inContact, Inc.
Form 10-Q
May 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2016

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.)

75 West Towne Ridge Parkway, Tower 1, Sandy, UT 84070

(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 May 03, 2016
Common Stock, $0.0001 par value	62,191,999 shares

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INCONTACT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS—(Unaudited)

(in thousands, except per share data)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$16,296	$29,050
Restricted cash	-	81
Investments	70,004	75,109
Accounts and other receivables, net of allowance for uncollectible accounts of $1,781 and $2,555, respectively	38,093	37,185
Other current assets	9,595	9,243
Total current assets	133,988	150,668
Property and equipment, net	50,750	42,569
Intangible assets, net	29,573	19,232
Goodwill	49,016	39,247
Other assets	2,724	2,421
Total assets	$266,051	$254,137
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$12,915	$11,607
Accrued liabilities	12,705	12,828
Accrued commissions	4,397	4,615
Current portion of deferred revenue	13,955	11,530
Total current liabilities	43,972	40,580
Deferred revenue	6,439	6,082
Deferred rent and lease incentive obligation	5,814	3
Deferred tax liability, net	256	230
Long-term debt	83,029	81,985
Total liabilities	139,510	128,880
Commitments and contingencies (see note 10)		
Stockholders' equity:		
Common stock, $0.0001 par value; 100,000 shares authorized; 62,168 and 61,826 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	6	6
Additional paid-in capital	257,682	253,986
Accumulated deficit	(131,137)	(128,654)

Accumulated other comprehensive loss	(10)	(81)
Total stockholders' equity	126,541	125,257
Total liabilities and stockholders' equity	$266,051	$254,137

See accompanying notes to Condensed Consolidated Financial Statements.

INCONTACT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS and COMPREHENSIVE LOSS

(Unaudited)

(in thousands, except per share data)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net revenue:		
Software	$41,548	$32,466
Network connectivity	20,839	18,872
Total net revenue	62,387	51,338
Costs of revenue:		
Software	16,665	13,697
Network connectivity	13,436	11,811
Total costs of revenue	30,101	25,508
Gross profit	32,286	25,830
Operating expenses:		
Selling and marketing	18,210	15,475
Research and development	8,609	6,653
General and administrative	8,675	9,078
Total operating expenses	35,494	31,206
Loss from operations	(3,208)	(5,376)
Other income (expense):		
Interest expense	(1,765)	(434)
Interest income	155	1
Other income (expense)	(1)	-
Total other expense	(1,611)	(433)
Loss before income taxes	(4,819)	(5,809)
Income tax benefit (expense)	2,590	(179)
Net loss	$(2,229)	$(5,988)
Other comprehensive loss, net of taxes:		
Net change in unrealized losses in available for sale investments	71	-
Comprehensive loss	$(2,158)	$(5,988)
Net loss per common share:		
Basic and diluted	$(0.04)	$(0.10)
Weighted average common shares outstanding:		
Basic and diluted	62,263	61,484

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	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2015	61,826	$ 6	$ 253,986	-	$ -	$ (128,654)	$ (81)	$ 125,257
Common stock received for settlement of taxes and forfeited restricted stock	-	-	-	(64)	(529)	-	-	(529)
Common stock issued for options exercised	133	-	476	61	507	(232)	-	751
Common stock issued under the employee stock purchase plan	49	-	387	-	-	-	-	387
Issuance of common stock for acquisition of a business	64	-	344	-	-	-	-	344
Stock-based compensation	-	-	2,489	-	-	-	-	2,489
Vesting of restricted stock units	96	-	-	3	22	(22)	-	-
Other comprehensive income	-	-	-	-	-	-	71	71
Net loss	-	-	-	-	-	(2,229)	-	(2,229)
Balance at March 31, 2016	62,168	$ 6	$ 257,682	-	$ -	$ (131,137)	$ (10)	$ 126,541

See accompanying notes to Condensed Consolidated Financial Statements.

INCONTACT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Three Months Ended March 31,	
Cash flows from operating activities:	2016	2015
Net loss	$ (2,229)	$ (5,988)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation of property and equipment	3,076	2,379
Amortization of software development costs	2,097	1,662
Amortization of intangible assets	1,285	1,363
Amortization of deferred debt issuance costs	97	199
Stock-based compensation	2,489	2,614
Loss on disposal of property and equipment	480	36
Interest accretion	947	-
Amortization of investment premium	278	-
Deferred income taxes	(2,640)	-
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts and other receivables, net	(758)	(2,440)
Other current assets	(339)	(1,056)
Other non-current assets	(304)	(31)
Trade accounts payable	847	(243)
Accrued liabilities	(172)	(1,779)
Accrued commissions	(218)	70
Deferred rent and lease incentive obligation	5,814	(92)
Deferred revenue	2,526	3,243
Net cash provided by (used in) operating activities	13,276	(63)
Cash flows from investing activities:		
Decrease in restricted cash	81	-
Sales and maturities of available for sale investments	20,777	-
Purchases of available for sale investments	(15,879)	-
Capitalized software development costs	(3,819)	(2,123)
Purchases of property and equipment	(9,353)	(3,947)
Business acquisitions, net of cash acquired	(18,446)	-
Net cash used in investing activities	(26,639)	(6,070)
Cash flows from financing activities:		
Proceeds from exercise of options	751	2,274
Proceeds from sale of stock under employee stock purchase plan	387	321
Principal payments under debt and capital lease obligations	-	(11,824)
Purchase of treasury stock	(529)	(225)
Payments under revolving credit agreement	-	(11,000)
Proceeds from issuance of convertible notes, net	-	111,320
Net cash provided by financing activities	609	90,866
Net (decrease) increase in cash and cash equivalents	(12,754)	84,733
Cash and cash equivalents at the beginning of the period	29,050	32,414

Cash and cash equivalents at the end of the period	$ 16,296	$ 117,147
Supplemental schedule of non-cash investing and financing activities:		
Payments due for property and equipment included in trade accounts payable	$ 726	$ 345
Unrealized losses on available for sale investments, net	$ (10)	$ -
Convertible notes transaction fees included in trade accounts payable	$ -	$ 130
Issuance of common stock for acquisition of a business	$ 344	$ -

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® Customer Interaction Cloud, an advanced contact handling and performance management software application. Our services also provide a variety of connectivity options for carrying inbound calls and 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. We contract with a number of third party providers for the right to resell the various telecommunication services and products they provide, and then offer all of these services to the 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 (“GAAP”) and the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP, 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 for the year ended December 31, 2015, filed with the SEC on March 4, 2016. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016. Our significant accounting policies are set forth in Note 1 to the Consolidated Financial Statements in the 2015 Annual Report on Form 10-K 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 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 recognize as 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 Workforce Optimization 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. 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 from customers who purchase our products for resale is generally recognized when such products are released (on a "sell-through" basis). Periodically we review our reseller arrangements as our business and products change.

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 software solutions. Revenue for 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.

Long-term Debt

We record debt issuance costs as a direct deduction from the carrying amount of our long-term borrowings, as well as costs incurred for subsequent modification of debt, incurred in connection with our long-term borrowings and credit facilities. We amortize these costs as an adjustment to interest expense over the remaining contractual life of the associated long-term borrowing or credit facility using the effective interest method for term loans and convertible debt borrowings, and the straight-line method for revolving credit facilities. When unscheduled principal payments are made, we adjust the amortization of our deferred debt-related costs to reflect the expected remaining terms of the borrowing.

Operating Leases

Rent expense and lease incentives, including landlord construction allowances, are recognized on a straight-line basis over the lease term, commencing generally on the date the Company takes possession of the leased property. The unamortized portion of deferred rent is included in deferred rent and lease incentive obligation.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." The guidance in the ASU supersedes existing revenue recognition guidance and 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. In July 2015, the FASB ratified a one-year delay in the effective date of ASU 2014-09, which makes the effective date for the Company the first quarter of fiscal 2018. 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 with a cumulative effect recognized as of the date of initial application. This update could impact the timing and amounts of revenue recognized. We are currently evaluating which transition approach to use and assessing the impact of adopting the new revenue standard on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" that amends the principal versus agent guidance in ASU 2014-09. The guidance in this ASU clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. Additional guidance is also provided about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date for the Company is the first quarter of fiscal 2018. We are currently evaluating the transition method that will be used and assessing the impact the updated standard will have on our consolidated financial statements and related disclosures.

In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing" that amends the revenue guidance in ASU 2014-09 on identifying performance obligations and accounting for licenses of intellectual property. The update allows an entity to exclude immaterial promised good and services from the assessment of performance obligations and also permits certain treatment of shipping and handling costs related to providing goods and services to a customer. Additionally, this ASU provides guidance on determining if promised goods or services are separately identifiable or whether the promise is to transfer a combined item to which promised goods and/or services are inputs. This ASU includes implementation guidance on determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The effective date of the standard for the Company will coincide with ASU 2014-09 during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Liabilities." This pronouncement will change the income statement impact of equity investments held by an entity, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. This ASU is effective in fiscal years beginning after December 15, 2017 and early adoption of some provisions are permitted. The Company is currently assessing the impact of this new standard on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which requires recognition on the balance sheet of assets and liabilities related to the rights and obligations created by leases with a term of more than 12 months. Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease will depend on its classification as a finance or operating lease. However, the new guidance differs from current GAAP in that it requires both types of leases to be recognized on the balance sheet. Related disclosures will include both qualitative and quantitative requirements to help investors better understand the amounts recorded in the financial statements. This ASU is effective in fiscal years beginning after December 15, 2018 and early adoption is permitted. The Company is currently assessing the impact of this new standard on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." The objective of this update is to simplify several aspects of accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This update is effective for the Company during the first quarter 2017 and early adoption is permitted. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

We reviewed all other recently issued accounting standards in order to determine their effects, if any, on the consolidated financial statements. Based on that review, we believe that none of these standards will have a significant effect on current or future results of operations.

NOTE 2. BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic earnings per common share is computed by dividing the net 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 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, unvested restricted stock awards, and potential shares from Convertible Notes. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury method.

As a result of incurring a net loss for the three months ended March 31, 2016 and 2015, no potentially dilutive securities are included in the calculation of diluted earnings per share because such effect would be anti-dilutive. The following table summarizes potentially dilutive securities, using the above security classifications (in thousands):

	Three Months Ended March 31,	
	2016	2015
Stock options	2,984	2,941
Restricted stock awards	1,954	1,395
Potential shares from Convertible Notes	8,082	8,082
Total potentially dilutive shares	13,020	12,418

NOTE 3. 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 Condensed Consolidated 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: Inputs that reflect quoted prices for identical assets or liabilities in less active markets; quoted prices for similar assets or liabilities in active markets; benchmark yields, reported trades, broker/dealer quotes, inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs that reflect our own assumptions incorporated in valuation techniques used to measure fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

Assets Measured at Fair Value on a Recurring Basis:

The following table summarizes our investments measured at fair value on a recurring basis using the above input categories as of March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016		December 31, 2015	
	Level 2	Total	Level 2	Total

	Level 1			Level 1		
Cash equivalents:						
Money market funds	$5,382	$-	$5,382	$4,071	$-	$4,071
Commercial paper		$-	-	-	999	999
Total cash equivalents	5,382	-	5,382	4,071	999	5,070
Investments:						
Commercial paper	-	22,521	22,521	-	27,846	27,846
Corporate debt securities	-	46,972	46,972	-	45,830	45,830
Municipal bonds	-	511	511	-	1,433	1,433
Total investments	-	70,004	70,004	-	75,109	75,109
Total assets measured at fair value	$5,382	$70,004	$75,386	$4,071	$76,108	$80,179

Fair Value Measurements

Money Market Funds – We value our money market funds using quoted active market prices for such funds.

Commercial paper, Corporate debt securities, and Municipal bonds – The fair value of these securities are estimated using observable market prices for identical securities that may be traded in less-active markets, if available. When observable market prices for identical securities are not available, we value these securities using non-binding market price quotes from brokers which we review for reasonableness using observable market data; quoted prices for similar instruments; or pricing models, such as a discounted cash flows.

Other Financial Instruments

The carrying amounts of cash and cash equivalents (other than investments recorded on a fair value basis disclosed above), accounts and other receivables, and trade accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments.

The fair value of the Convertible Notes is considered to be a Level 2 measurement because it is based on a recent bid price quote for the Convertible Notes, reflecting activity in a less than active market. The carrying value and estimated fair value of our Convertible Notes are as follows (in thousands):

	March 31, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Convertible notes	$83,029	$104,547	$81,985	$108,330

NOTE 4. INVESTMENTS – AVAILABLE FOR SALE

Our investments generally consist of money market funds, commercial paper, corporate debt securities and municipal bonds. All of our investments have original maturity (maturity at the purchase date) of less than 12 months. Investments with original maturities of three months or less are classified as cash equivalents.

We classify our investments as available for sale at the time of purchase and we reevaluate such classification as of each balance sheet date. These short-term investments are carried at fair value with unrealized gains or losses classified as a component of accumulated other comprehensive loss. Amortization of premiums and accretion of discounts to maturity are computed under the effective interest method and is included in interest income. Interest on securities is included in interest income when earned. Realized gains and losses on the sale of investments are determined using the specific identification method and recorded in "Other income (expense)" in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Our investments as of March 31, 2016 and December 31, 2015 were as follows (in thousands):

March 31, 2016	
Amortized Cost	Gross Unrealized Losses