



First Quarter 2013 Earnings Report

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May 7, 2013

First Quarter 2013 Highlights

Bookings Back on Track

- **Net income of USD 366 thousand; down 16% Q/Q, up 259% Y/Y**
 - Q/Q variance due to seasonal expenses (i.e. restart of US payroll taxes, etc)
- **Revenue of USD 10.7 million in Q1-13; down 1.8% Q/Q and up 4.0% Y/Y**
 - Bookings challenges experienced in Q4-12 impacted Q1-13 revenue growth
 - Solid Q1-13 bookings of USD 477 thousand QRR, up 90% Q/Q and 23% Y/Y; majority of Q1-13 bookings will be on-boarded throughout FY13
 - Revenue backlog of ~ USD 350 thousand QRR (contracted and in process of implementing)
- **Channels influenced Q1-13 business activities**
 - 73% of bookings value during quarter from channels
 - Signed *US TelePacific Corporation*, one the US's premier CLEC's providing IP, voice, data, Internet services, as well as business continuity, cloud and managed network solutions
 - Added 3 additional resellers through partnership with Sprint
 - Continuing to focus on consistency quarter to quarter with channel performance (marathon vs. sprint)
- **User count flat Q/Q; 8% Y/Y to 380,000**
 - User churn rates remain less than 10% annually, offset substantially by Same Store Growth
 - Total Users under contract now exceeds 415,000 (including backlog)

Key Performance Indicators

\$ in Millions	Trend	Q1 - 13	Q4 - 12	Q/Q	Q1 - 12	Y/Y
Users *	↔	380,000	381,000	0%	351,000	8%
Customers *	↔	18,450	18,960	-3%	20,780	-11%
Revenues	↔	\$10.71	\$10.90	-2%	\$10.30	4%
Gross Margins	↑	74%	72%	2%	72%	2%
EBIT	↑	\$0.71	\$0.69	3%	\$0.42	71%
Net Earnings	↑	\$0.37	\$0.44	-16%	\$0.10	259%

* User/customer data shown as actual

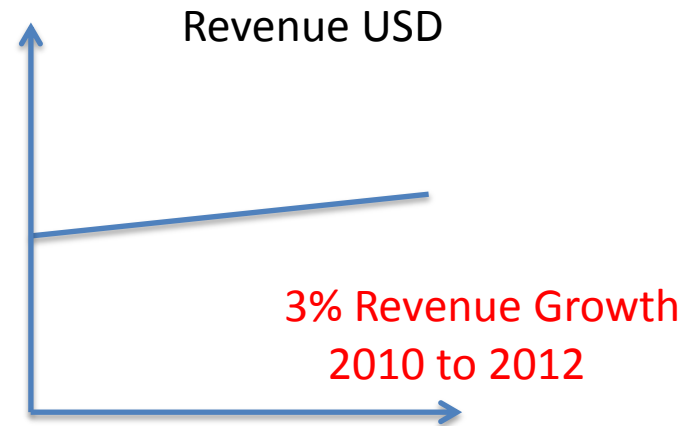
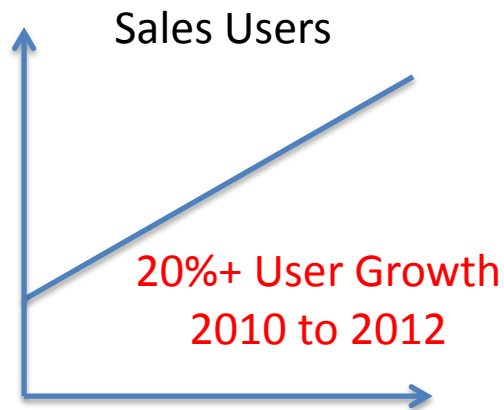
- **Q/Q revenue decline due to Q4-12 bookings challenges**
- **Y/Y revenue growth due to mid-market, channels and non-exchange related revenues**
 - Channel sales represented 73% of new bookings value in Q1-13
 - USD 350 thousand of QRR sales backlog (signed not implemented or billable)
 - Same store user growth remains consistent
- **Gross Margins remain stable; ARPU declined by 4% due to market pressures**
- **Net income trend continues – USD 366 thousand in Q1-13**
 - 259% growth Y/Y; down 16% Q/Q (restart of payroll taxes)
 - Business model delivering 25%+ of incremental revenue to net income

Comparative Cash Flows

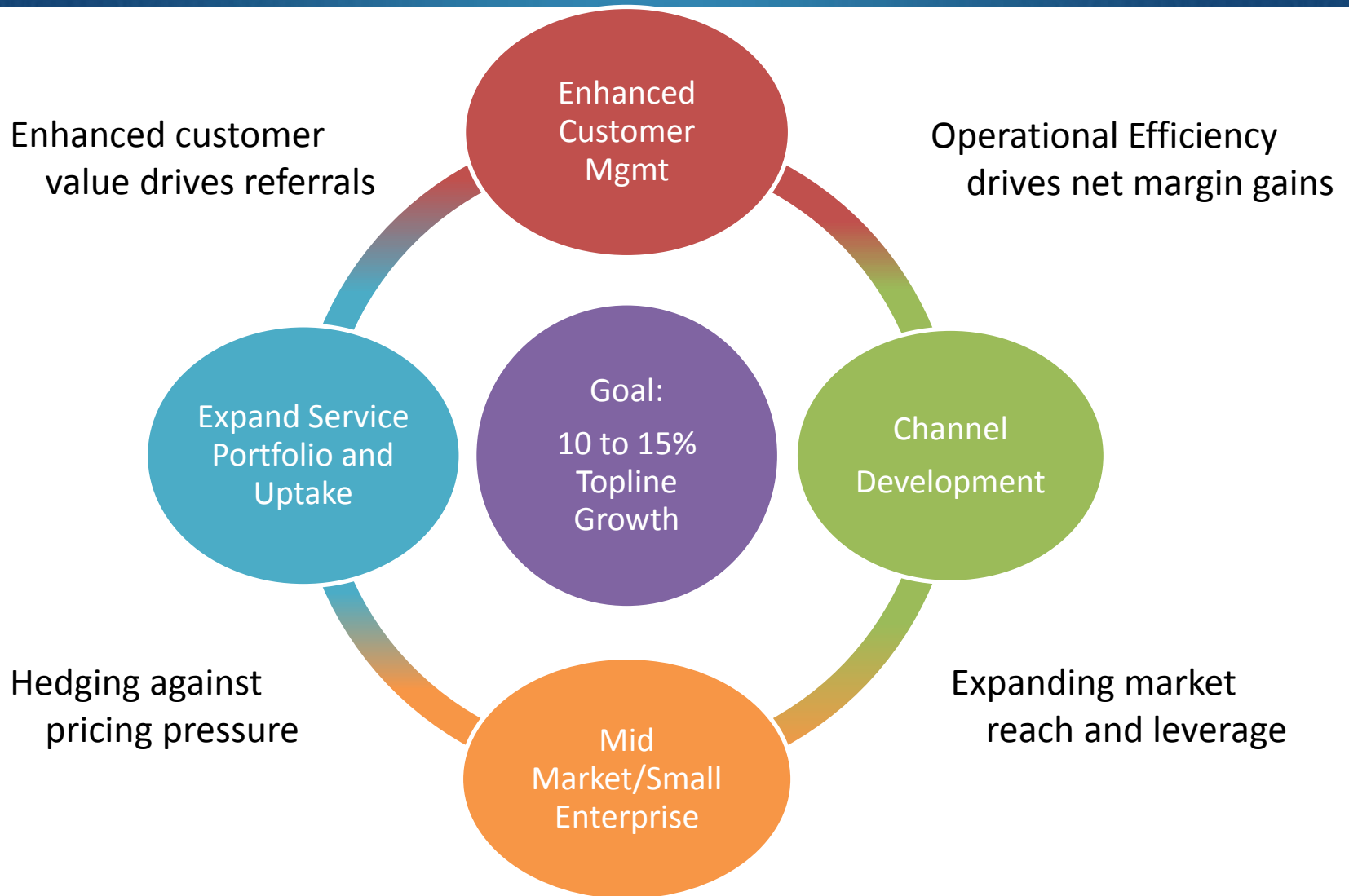
Cash Flow Statement:					
	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13
Net income	\$ 102	\$ 302	\$ 423	\$ 438	\$ 366
Depreciation, amortization and impairment	906	925	937	1,000	939
Stock based compensation	74	59	50	45	36
Net changes in working capital & FX impact	20	255	(29)	278	(150)
Cash from operating activities	1,102	1,541	1,381	1,761	1,191
Fixed asset purchases, net of financings	(122)	(135)	(136)	(119)	(51)
Debt and lease related payments	(936)	(884)	(860)	(1,003)	(915)
Cash used in financing & investing activities	(1,058)	(1,019)	(996)	(1,122)	(966)
Change in cash position during the period	44	522	385	639	225
Beginning period cash	768	812	1,334	1,719	2,358
Ending period cash	\$ 812	\$ 1,334	\$ 1,719	\$ 2,358	\$ 2,583

- Consistent, positive operating cash flow trend continues across the business
- New credit facility in place January 2013
- Liquidity of USD 4.1 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 less than 10% annually
- Channel First Strategy Gaining Traction
 - Expanding channel portfolio – US TelePacific, Sprint partnership adds 3 resellers
 - Almost 40% of last 5 quarters bookings value from channel
- Mid-market and small enterprise focus through verticals
 - 59% of user bookings in last 5 quarters from GT100 accounts
 - 70% of users under contract are GT100 accounts
- Expand service portfolio and uptake
 - Approximately 30% of bookings in last 5 quarters from non-exchange services
 - Security/Compliance attach rates of 10% overall; continue to expand services with introduction of MDM
 - Dedicated SharePoint selling well with GT100s; almost USD 750k annually in new revenue in last 5 quarters
 - Introducing growing IaaS capabilities: Data Assurance, Enterprise Backup, Server on Demand
- Profitability and Cash Flow
 - 9 quarters of positive net income
 - 5 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
 - Continue/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
 - Maintaining 10% 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



Q & A