Apptix Reports First Quarter 2014 Results

Herndon, VA and Oslo, Norway – May 7, 2014 – Apptix® (OSE: APP), the premier provider of hosted business communication, collaboration, and IT solutions, today announced its unaudited financial results for the three months ended March 31, 2014.

Interim Management Report

Overview of the first quarter and year results:

- 527,000 users under contract, up 4% quarter over quarter and up 27% year over year
- Bookings of USD 400 thousand of quarter recurring revenue (QRR); up 22% quarter over quarter and down 16% year over year
- Revenue of USD 10.04 million; down 1% quarter over quarter and down 6% year over year
- Backlog of USD 1.1 million of QRR; up 2% quarter over quarter and up 208% year over year
- Net income of USD 70 thousand; up 21% quarter over quarter, down 81% year over year as Company reinvests excess earnings into infrastructure enhancements, operational, and sales efforts as discussed during 2013

Highlights

Following a record sales year in 2013, Apptix experienced challenges to maintain momentum moving prospective partners to closure in the first quarter of 2014. While the Company's quarterly recurring revenue (QRR) bookings of USD 400 thousand were up 22% compared to the fourth quarter, they dipped 16% compared to the first quarter of 2013. Continued growth in both partners with an existing user base and partners new to the Cloud is required to ensure consistent quarterly growth, and the Company has fully aligned its sales and marketing resources behind this channel first strategy.

Accelerating the conversion of backlog (committed users, but not yet on-boarded) into to billable revenue remains a key focus of the Company. However, the Company did not meet its anticipated conversion rate as partners continue to remain measured, balancing the complexities of user migrations with other resource allocation priorities. As a result of the slower pace of onboarding and sales, billable users grew only 3% quarter over quarter (9% year over year) to 416,000 with the majority of that growth occurring in the final month of the quarter. Accordingly, revenue for the first quarter was USD 10.04 million, down 1% from quarter over quarter and down 6% year over year.

Backlog remains strong at USD 1.1 million of QRR at March 31, 2014, up 2% quarter over quarter. Based upon current implementation plans, the Company anticipates approximately one-half of the March 31, 2014 backlog will be on-boarded during the second and third quarter and, as a result, will contribute to revenue growth in the third and fourth quarter. As previously announced, approximately USD 300 thousand QRR of the March 31, 2014 backlog committed following a four year renewal agreement by Speedway, the Company's large healthcare customer, has been deferred by Speedway until late 2014 or early 2015.

"We found it a challenge during the first quarter to sustain the increasing sales momentum experienced in 2013, but view this and other challenges as just one of many we have faced and consistently overcome," said Dave Ehrhardt, President & CEO of Apptix. "We are confident that our Channel first strategy, which we have previously acknowledged will result in uneven progress due to the size of opportunities we are pursuing, is the most direct path to consistent quarterly growth. While disappointed in the first quarter results, our backlog and pipeline remain strong, our customer feedback loops continue to indicate solid interest for our expanded service offerings and the Company continues to generate positive net income and cash flow. In building Apptix, we have created a nimble, flexible and motivated organization that has continually demonstrated the ability to adapt and reinvent itself to remain competitive and pursue enduring market success."

Financial Results – First Quarter 2014

Revenues totaled USD 10.0 million for the three months ended March 31, 2014, down 1% quarter over quarter and 6% year over year. Meanwhile, first quarter 2014 bookings totaled USD 400 thousand of QRR, up 22% quarter over quarter, but down 16% year over year. The decline in revenues for both periods was primarily due to the slower than anticipated on-boarding of the December 31, 2013 backlog. Billable users grew only 3% quarter over quarter (9% year over year) to 416,000; with the majority of that growth occurring in the final month of the quarter. As a result, onboarding of users did not occur at a pace sufficient enough to offset current period customer churn.

As of March 31, 2014 the Company's backlog was valued at approximately USD 1.1 million for approximately 111 thousand users. The Company anticipates on-boarding approximately 50% of these users and revenues during the second and third quarters of 2014. ARPU was USD 8.01 down 4% from fourth quarter 2013 levels and down 14% from first quarter 2013 due to a combination of pricing pressure in the market place and the impact of the Company's wholesale channel bookings during 2013 which accounted for 61% of total bookings during 2013.

Operating expenses (including depreciation and amortization) totaled USD 6.6 million during the first quarter of 2014, down 5% quarter over quarter and 8% year over year. The favorable quarter over quarter variance is due to lower staffing related costs along with lower depreciation expense while the favorable year over year variance is due to lower marketing, travel and maintenance & support related expenses. EBIT for the first quarter 2014 totaled USD 310 thousand, down 12% quarter over quarter and 57% year over year. The quarter over quarter variance was due to the relatively flat revenues along with the higher seasonal payroll tax expenses. Meanwhile, the year over year variance is primarily due to the lower revenues recognized during the first quarter of 2014 as compared to 2013.

Net Income for the first quarter of 2014 totaled USD 70 thousand compared to USD 58 thousand in the fourth quarter of 2013 and USD 366 thousand in the first quarter of 2013.

Cash generated by operating activities, including the impact of changes in currency rates, totaled USD 328 thousand during the first quarter of 2014 down USD 1.6 million quarter over quarter and USD 863 thousand compared to the first quarter of 2013 due to fluctuations in working capital related to certain prepaid items including insurance, sales and marketing initiatives, license subscriptions and training in support of the Company's 2014 operating plan. Accordingly, the Company anticipates cash generated by operating activities will return to normalized levels as these items are amortized into expense.

Equipment purchases, net of financing under equipment leases, during the first quarter of 2014 were USD 59 thousand compared to USD 132 thousand during the fourth quarter of 2013 and USD 51 thousand in the first quarter of 2013. Cash used to satisfy debt and capital lease obligations was USD 810 thousand in the first quarter of 2014, compared to USD 819 thousand in the fourth quarter of 2013 and USD 915 thousand in the first quarter of 2013.

The Company closed the first quarter of 2014 with USD 2.6 million in cash and USD 4.7 million outstanding on its working capital facility. Overall cash balances decreased USD 541 thousand during the first quarter with no change in the outstanding balance of the Company's working capital facility as compared to December 31, 2013.

Financial Statements – Basis for Preparation

The enclosed consolidated condensed financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting Standards (IFRS).

Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of the enclosed financial statements are consistent with the policies used in the annual financial statements for the year ended December 31, 2013. The enclosed consolidated condensed financial statements should be read in conjunction with the Company's 2013 annual financial statements, which include a full description of the Company's accounting policies. The enclosed consolidated condensed financial statements are unaudited. As a result of rounding differences, numbers or percentages may not add up to the total.

The financial statements are attached.

Apptix ASA
Interim Consolidated Income Statement

(Amounts in USD 1,000)	Three Months Ended March 31, 2014 IFRS	Three Months Ended March 31, 2013 IFRS
Operating Revenues		
Recurring Revenues	9,825	10,505
Other Revenues	210	203
Total Operating Revenues	10,035	10,708
Total Cost of Sales	3,114	2,813
Gross Profit	6,921	7,895
Operating Expenses		
Employee Compensation and Benefits	3,426	3,930
Other Operational and Administrative Costs	2,085	2,313
Depreciation and Amortization	1,100	939
Total Operating Expenses	6,611	7,182
Operating Income	310	713
Other Expense		
Interest, net	(240)	(306)
Total Other Expense	(240)	(306)
Income Before Income Taxes	70	407
Income Tax Expense	-	(41)
Net Income for the Period	70	366
Earnings Per Share: Basic	0.00	0.00
Diluted	0.00	0.00
Weighted Average Common Shares Outstanding	82,092	81,710

Apptix ASA
Interim Consolidated Statement of Comprehensive Income

(Amounts in USD 1,000)	Three Months Ended March 31, 2014 IFRS	March 31, 2013 IFRS
Income for the Period	**70**	**366**
Exchange Rate Differences on Translation of Foreign Operations	(8)	17
Items that may be Reclassified Subsequently to Income Statement	**(8)**	**17**
Items that will not be Reclassified to Income Statement	**-**	**-**
Total Other Comprehensive Income / (Loss) for the Period	**(8)**	**17**
Total Comprehensive Income for the Period	**62**	**383**
Attributed to Equity Holders of Parent	**62**	**383**

Apptix ASA

Interim Consolidated Statement of Financial Position

(Amounts in USD 1,000)	March - 31 2014 IFRS	December - 31 2013 IFRS	March - 31 2013 IFRS
ASSETS			
Non-Current Assets			
Intangible Assets	22,240	22,246	22,483
Total Intangible Assets, net	22,240	22,246	22,483
Property, Plant and Equipment, net	7,779	8,534	9,747
Total Non-Current Assets	30,019	30,780	32,230
Current Assets			
Accounts Receivable	1,950	1,799	1,615
Other Current Assets	243	245	267
Prepaid Expenses	1,783	937	1,584
Cash and Cash Equivalents	2,583	3,124	2,583
Total Current Assets	6,559	6,105	6,049
TOTAL ASSETS	36,578	36,885	38,279
LIABILITIES AND SHAREHOLDERS EQUITY			
Equity Attributed to Equity Holders of the Parent			
Common Stock	4,666	4,666	4,666
Paid-in Premium Reserve	73,437	73,437	73,437
Other Paid-in Capital	6,125	6,107	6,014
Retained Earnings	(62,642)	(62,704)	(63,129)
Total Shareholders Equity	21,586	21,506	20,988
Long-Term Debt			
Other Long-Term Debt	2,523	7,582	8,193
Total Long-Term Debt	2,523	7,582	8,193
Current Liabilities			
Trade Accounts Payable	1,965	1,145	1,852
Interest Bearing Short-Term Debt	7,310	2,740	3,147
Other Current Liabilities	3,194	3,912	4,099
Total Current Liabilities	12,469	7,797	9,098
TOTAL LIABILITIES AND EQUITY	36,578	36,885	38,279

Apptix ASA

Interim Consolidated Cash Flow Statement

(Amounts in USD 1,000)	Three Months Ended March 31, 2014 IFRS	2013 IFRS
Cash Flows from Operating Activities		
Income Before Tax from Continuing Operations	70	366
Stock Based Compensation Expense	18	36
Depreciation and Amortization	1,100	939
Gain / (Loss) on Disposal of Assets	41	-
Change in Accounts Receivable	(151)	30
Change in Trade Accounts Payable	820	546
Change in Other Assets and Liabilities	(1,318)	(265)
Cash Flows Provided by Operating Activities	580	1,652
Interest Received	-	-
Interest Paid	(240)	(306)
Income Tax Paid	(12)	(157)
Net Cash Flows Provided by Operating Activities	328	1,189
Cash Flows from Investing Activities		
Purchases of Intangibles and Property and Equipment	(59)	(51)
Cash Flows Used in Investing Activities	(59)	(51)
Cash Flows from Financing Activities		
Payments on Capital Lease and Debt Obligations	(810)	(915)
Cash Flows Used in Financing Activities	(810)	(915)
Effect of Exchange Rates on Cash and Cash Equivalents	-	2
Net Change in Cash and Cash Equivalents	(541)	225
Cash and Cash Equivalents at Beginning of Period	3,124	2,358
Cash and Cash Equivalents at End of Period	2,583	2,583

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Interim Consolidated Statement of Changes in Equity

	Attributed to Equity Holders of the Parent					
(Amounts in USD 1,000)	Share Capital	Share Premium Reserve	Other Paid in Capital	Foreign Currency Translation Reserves	Retained Earnings	Total Equity
Equity December 31, 2011	**4,666**	**73,437**	**5,749**	**3,927**	**(68,674)**	**19,105**
Net Income for the Period	-	-	-	-	1,265	1,265
Other Comprehensive Income	-	-	-	-	(29)	(29)
Total Comprehensive Income	-	-	-	-	1,236	1,236
Equity Element of Expensed Options	-	-	229	-	-	229
Equity December 31, 2012	**4,666**	**73,437**	**5,978**	**3,927**	**(67,438)**	**20,570**
Net Income for the Period	-	-	-	-	781	781
Other Comprehensive Income	-	-	-	-	26	26
Total Comprehensive Income	-	-	-	-	807	807
Equity Element of Expensed Options	-	-	129	-	-	129
Equity December 31, 2013	**4,666**	**73,437**	**6,107**	**3,927**	**(66,631)**	**21,506**
Net Income for the Period	-	-	-	-	70	70
Other Comprehensive Income	-	-	-	-	(8)	(8)
Total Comprehensive Income	-	-	-	-	62	62
Equity Element of Expensed Options	-	-	18	-	-	18
Equity March 31, 2014	**4,666**	**73,437**	**6,125**	**3,927**	**(66,569)**	**21,586**

About Apptix

Apptix (OSE: APP) is the premier provider of hosted business communication, collaboration, and IT solutions to business of all sizes – from SOHO to Fortune 500 – and blue chip channel partners. Apptix is a Cloud services pioneer with over 525,000 users under contract around the world. Apptix's comprehensive portfolio of Cloud solutions includes Microsoft Exchange email, VoIP, Microsoft SharePoint, Microsoft Lync, Servers on Demand, and Enterprise Backup. Services are delivered over a highly reliable network leveraging best-in-class technology, housed in SSAE 16-compliant datacenters, and backed by U.S.-based 24/7 support. For more information, visit www.apptix.com.

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Selected Explanatory Notes to Apptix ASA Interim Condensed Financial Statements

Working Capital Facility

Effective January 31, 2013, the Company entered into a Sixth Loan Modification Agreement with its bank to increase the borrowing limit of the Company's revolving credit facility to USD 7 million. The amounts available under the working capital facility are subject to a borrowing base formula up to 200% of the Company's Monthly Recurring Revenue. The interest charged on the borrowings is subject to the bank's prime interest rate plus two and one-quarter additional percentage points with a minimum rate of five and one-half percent. The term of the working capital facility expires on January 31, 2015 and the current outstanding balance of USD 4.7 million is presented as a short term obligation. The Company will begin discussions with its financial institution regarding a renewal during the next six months.

Working Capital

The Company is currently operating in a negative working capital position. The negative working capital position is primarily the result of the current obligations related to equipment finance lease agreements, and deferred revenues related to annual subscription contracts.

As outlined in this report, the Company recorded a net profit of USD 70 thousand during the first quarter of 2014 marking the eleventh consecutive quarter of positive net income. Additionally, the Company generated cash of USD 328 thousand during the first quarter from operating activities. Since January 2011, the Company has generated sufficient liquidity from operating cash flows in ten out of thirteen quarters to satisfy the Company's debt and capital lease obligations. The Company believes this positive trend in net income and cash flow from operating activities will continue for the foreseeable future aside from seasonable working capital fluctuations. Accordingly, with the Company's working capital facility (as noted above) along with current cash reserves, the Company believes it has sufficient liquidity to meet its current and future obligations.

For more information related to this subject, refer to the Company's 2013 Annual Report and Director's Report.

Backlog

The Company estimates Backlog as the value of future billable revenue related to users not currently on-boarded under signed contracts. Realization of Backlog into billable revenue is ultimately dependent upon a number of factors including the timing and availability of Apptix, partner and/or end customer resources (both technology and labor) required to complete the successful migration of end users from their existing messaging, voice or collaboration solution. As of March 31, 2014, the Company estimates it has a Backlog of USD 1.1 million. However, a partner has recently notified the Company informally that they may challenge some or all of its commitments, which account for USD 270 thousand of the March 31, 2014 Backlog. The Company believes that it has a valid contractual commitment with this partner.