S&P Global
Market Intelligence

AudioEye, Inc. NasdaqCM:AEYE

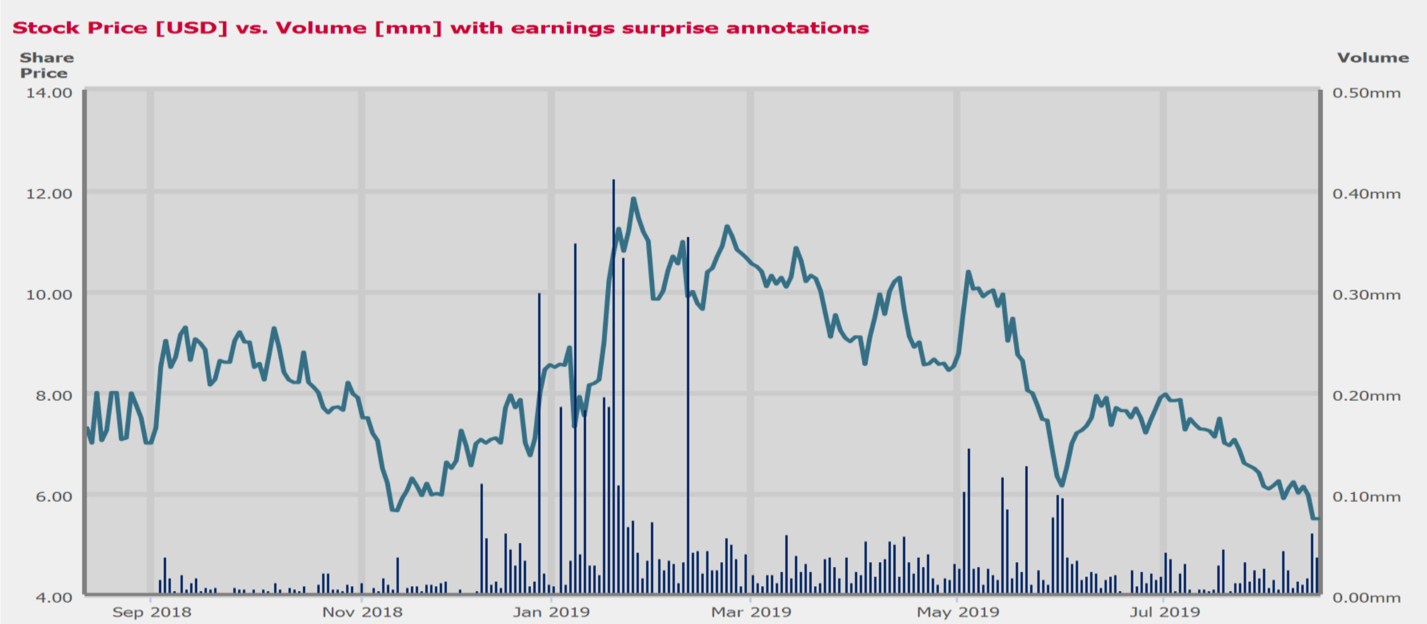
FQ2 2019 Earnings Call Transcripts

Wednesday, August 14, 2019 8:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	-	(0.27)	NM	-	-	-
Revenue (mm)	2.42	2.44	▲0.83	2.99	11.13	17.22

Currency: USD
Consensus as of Aug-12-2019 7:32 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	(0.18)	(0.18)	NM
FQ4 2018	(0.11)	(0.16)	NM
FQ1 2019	(0.12)	(0.28)	NM
FQ2 2019	-	(0.27)	NM

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Call Participants

EXECUTIVES

Carr Bettis
Executive Chairman

Sachin Barot
Chief Financial Officer

Todd A. Bankofier
Chief Executive Officer

ANALYSTS

Ilya Grozovsky
National Securities Corporation, Research Division

Mark Hake

Zachary Cummins
B. Riley FBR, Inc., Research Division

Presentation

Operator

Good afternoon, and welcome to AudioEye's Second Quarter 2019 Earnings Conference Call. Joining us for today's call are AudioEye's Executive Chairman, Dr. Carr Bettis; CEO, Mr. Todd Bankofier and CFO, Mr. Sach Barot. Following their remarks, we'll open the call up for your questions. I'd like to remind everyone that this call will be recorded and made available for replay via link available in the Investor Relations section of the company's website at www.audioeye.com.

Before I turn the call over to AudioEye's Executive Chairman, the company would like to remind all participants that statements made by AudioEye management during the course of this conference call that are not historical facts are considered to be forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides the safe harbor for such forward-looking statements. The words believe, expect, anticipate, estimate, will and other similar statements of expectation identify forward-looking statements. These statements are predictions, projections and other statements about future events and are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in today's press release and the comments made during this conference call and in the Risk Factors section of the company's annual report on Form 10-K, or quarterly report on Form 10-Q and our other reports and filings with the Securities and Exchange Commission. Participants on this call are cautioned not to place undue reliance on these forward-looking statements, which reflect management's beliefs only as of the date hereof. AudioEye does not undertake any duty to update or correct any forward-looking statements.

Now I'd like to turn the call over to AudioEye's Executive Chairman, Mr. -- Dr. Carr Bettis. Please go ahead, doctor.

Carr Bettis
Executive Chairman

Thank you, operator. Welcome, everyone, and thank you for joining us today. We had a lot of positive things going on, and we're excited to share with you and I'm going to jump into it. So after the market close, we issued a press release announcing our results for the second quarter ended June 30, 2019. A copy of the press release is available in the Investors section of our website at audioeye.com.

I'll begin today, as we always do, with a brief overview of our business, after that I'll provide some higher level update since our last call before discussing our financial results from the second quarter. From there, our CEO, Todd Bankofier, will come on the line to give some more specific updates within our key operating segments and finally, we'll have a brief introduction from our new CFO, Sach Barot, before turning it over to questions.

And now about us. AudioEye is a leading provider of SaaS-based digital content accessibility solutions. We're in the business of making websites and other digital content accessible for all individuals, especially those individuals with disabilities. We pride ourselves in addressing a large range of accessibility issues that impact many people.

With the AudioEye Ally platform, we do more than identify issues with web properties. We strive to fix, maintain and continuously monitor them. We also certify websites to demonstrate compliance with both the American with Disabilities Act, or ADA, and the latest Web Content Accessibility Guidelines. Because many of the remediation capabilities we provide are automated, our customers can more quickly gain compliance with accessibility standards, regulations and laws. Coupled with manual testing and remediation by subject matter experts, we provide our clients with the best solution to make their websites and digital content more accessible and keep their content more accessible through continuous monitoring and remediation.

Furthermore, for our private sector clients, we also give them the opportunity to get an ROI from their investment and commitment to the enormous population of individuals with disabilities.

I'd like to move on to our business update. Operationally, in our direct sales channel, we continue to bring in new customers from some of the largest companies in the world. On the indirect side, where we sell our product via content management system providers, our provider partners who host businesses, government or education sites on a common platform, we have further expanded our reach within those existing channel partners and are in active discussions with many other indirect channel partner prospects who are interested in providing digital accessibility solution to their collective thousands of website customers.

Todd will talk about both of these channels in just a minute, but I just want to say that we're learning more and getting smarter about how we partner and the way we spend our time with these partners to maximize their success on our platform and generate the greatest long-term return for AudioEye. We're also experiencing continued growth in interest in some of our newer offerings. More specifically, our recently launched PDF remediation business continues to show great promise and in the second quarter already started generating additional revenue. This will continue in the second half of the year.

For the still developing kiosk business, we think our technology is specially well suited for this application. We're exploring opportunities with a number of well-known enterprises who've shown interest in [taking] the charge in this new frontier.

I'm going to want to save some of the time for Todd as it relates to sales, et cetera. So I'm going to stop myself here and move on to some brief updates about the digital accessibility landscape. As many of you know, we've been focused on for the past few quarters on increasing AudioEye's mind share within the broader digital accessibility landscape as well as bringing more awareness to our industry as a whole. We are aware that there are an increasing number of competitors entering this exciting market which validates the opportunity itself and we're continuing to differentiate ourselves and stay ahead. We're driving the conversation on awareness, and have been working with key influencers, the media and legislators.

We've been on CBS Radio in New York, NPR, New York TV One, CNET and many others. As some of you are aware, Tony Coelho, who is one of the original authors and the former main sponsor of the ADA, is a Director on the AudioEye Board, which is something we're quite proud of. In recognition of this, ADA anniversary, Tony wrote an op-ed that was featured in the Morning Consult. It's a very well respected and widely read publication of Capitol Hill. In short, we will continue to push awareness with national and key regional media, and we do want more coverage. It is our opinion that positive coverage will collectively further highlight the importance of this issue and to continue elevating our company's exposure and to differentiate our brand.

With marketing, we continue to invest in our ad campaigns, trade shows and other lead generation activities. We will continue to spend on brand awareness and lead generation, but I do want to emphasize that we will, and we are continually evaluating our ROI from every lead generation source.

Regarding the business results. As I've said many times in the past, and as we see it now, we believe AudioEye is in a truly unique position as a company. We are the gold standard, technology leader in a nation market that we believe will expand tremendously in the coming years. What that means for us is that we've been presented with a special opportunity. One that requires bold and decisive action. The Board regularly evaluates how hard to put the peddle down, that is how much capital to invest now for the future. We do this based on market dynamics and our confidence in delivering an ROI.

For the past 3 months, we have spent considerable time with consultants and new advisers refining our strategy for growth and our ultimate goal of retaining and expanding on our market leadership position. Having our CFO, Sach, on board, by the way, has also been significant as we implement cost-effective scaling and infrastructure changes to meet long-term growth goals.

I'll tell you that we have a really exciting plan. Some parts of that plan involve doing what we do now and doing it more cost effectively. For example, our planning includes accelerated adoption and investment in cutting edge, machine learning and AI tools. However, I should point out there are some parts of the plan that we can talk about right now, simply because we don't want to lay out our plan for would be competitors, but you'll see these plans start to unfold in 2020.

Philosophically, I want to be clear that we will make short-term trade-offs for longer term gains and sustainable revenue, market penetration, gross margin and ROI, which are the company's growth goals. Consistent with this, our focus continues to remain on bookings, knowing revenue will take care of itself and that cash timing can vary depending on contract structure. However, every decision is being made keeping in mind the expected ROI for investors and the future health of the business.

Regarding bookings and revenue. We clearly had a very strong second quarter. It was by far our largest booking quarter ever at $7.3 million. It was also our 14th straight quarter of revenue growth. In percentage terms, bookings were up 140% and revenue up 97% compared to the second quarter of 2018.

Bookings totaled $10.7 million and revenue $4.4 million through June 30, 2019. At the end of Q2, deferred revenue was $3.2 million growing by 87% over last year and the non-GAAP number bookings, contracts and excess of revenue and deferred revenue also grew to $13.7 million, up 152% compared to a year ago.

As you may have seen in the press release we issued this afternoon, we've modified our expected ranges for both bookings and revenue guidance. We're pleased with our second quarter results. Our confidence level for our bookings guidance for the year continues to be strong and has improved. As a result, we are increasing our bookings guidance to $22 million to $24 million. As we explained in our Q1 call, our partner implementations and ramp up were slower than expected. The trend improved in Q2, but we were still slower than we would have liked. With that said, we continue to work with our partners. We also acknowledge that we don't fully control the speed of the program implementation through our partners and through adjusting our revenue guidance for the year to $10 million to $11 million. As I said previously on calls, given a choice we would rather have higher bookings and delayed revenue at this stage than higher revenues and not have the bookings. As already mentioned, bookings in excess of revenue and deferred revenue was $13.7 million at June 30, which is a result of longer term commitments from our customers and partners that creates more predictability in our revenue streams over time. It is also worth noting that in the case of some of these indirect channel partners, the bookings represent minimums from them. Also given that we've already done the legwork of making an existing channel partner platform accessible, the marginal cost for us to add customers on the platform are very, very low, which works well with longer term contracts.

For context. Our exit MRR rate at year-end will be much higher than at the end of Q2, even though we have adjusted revenue guidance for this year. To be clear, we have very high growth expectations for next year. But even with no growth in bookings, our revenue will be up approximately 130% (sic) [30%] next year. Again, we're expecting very strong growth next year, but this illustration just captures the effect of the backlog on our SaaS business model. We've also spoken previously about our expectations for bookings in the upcoming 2 quarters. Q3 has traditionally been a slower quarter, which seems to be driven by a slowdown in the summer months that is common to many SaaS companies. We expect it to be one of our best quarters ever, but slower than the second. On the other hand, we've also previously stated that we believe that fourth quarter this year will be very strong. We still believe that to be true.

We continue to have very strong renewals and we expect strong renewals to continue. This also gives us confidence in the long-term health of our business as we continue to grow bookings.

Our commitment is to be transparent and open with our shareholders and to give you the best information we have when we have it. As I said previously, we will make short-term trade-offs and also investments for longer term gains and sustainable revenue, market penetration, gross margin and ROI. We have already started making short-term investments for long-term benefit and scale. The areas in which we've been and plan on continuing to invest financial resources, they include advisers and consultants, financial infrastructure improvements, onboarding additional personnel and increased our PR and marketing efforts. We will not only make investments in infrastructure, brand awareness and lead generation, we're also making improvements in our technology. Over the next 6 months, we expect to make further technology enhancements, not only benefiting users and customers, but also will lead to lower marginal cost of delivery and strengthen our patent portfolio in key issues -- key areas.

In the second quarter, we began layering in consulting and adviser cost and some infrastructure cost. We believe these costs were important as they've helped us significantly as we plan to cost effectively scale the business in 2020 and beyond. We did also -- we did, however, also have some higher than expected operating cost, some were 1 time, we've also identified areas we can adjust that we believe will lead to reducing cost. This brings me to the question of cash.

Company is very pleased to announce that we have secured and have access to a total of approximately $4 million in capital received from certain investors in our company. We appreciate the support of our shareholders who continue to show confidence in our plan. We believe our approach is cost effective and less dilutive to our current shareholders than other options. As we announced in the 8-K filed today, we negotiated an early warrant exercise program with certain existing investors at a 35% discount to exercise prices. This has resulted in the company receiving approximately $2 million in cash. Additionally, the company has also negotiated an unsecured line of credit for up to $2 million. There is a 10% interest on capital drawn as needed. We also issued a 1-year warrant at 9% premium to yesterday's close price. The value of this grant is 11% of the line of credit amount. It's fully drawn.

We believe that this combination alleviates concerns about our cash needs. We're still refining our long-term growth plan and the capital needed to achieve those goals, but I want to remind you we clearly are expecting cash from existing contracts where we have bookings, but not yet cash and also cash from renewals and new contracts. The nature and timing of the cash in these contracts is one of the several factors that will influence cash needs in the longer term along with our need for investment in the short and medium term to fuel growth in 2020 and beyond.

I now read through the financial results of the second quarter ended June 30, 2019. I may go a little quicker, some of them will be redundant based on discussions we've already had. In Q2, we generated revenue of $2.4 million reflecting a 97% increase over the same time period last year -- over prior year. The increase in revenue was primarily due to continued execution in the direct channel, increased growth in the indirect channel and additional contracts awarded through our PDF remediation business. At June 30, 2019, our monthly recurring revenue totaled $774,000, which was a 13% increase from $686,000 on March 31, 2019. Bookings, which is the contracted amount of money the customer commits to spend with us over an agreed amount of time, some of them could be multiyear deals, for the quarter totaled $7.3 million, which was an increase of 140% from $3 million in the same period last year. This year-over-year increase in bookings was primarily due to the execution of contract closings in the direct channel and expanding contracts with indirect channel partners during the period that will deliver minimum revenue to us.

Next, gross profit in Q2 2019 was $1.3 million or 52.9% of total revenue, which was a 110% increase from $612,000 or 49.6% of revenue in the prior year period. The increase in gross profit was primarily due to increased sales volume and an increasing revenue renewal rate, longer contract terms. Advances in the company's technology also led to certain efficiencies in the delivery of service.

Total operating expenses in the second quarter were $3.3 million, which was an increase of 3% from $3.2 million in Q1 and an increase of 94% from $1.7 million in the same year ago period. The increase in total operating expenses was primarily due to continued investment in our growth through technology enhancements, consulting, legal and compliance costs as well as recruiting, marketing and other key personnel costs.

Net loss available to common shareholders, stockholders for the second quarter of 2019 totaled $2 million or negative $0.27 per share. This compares to a net loss of $1.1 million or negative $0.17 per share in the second quarter of last year. The year-over-year increase in net loss is primarily due to increased expenses in a number of key areas as we continue to position our company towards multiyear growth plan. We ended the quarter with $2.8 million in cash compared to $5.7 million at December 31, 2019.

With that wrap up of the financial details, I'm going to turn the call over to CEO, Todd Bankofier. Todd?

Todd A. Bankofier
Chief Executive Officer

Thank you, Carr. As you just heard, the second quarter was another big step forward for us here at AudioEye in both revenue and bookings. We ended Q2 with over 1,400 total customers using our Ally Managed Service offering, having signed on over 300 new accounts in the second quarter alone. Thanks to the PR and marketing efforts, Carr also highlighted, we've seen a much greater awareness of our company and our solutions in the marketplace. When combined with our improved lead generation initiatives, we're now talking to even more customers and have the biggest pipeline in our company's history. As the awareness of the issue of digital accessibility becomes more widespread, the legal actions against noncompliant organizations continues to rise and are standing as a leader and the industry grows. I feel confident in the continued growth of our pipeline and an increase in our sales conversions going forward. This confidence and strength of our pipeline, as stated, is now reflected in the higher guidance range of $22 million to $24 million for the 2019.

So moving to our 3 sources of customer success, which are the direct sales, the indirect channel partnership sales and customer retention. First, direct sales. During the second quarter, we continued to drive new sales of our Ally Managed Service offering to major organization serving a number of different industries. As the most mature of our go-to-market strategies, our direct channel provides us with a large base of consistent and reliable revenue. At the same time, we're constantly looking at ways we can improve our processes to get in front of more potential customers through additional marketing strategies and nurture and effectuate new meetings with companies in targeted industries and various size categories.

As I just mentioned, we've seen tremendous improvement in our ability to generate quality leads because of our online marketing efforts. As a result of our efforts, we see significant improvement in our organic search and the number of overall leads generated quarter-over-quarter.

Next is our indirect channel partnership sales. One of the most meaningful sales-related news from the quarter was our recently announced expansion of our relationship with Dealer.com, a Cox Automotive brand to a premier partnership. When AudioEye agrees to a premier partnership, it means we're getting a commitment to a certain volume of clients over time as well as getting additional marketing resources and an assurance of the digital accessibility, and priority for them at the C-level and below within the company. Carr spent a fair amount of time discussing the change in dynamics between our bookings and revenue. So I won't rehearse that here, but we want to make sure it's understood how this approach is going to influence our financial results on an ongoing basis.

As I just mentioned, we believe securing minimum commitments when we can is a prudent way to manage the long-term relationships of our partners. In the future, we expect the structure to become a more common feature of all of our partnerships. Our 2 most recent indirect signings, Edlio and Mopro are showing early initial traction and are prime examples of why we're spending so much time and effort making sure we're signing up the correct partners and structuring our contract to encourage adoption and growth on our platform.

Outwardly, we're constantly evaluating opportunities with more indirect channel partners, including many with whom we're still currently in serious discussions. And on a quick note on customer retention, something we're very proud of. As we mentioned many times before, we continue to have exceedingly high renewal rates. From a local renewable perspective, we're still seeing customer retention rates in the mid-90s, which we do not expect to change anytime soon.

And with that, now it's a pleasure to turn over our call to our new CFO, Sach Barot.

Sachin Barot
Chief Financial Officer

Thank you, Todd. I'm very excited to be with all of you today on my first call as AudioEye's new CFO. My remarks today will be brief, but I wanted to take a minute to introduce myself and let you know little bit more about me. Perhaps the most common question I have been asked since joining AudioEye is what brought me here? My answer on my first day and now has remained unchanged. I chose to come here for the following reasons: First, the web accessibility market. This is a nascent industry and it has a lot of runway ahead of it. So much so that the total addressable market size is still being debated. I think the industry growth opportunities are boundless and it's this opportunity for growth that originally attracted me to the company. In that context, when I think about AudioEye, I realize that we're uniquely positioned to take advantage of this enormous potential that's in front of us. On the back of our unique offering, AudioEye has a tremendous opportunity to become the undisputed market leader in this space.

I wanted to be a part of building the leadership position and help the company grow. And finally, I believe the company's broader mission to be tremendously valuable. We're here to help people who have been left behind in today's web-driven information age. And when I see that commitment from our employees and helping to make that goal real, energizes me even more.

In the short amount of time that I have been here, I haven't seen anything to change my mind on any of these points. I am personally excited to be a part of the company that's rapidly growing and is on its way towards a long-term success. As Carr mentioned earlier, we are planning on methodically running this company with a focus on growth into 2020 and beyond. Furthermore, we have full commitment from our Board to make sure that every major financial and operational decision is made with long-term objectives in mind.

Going forward, as I continue to get my feet underneath me, I'm focused on building a very strong foundation for the company to grow in the long term. We want to put in place a scalable infrastructure. We have already designed a new financial system and infrastructure that will help us over the next few months to become more efficient and consistent in our internal analytics, reporting and forecasting. It will also help us enhance our internal controls. We are actively working on improving our sales processes and operations management. This will ensure we have a rigorous and disciplined process for further visibility from starting [sales] opportunity to cash.

We are playing the long game here, and we're deliberately building the right base for the company. That will require investments in systems and infrastructure, hiring talent in various parts of the organization that will support rapid growth and also help us stay ahead of our competition. We will achieve this through continuous innovation and new go-to-market strategies. As you can see, there is a lot to do here at AudioEye over the next few quarters. We want to achieve these goals to remain the leader in providing web accessibility solutions. We're very excited to take that challenge head-on and deliver.

Going forward, I am planning on taking an increased role in our earnings call and look forward to eventually taking more of your questions on operations and finance. But for today, I will hand it back over to the operator to begin the Q&A session with Todd and Carr.
Operator, please provide the appropriate instructions.

Question and Answer

Operator

[Operator Instructions] Our first question today is coming from Zach Cummins from B. Riley FBR.

Zachary Cummins
B. Riley FBR, Inc., Research Division

Welcome aboard, Sach, to the first earnings call with AudioEye.

Sachin Barot
Chief Financial Officer

Thank you.

Zachary Cummins
B. Riley FBR, Inc., Research Division

So just starting off with the bookings number, really impressive number here in Q2. Where there any outsize deals or I think you mentioned 1 multiyear or maybe a handful of multiyear contracts that drove the strength of bookings in this quarter?

Carr Bettis
Executive Chairman

Yes, let's say this, we would have had a very strong record quarter without the biggest [indiscernible]. So we still had a very, very strong color -- quarter. The Dealer.com deal was important and material for sure. But again, we've had a record quarter regardless.

Zachary Cummins
B. Riley FBR, Inc., Research Division

Understood. That's helpful. And then in terms of the indirect partner channel, I mean, it sounds like, especially for the first 2 calls, it's been a matter of projects just not progressing as fastly or as quickly as you would like versus prior expectation. So can you talk about kind of some of the actions that you're taking to better monitor the progress within these indirect partner implementations and maybe even your approach to getting minimum business guarantees with more of your partners going forward?

Todd A. Bankofier
Chief Executive Officer

Yes. Zach, this is Todd. You obviously understand the significance of the indirect channel partner and the sort of predictability capabilities deals when you have partners involved in the selling process. We have fortified that process tremendously over the last quarter, and we see some better cadence on a number of fronts with our partners. Obviously, helping them with their marketing efforts as well as the day-to-day sort of work that the indirect channel team does here at AudioEye with each one of our partners. We've seen significant value in that. Are they all homing at the same value -- or the same pace that we'd like them to, not quite yet, but we're much better of quarter-over-quarter than we were last year when we started this channel.

Zachary Cummins
B. Riley FBR, Inc., Research Division

Understood. And then, I guess in terms of expenses during the quarter, it was mentioned there were some onetime expenses related to legal and some consulting stuff. Is there any way you can quantify the amount that you would consider to be nonrecurring? And should we be expecting some more consulting sort of expenses as we go into Q3 and Q4 of this year?

Carr Bettis
Executive Chairman

Yes. I think you'll see some consulting expenses continue, Zach, but I will tell you we have identified there are some, I would say, legal costs again were higher than we would like for them to be and we think that is -- we've got increasing strategies to manage that going forward. We had a lot of regulatory other issues that showed up, compliance issues that showed up and also we, of course, have been talking to the marketplace about alternatives recently. So I think there are some onetimes here. I think we had one onetime state tax issues in Arizona as an example, those were onetime, not issues, I think they were just a true up, I'd say, taxes. So some things like that I think were contributing to the onetime, but yes, we're going to have -- the spirit of this is we're going to make sure that we're scaled appropriately for the growth that we're anticipating, which we're very excited about looking at 2020 and beyond. And the strategies we have, we need to make sure we're correctly positioned to do those, and that includes using consultants and advisers. So we expect to implement the scalable infrastructure and systems and to fuel the growth. We are going to curtail some of the costs like legal [indiscernible] and ensure their marketing spend is sufficient.

Zachary Cummins
B. Riley FBR, Inc., Research Division

Understood. And to my last question, it's more around you had a couple of actions in August that have helped address the cash balance on the balance sheet. I mean, in terms of the line of credit that was secured, have -- I don't know if you can comment on this, but have you already drawn down on that line this month? And I guess it's probably harder to determine kind of longer term capital needs for what you need to effectively scale this business?

Carr Bettis
Executive Chairman

Look, from the short term, Zach, going to be a little bit of a long winded answer. But the first thing is, we've absolutely not drawn down on facility. So for the short term, we know that investors were concerned about cash, right, and we mentioned before, we continue to evaluate our cash needs as we want to deploy it to medium and long term growth goals in mind. We want to do it efficiently for shareholders at the least amount of to be the best option. So I'm going to reiterate our philosophy to you again. We're going to look at long-term growth as we're working on the 2020 and beyond growth plan. We got exciting things in mind here that we've learned from the market that we are excited about, that it will take some time. As we develop the plan, we want to raise capital to help us continue to focus on delivering the 2019 bookings to build our infrastructure. We want to start implementing the scalable profits to build up platform for the longer term objectives. So the capital raise is going to ensure that we have that capability. So [the details] for the early exercise warrant and then the unsecured line of credit. So that unsecured line of credit is just there for us if we want to use it and need it. It gives us the comfort to be able to meet our objectives here.

Zachary Cummins
B. Riley FBR, Inc., Research Division

Understood. That's helpful. Well, congrats on a really strong bookings number and best of luck as you go into the second half of this year.

Operator

[Operator Instructions] Our next question today is coming from Ilya Grozovsky from National Securities.

Ilya Grozovsky
National Securities Corporation, Research Division

Just had a couple of housekeeping questions. Gross margin line ticked down a little bit sequentially while the revenues ticked up. I thought there would be kind of scale to it and we'd be going in the other direction. Kind of what's going on there and how do you see gross margins going forward second half?

Carr Bettis
Executive Chairman

Yes. So look, it is a mix of the contracts in direct and indirect and how we deliver and the timing and the cost involved in them. So we've got -- as you noticed in our booking system, we mentioned we have some longer term contracts with minimum guarantee. So there is more investment upfront to get the long-term benefit in the marginal cost of delivery as we go [indiscernible] down. So as we're ramping, there's going to be a balance here all the time, right. So we still think we're in pretty good shape.

Todd A. Bankofier
Chief Executive Officer

And Ilya, the best way I think about it is, you should look at that number on a more longer term basis. Sequentially, it may go up and down, but if you look at year-over-year, we have made improvements. And in the long term, we will continue to want to make improvements on that line.

Ilya Grozovsky
National Securities Corporation, Research Division

Where do you think it sort of tops out?

Todd A. Bankofier
Chief Executive Officer

I'm not -- I can't answer that question because we have not modeled it out, but clearly for our SaaS business, it has lot of room to grow. And we want to grow -- and we want to scale profitably. So we expect it to continue to go up over the next year to 2.

Ilya Grozovsky
National Securities Corporation, Research Division

Okay. And then on the housekeeping side, stock-based comp in the quarter, what was that? And any depreciation, amortization?

Todd A. Bankofier
Chief Executive Officer

Give me a second, Ilya. Sorry, I don't have any [indiscernible] I'm looking.

Carr Bettis

Executive Chairman

We'll come back to that Ilya in a second. You have other questions, Ilya? We'll come back...

Ilya Grozovsky
National Securities Corporation, Research Division

No, that's it for me then.

Operator

Our last question today is coming from Mark Hake from Hake Investments.

Mark Hake

Yes, it's great that your revenue's continuing to increase and all that. I like that. I notice you haven't published your 10-Q, but when do you think you will have that?

Carr Bettis
Executive Chairman

It's crossed actually, it should be out there.

Mark Hake

Okay. And what was the cash flow or operating cash flow from operations? I guess that's only -- I guess that's for the 6 months, but what's that look like? Trying to get a sense of what your cash burn is per quarter ago?

Todd A. Bankofier
Chief Executive Officer

Yes, the cash burn was about $1.3 million last quarter, and that's a little lower than what we had in Q1. Also, it's timing of collections as well. We expect to have similar cash burn over the next few -- next couple of quarters.

Mark Hake

Okay. So you picked up $2 million. I guess the warrants have already been exercised. Is that correct?

Todd A. Bankofier
Chief Executive Officer

They're in the process of being exercised. That exercise date is [to] 16, but we expect it to be done before then. And we expect little over $2 million once done.

Carr Bettis
Executive Chairman

And that bumps the assumption [we have made] to these financials, so.

Mark Hake

Right. But will the 10-Q show the exercise price so I can get a sense of how many shares were issued?

Carr Bettis
Executive Chairman

We'll give in 8 -- we'll publish in 8-K, and it will make the details more clear for you.

Mark Hake

Okay. So if you're burning $1.3 million you said per quarter, and you'll have an extra $2 million, and I guess you could borrow more, but...

Carr Bettis
Executive Chairman

Yes, and it's an unsecured line that we can draw up to if we need to and want to.

Mark Hake

Right. So with $4.8 million, but you've already burnt through some money already this quarter, but -- all right, so you have theoretically $4.8 million and you're burning $1.3 million a quarter, is that correct? Is that the sense I'm getting?

Carr Bettis
Executive Chairman

I don't think you can reliably expect to make $1.3 million burn in every quarter for the foreseeable future. We've got very specific things we're doing over the next couple of quarters here and are planning for '20, '21, and '22 that we think are prudent to take advantage of the market opportunity. So no, I don't think you can build a long term trend expecting us to continue to burn at that rate.

Mark Hake

Would you mean higher?

Carr Bettis
Executive Chairman

No. The current business plan is not -- we haven't released the plans for '20, '21, and '22. We will certainly do that at the appropriate time. So...

Mark Hake

Now you talked about [indiscernible]

Carr Bettis
Executive Chairman

You're talking about the next quarter right now. Next quarter ahead we think will be similar. We're going to constantly do we've done along, it's balance the need -- the opportunity for growth with the opportunity for capital. So we feel pretty good about where we sit today. We like where we're.

The pay-off from the investments we're making now, we're going to continue to do those pay-offs as we move forward from quarter-to-quarter, right?

Mark Hake

It would be helpful, frankly, for your stock, and I'm just going to say this publicly, when you can start to talk about getting to free cash flow positive because people just don't like seeing it in a company...

Carr Bettis
Executive Chairman

Mark, thanks for your comment. I'm going to go back and reiterate that the philosophy is very clear. We're going to focus on making the right decisions for the ROI for the company with long-term growth in mind and push the pedal down at the right time if we feel like we had an opportunity to take real advantage of the market opportunity, that's what we're going to do. But Mark, I appreciate your time. Thank you for joining.

Operator

We reached end of our question-and-answer session, I'd like to turn the floor back over to Carr for any further or closing comments.

Todd A. Bankofier
Chief Executive Officer

Ilya, the stock-based compensation for that you asked about $275,000 and D&A for the second quarter was about $222,000 (sic) [$176,000]. I'm sorry.

Carr Bettis
Executive Chairman

Okay. So everyone, thank you very much for joining. We look forward to talking to you again shortly. Thank you very much.

OperatorThank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.