease obligations was $1.7 million at June 30, 2014.

NOTE 10. CAPITAL TRANSACTIONS

During the six months ended June 30, 2014, we received 54,000 shares of our common stock from cancelled restricted stock from separated employees and for the settlement of $36,000 in payroll taxes.

We received proceeds of $1.4 million from the exercise of 411,000 options during the six months ended June 30, 2014. We issued 45,000 shares of common stock and 2,000 shares of treasury stock for proceeds of $345,000 under the employee stock purchase plan during the six month period ended June 30, 2014.

NOTE 11. COMMITMENTS AND CONTINGENCIES

In May 2009, the Company was served in a lawsuit titled California College, Inc., et al., v. UCN, Inc., et al. In the lawsuit, California College alleges that (1) the Company made fraudulent and/or negligent misrepresentations in connection with the sale of its services with those of Insidesales.com, Inc., another defendant in the lawsuit, (2) that the Company breached its service contract with California College and an alleged oral contract between the parties by failing to deliver contracted services and product and failing to abide by implied covenants of good faith and fair dealing, and (3) the conduct of the Company interfered with prospective economic business relations of California College with respect to enrolling students. Pursuant to a motion filed by Insidesales.com, California College filed an amended complaint that has been answered by Insidesales.com and the Company. California College originally sought damages in excess of $20.0 million. Furthermore, Insidesales.com and the Company filed cross-claims against one another, which they subsequently agreed to dismiss with prejudice. In October 2011, California College reached a settlement with Insidesales.com pursuant to which the claims against Insidesales.com were dismissed. In June of 2013, California College amended its damages claim to $14.4 million, of which approximately $5.0 million was alleged pre-judgment interest. On September 10, 2013, the court issued an order on the Company's Motion for Partial Summary Judgment. The court determined that factual disputes exist as to several of the claims, but dismissed California College's cause of action for intentional interference with prospective economic relations and the claim for prejudgment interest. Dismissing the claim for prejudgment interest effectively reduced the claim for damages to approximately $9.2 million. inContact has denied all of the substantive allegations of the complaint and continues to defend the claims. Management believes the claims against the Company are without merit. The Company does not believe the probable loss is material.

On January 15, 2014, Microlog Corporation (“Microlog”) filed a patent infringement suit against the Company in the United States District Court for the District of Delaware. The Complaint alleges that the Company has infringed a patent owned by Microlog. The Company is defending this case vigorously and Management believes the allegations to be without merit. However, no estimate of the loss or range of loss can be made.

On March 20, 2014, Pragmatus Telecom, LLC (“Pragmatus”) filed a patent infringement suit against inContact in the Federal District Court for the District of Delaware. The Complaint alleges that inContact has infringed a patent owned by Pragmatus. inContact is defending this case vigorously and Management believes the allegations to be without merit. However, no estimate of the loss or range of loss can be made.

On May 2, 2014, Info Directions, Inc. ("IDI") notified inContact of a Demand for Arbitration regarding a dispute related to the Software as a Service Agreement between IDI and inContact dated December 19, 2012 ("Agreement") pursuant to which IDI was to provide inContact with billing systems software. On April 8, 2014 InContact gave IDI notice of IDI breach of the Agreement. inContact is defending this arbitration vigorously and Management believes the allegations to be without merit. However, no estimate of the loss or range of loss can be made.

We are the subject of certain other legal matters considered incidental to our business activities. It is the opinion of management that the ultimate disposition of these matters will not have a material impact on our financial position, liquidity or results of operations.

NOTE 12. STOCK-BASED COMPENSATION

Stock-based compensation cost is measured at the grant date based on the fair value of the award granted and recognized as expense using the graded-vesting method over the period in which the award is expected to vest. Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period. As stock-based compensation expense recognized in the results for the year is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures.

We record stock-based compensation expense (including stock options, restricted stock and employee stock purchase plan) to the same departments where cash compensation is recorded as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Costs of revenue	$243	$103	$382	$252
Selling and marketing				