



## Second Quarter 2013 Earnings Report

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# First Half 2013 Highlights

## Solid Bookings Progress; implementation lagging

- **Solid bookings in H1-13; 28% increase over H2-12**
  - USD 3.7 million annualized bookings in H1-13
  - 93 thousand user backlog as of June 30, 2013
  - 470 thousand users under contract as of June 30, 2013; 22% increase over Dec 2012
- **Larger, more complex transactions**
  - Revenue backlog of ~ USD 795 thousand QRR (contracted and in process of implementing); over 3X's Dec 2012
  - 85% will be on-boarded during H2-13
  - Q4-13 before we see substantial revenue pick-up
- **Channels and Account Management driving H1-13 business activities**
  - 53% of bookings from Channels
  - 35% of bookings from Account Management
  - Driving consistency quarter to quarter with channel performance (marathon vs. sprint) remains a focus
- **Key transactions & events during H1-13**
  - Speedway contract extended (4 years); 40 thousand users in backlog
  - *US TelePacific Corporation signed in Q1, launched in July*
  - Added 4 resellers through partnership with Sprint YTD; first one launched in July
  - Added 3 additional channels totaling 33,000 of existing user base
- **Business remains positive net income and cash flow**

# Key Performance Indicators

\$ in Millions	Trend	Q2 - 13	Q1 - 13	Q/Q	Q2 - 12	Y/Y
Users - Billable *	↔	380,000	380,000	0%	362,000	5%
Users - Under Contract *	↑	470,000	415,000	13%	367,000	28%
Customers *	↔	18,313	18,450	-1%	20,145	-9%
Backlog (QRR)	↑	\$0.80	\$0.35	127%	\$0.12	546%
Revenues	↔	\$10.51	\$10.71	-2%	\$10.69	-2%
Gross Margins	↔	73%	74%	-1%	73%	-1%
EBIT	↓	\$0.50	\$0.71	-29%	\$0.64	-21%
Net Earnings	↓	\$0.18	\$0.37	-52%	\$0.30	-42%

\* User/customer data shown as actual

## Revenue of USD 10.5 million in Q2-13; down 2% Q/Q and Y/Y

Q2-13 bookings of USD 459 thousand QRR, flat Q/Q and up 16% Y/Y

Due to complexity of contracts and customer requirements, on-boarding can be up to 6 months

Revenue backlog of ~ USD 795 thousand QRR (contracted and in process of implementing)

Bookings challenges experienced in Q4-12 hampered H1-13 revenue growth

## Net income of USD 175 thousand; down USD 191 thousand Q/Q and USD 127 thousand Y/Y

Decrease primarily related to revenue declines (churn) ahead of on-boarding of current year bookings

## Channels and Account Management heavily influenced Q2-13 business activities

## User count flat Q/Q; 5% Y/Y to 380,000

Net user churn remains flat at 10%; pricing churn is 3%

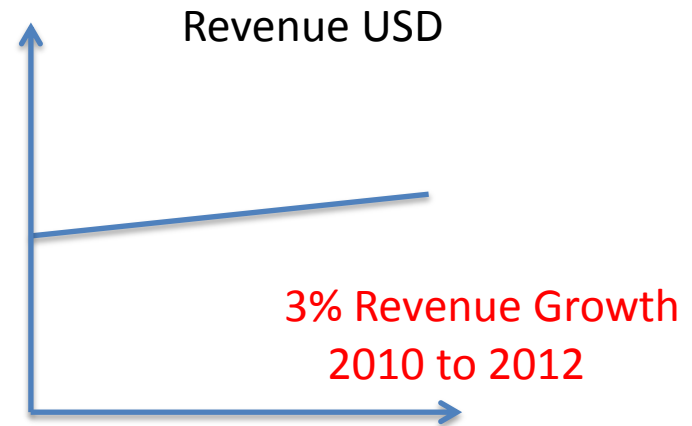
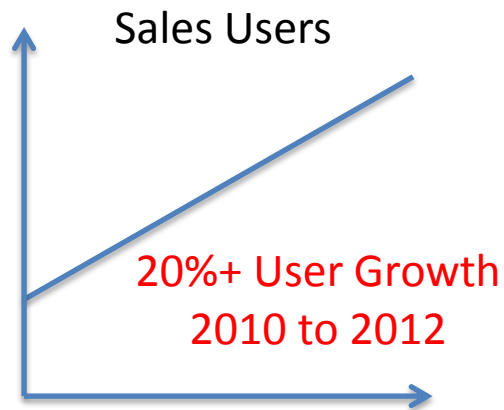
Total Users under contract now at 470,000 (including backlog)

# Comparative Cash Flows

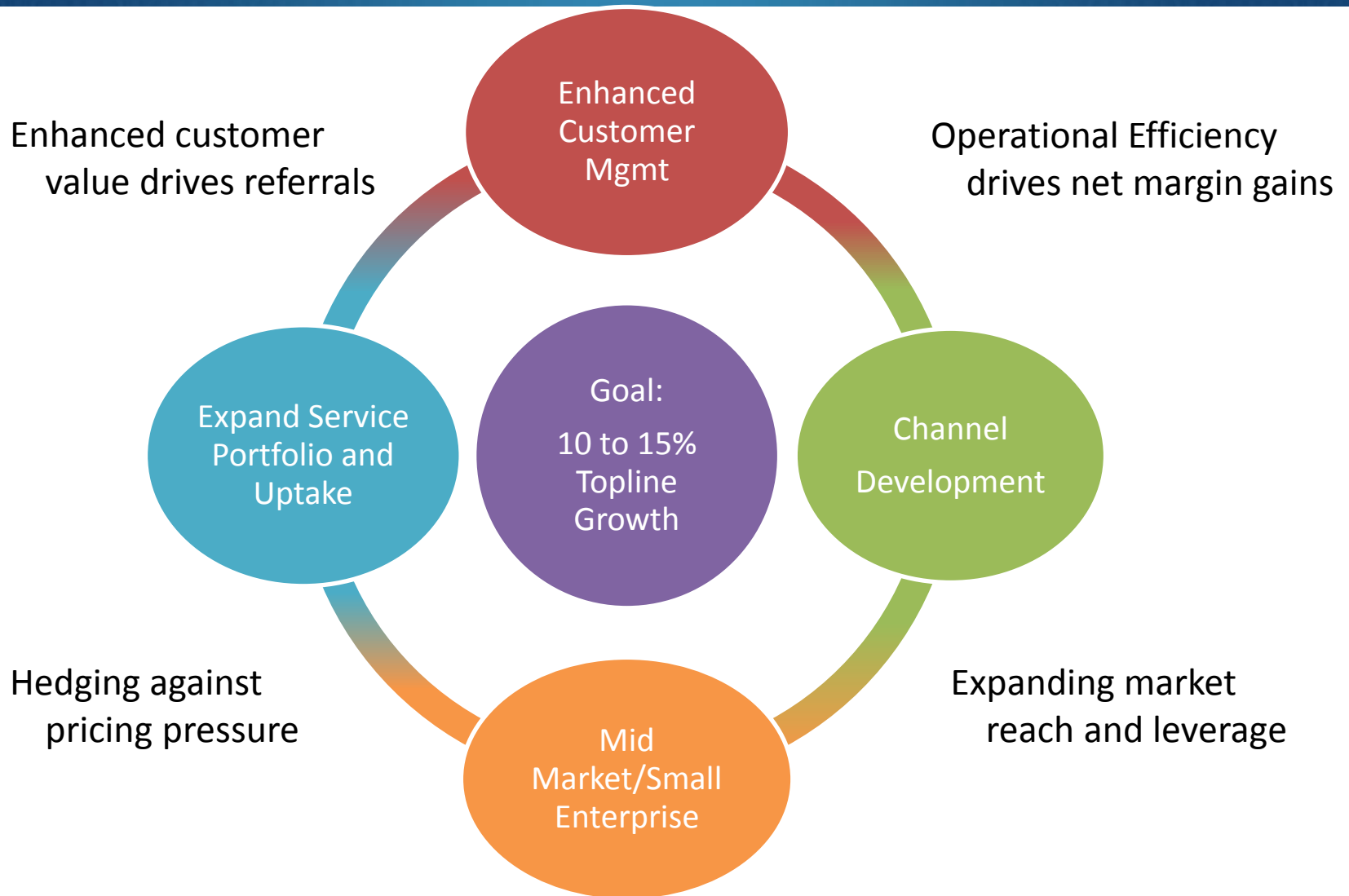
<b>Cash Flow Statement:</b>					
	<b>Q2-12</b>	<b>Q3-12</b>	<b>Q4-12</b>	<b>Q1-13</b>	<b>Q2-13</b>
<b>Net income</b>	\$ 302	\$ 423	\$ 438	\$ 366	\$ 175
Depreciation, amortization and impairment	925	937	1,000	939	967
Stock based compensation	59	50	45	36	41
Net changes in working capital & FX impact	255	(29)	278	(150)	(286)
<b>Cash from operating activities</b>	<b>1,541</b>	<b>1,381</b>	<b>1,761</b>	<b>1,191</b>	<b>897</b>
Fixed asset purchases, net of financings	(135)	(136)	(119)	(51)	(34)
Debt and lease related payments	(884)	(860)	(1,003)	(915)	(877)
<b>Cash used in financing &amp; investing activities</b>	<b>(1,019)</b>	<b>(996)</b>	<b>(1,122)</b>	<b>(966)</b>	<b>(911)</b>
<b>Change in cash position during the period</b>	<b>522</b>	<b>385</b>	<b>639</b>	<b>225</b>	<b>(14)</b>
<b>Beginning period cash</b>	<b>812</b>	<b>1,334</b>	<b>1,719</b>	<b>2,358</b>	<b>2,583</b>
<b>Ending period cash</b>	<b>\$ 1,334</b>	<b>\$ 1,719</b>	<b>\$ 2,358</b>	<b>\$ 2,583</b>	<b>\$ 2,569</b>

- **Consistent, positive operating cash flow trend continues across the business**
- **New credit facility in place January 2013**
- **Liquidity of USD 4.0 million, including cash balances and available borrowings**

# Primary Growth Challenge: HE Pricing Evolution



# Strategy for Double Digit Growth



# Is the Strategy Working?

## – Enhanced Customer Management

- User churn below industry average at 10% annually
- Pricing continues to impact base at 3% annually

## – Channel First Strategy Accelerating

- Channel network continues to expand;
- 53% of 2013 bookings value from channel; up from 30% in 2012

## – Mid-market and small enterprise focus through verticals

- 65% of user bookings in last 6 quarters from GT100 accounts
- 70% of users under contract are GT100 accounts

## – Expand service portfolio and uptake

- Security/Compliance attach rates increased to 13% of non-speedway users
- Dedicated SharePoint selling well with GT100s; over USD 750k in new revenue in last 6 quarters
- Lync showing promise; attach rate of 6% of non-speedway users
- Introducing growing IaaS capabilities: Data Assurance, Enterprise Backup, Server on Demand
- One-third of run rate revenue is non-exchange services

## – Profitability and Cash Flow

- 10 quarters of positive net income
- 6 quarters of positive “net” cash flow
- CAPEX trending lower than depreciation
- Financing costs at ~10% levels (vs. 15% in FY10)

# Defining Success – Double Digit Growth

## – User Growth

- Expand historical average of 20% CAGR

## – Focused resources in business development and sales

- Focused leadership in channel has significantly increased pipeline of partners and opportunities
- Upgraded direct sales team with experienced enterprise sales reps

## – Expand on recent success in uptake of service portfolio

- Expanding uptake of service portfolio key to fighting pricing pressures and demonstrating value
- At current rate, collaboration services revenue can grow at 20% in 2013/2014
- Expanding attach rate drives 50%+ growth in security/compliance revenues annually
- Modest success with IaaS, specifically enterprise backup and server on demand can add USD 2 million in revenue annually

## – Progress will be lumpy

- Mid-market/enterprise sales cycles are longer and often involve multiple steps (entry, migration, add on's)
- Channel development is a marathon, not a sprint; consistency quarter to quarter is a key focus
- Channels with existing user base can accelerate growth; but implementation cycles mimic mid-market/enterprise in length





# Q & A