

Apptix Reports Second Quarter and Half Year 2014 Results

Herndon, VA and Oslo, Norway – August 6, 2014 – Apptix® (OSE: APP), the premier provider of hosted business communication, collaboration, and IT solutions, today announced its unaudited financial results for the three and six months ended June 30, 2014.

Interim Management Report

Overview of the second quarter and year to date results:

- 522,000 users under contract, down slightly quarter over quarter and up 11% year over year
- Bookings of USD 164 thousand of quarter recurring revenue (QRR); down 59% quarter over quarter and 64% year over year
- Revenue of USD 9.9 million; down 1.8% quarter over quarter and down 6.2% year over year
- Backlog of USD 0.9 million of QRR; down 19% quarter over quarter and up 9% year over year
- Net income of USD 32 thousand compared to net income of USD 70 thousand and USD 175 thousand in Q1 2014 and Q2 2013, respectively, as the Company continues to reinvest excess earnings into infrastructure enhancements, operational, and sales efforts discussed during 2013

Highlights

Apptix entered 2014 with high expectations for revenue growth and with that as a top priority. However, the Company has been unable to meet these expectations as timing and dependency on a limited number of channel relationships has stalled the Company's efforts during the first half of 2014. Additionally, the Company continued to struggle to convert backlog (committed users, but not yet on-boarded) into billable revenue, as partners remain measured, balancing the complexities of user migrations with other resource allocation priorities. As a result of the slower pace of on-boarding during the first half of 2014, billable users grew only 7% to 429,000 as compared to December 2013 levels. Further challenging the Company's efforts in driving top line growth is the fact that new billable users carry primarily lower wholesale ARPU rates while churned users tend to be direct customers carrying higher retail ARPU rates. While billable users continue to grow (albeit at slower than anticipated rates), as a result of this rate discrepancy, revenue has declined to USD 9.9 million over the past two quarters.

Driving growth in both partners with an existing user base and partners new to the Cloud is required to ensure consistent quarterly growth in both bookings and revenue. Accordingly, the Company has fully aligned its sales and marketing efforts around its “channel first” strategy. While the Company appeared to gain momentum in signing new partners in the second half of 2013, increasing competitive and economic pressures have slowed this progress during the first half of 2014. The Company had bookings of USD 564 thousand of QRR in the first half of 2014 down 39% compared to the second half of 2013.

Backlog as of June 30, 2014 was USD 0.9 million. Based upon current implementation plans, the Company anticipates approximately 25% of the June 30 backlog will be on-boarded during the remainder of 2014. However, given the growing lead-time being experienced to on-board new partners (and their existing user base) and the consistent (albeit controlled) rate of user churn along with the disparity in new wholesale billable users and churn that is primarily higher retail rate ARPU, the Company does not anticipate a return to revenue growth before the end of 2014.

“The first half of 2014 has been a very challenging period as we have struggled with increasing on-boarding time frames while sales momentum has slowed,” said Dave Ehrhardt, President & CEO of Apptix. “However, we continue to believe that our Channel first strategy, which we have previously acknowledged will result in uneven progress due to the size and limited number of partner opportunities we are pursuing, is the most direct path to consistent revenue growth while managing the Company’s cash flows to a neutral to positive level. In building Apptix, we have created a flexible and motivated organization that has demonstrated the ability to adapt and overcome challenges in the past, and we are confident we will continue to do so in the future.”

Financial Results – Second Quarter and Half Year 2014

Revenues totaled USD 9.9 million for the three months ended June 30, 2014, representing a 1.8% decrease quarter over quarter and 6.2% year over year. Revenues for the six months ended June 30, 2014 totaled USD 19.9 million also down 6% from the same period in 2013. The decline in revenues for all periods presented was primarily due to the slower than anticipated on-boarding of the Company’s December 31, 2013 backlog. Customers and partners have been measured and cautious with on-boarding schedules as they look to balance migration complexities along other initiatives within their business operations. As a result, the new revenues on-boarded during the second quarter and first half of 2014 were not able to offset the typical revenue churn within the Company’s base business.

ARPU was USD 7.61, down 5% quarter over quarter and 17% year over year due to a combination of price concessions related to conversions to longer term contracts and a shift to a wholesale channel model which typically carries lower revenue per user fees along with user churn.

Operating expenses (including depreciation and amortization) totaled USD 6.4 million during the second quarter of 2014, down 2.6% quarter over quarter and down 9.5% year over year. The decreases were primarily due to lower staffing related costs, marketing expenses, and maintenance related expenses. Total operating expenses for the six months ended June 30, 2014 were USD 13.1 million, also down of 8.7% from the same period in 2013.

EBIT for the second quarter 2014 was USD 398 thousand, compared to USD 310 thousand in the first quarter of 2014 and USD 503 thousand during the second quarter of 2013. EBIT for the six months ended June 30, 2014 was USD 708 thousand, compared to USD 1.2 million during the comparable period in 2013, a decrease of 42%. The Company recorded Net Income for the second quarter of 2014 of USD 32 thousand compared to Net Income of USD 70 thousand in the first quarter of 2014 and USD 175 thousand in the second quarter of 2013. The main drivers for the decline in net profit was a combination of lower revenues and resulting gross margin along with higher interest related costs associated with the Company’s second quarter 2014 user capacity (capex) purchase.

For the six months ended June 30, 2014, the Company recorded a Net Income of USD 102 thousand as compared to Net Income of USD 541 thousand during the comparable period in 2013. Fluctuations in EBIT and Net Income during the first six months of 2014 were primarily driven by user churn that is being experienced ahead of revenue that is expected to be provided from the Company’s current backlog and current year bookings.

The Company’s user churn of 10 to 12% annually remains competitive in the marketplace; however user churn tends to take place ratably throughout the year while the implementation of the bookings is primarily driven by customer or partner schedules which can be impacted by a number of variables

including a cautious or measured approach and the allocation of internal resources by the customer/partner.

Cash generated by operating activities, including the impact of changes in currency rates, totaled USD 707 thousand during the second quarter of 2014 compared to USD 328 thousand during the first quarter of 2014 and USD 897 thousand during the second quarter of 2013. For the first half of 2014, cash generated by operating activities, including the impact of changes in currency rates, totaled USD 1.0 million, down from prior year levels of USD 2.1 million. Cash flow fluctuations follow the EBIT and Net Income fluctuations discussed above.

Equipment purchases, net of financings under equipment leases, during the second quarter of 2014 were USD 4 thousand compared to USD 59 thousand in the first quarter of 2014 and USD 34 thousand in the second quarter of 2013. Equipment purchases, net of financings under equipment leases, during the first half of 2014 were USD 63 thousand compared to USD 85 thousand during the first half of 2013. During the second quarter of 2014, the Company expanded user capacity with the purchase of approximately USD 3.7 million in storage and servers. This purchase was funded via a financial lease agreement and provides the Company user capacity in the 800 thousand user range.

Net cash used to satisfy debt and capital lease obligations (including proceeds from the Company's working capital facility) was USD 1.1 million in the second quarter of 2014, as compared to USD 810 thousand in the first quarter of 2014 and USD 877 thousand in the second quarter 2013. Net cash used by financing activities totaled USD 1.9 million during the first six months of 2014 and USD 1.8 million during the same period in 2013.

The Company closed the second quarter of 2014 with USD 2.2 million in cash and USD 4.7 million outstanding on its working capital facility. There has been no change in the amount outstanding on the Company's working capital facility during 2014. As of June 30, 2014, the Company had approximately USD 3.2 million of combined cash and available borrowing capacity under its working capital facility.

Apptix ASA
Interim Consolidated Income Statement

<u>(Amounts in USD 1,000)</u>	Three Months Ended	
	June 30, 2014	June 30, 2013
	IFRS	IFRS
Operating Revenues		
Recurring Revenues	9,689	10,197
Other Revenues	163	310
Total Operating Revenues	9,852	10,507
Total Cost of Sales	3,012	2,883
Gross Profit	6,840	7,624
Operating Expenses		
Employee Compensation and Benefits	3,383	3,733
Other Operational and Administrative Costs	1,980	2,421
Depreciation and Amortization	1,079	967
Total Operating Expenses	6,442	7,121
Operating Income	398	503
Other Expense		
Interest, net	(366)	(286)
Total Other Expense	(366)	(286)
Income Before Income Taxes	32	217
Income Tax Expense	-	(42)
Net Income for the Period	32	175
Earnings Per Share:		
Basic	0.00	0.00
Diluted	0.00	0.00
Weighted Average Common Shares Outstanding	82,203	81,430

Apptix ASA
Interim Consolidated Income Statement

<u>(Amounts in USD 1,000)</u>	Six Months Ended	
	June 30, 2014 IFRS	June 30, 2013 IFRS
Operating Revenues		
Recurring Revenues	19,514	20,702
Other Revenues	373	513
Total Operating Revenues	19,887	21,215
Total Cost of Sales	6,126	5,696
Gross Profit	13,761	15,519
Operating Expenses		
Employee Compensation and Benefits	6,809	7,663
Other Operational and Administrative Costs	4,065	4,734
Depreciation and Amortization	2,179	1,906
Total Operating Expenses	13,053	14,303
Operating Income	708	1,216
Other Expense		
Interest, net	(606)	(592)
Total Other Expense	(606)	(592)
Income Before Income Taxes	102	624
Income Tax Expense	-	(83)
Net Income for the Period	102	541
Earnings Per Share:		
Basic	0.00	0.01
Diluted	0.00	0.01
Weighted Average Common Shares Outstanding	82,166	81,520

Apptix ASA
Interim Consolidated Statement of Comprehensive Income

(Amounts in USD 1,000)	Three Months Ended	
	June 30, 2014	June 30, 2013
	IFRS	IFRS
Income for the Period	32	175
Exchange Rate Differences on Translation of Foreign Operations	-	7
Items that may be Reclassified Subsequently to Income Statement	-	7
Items that will not be Reclassified to Income Statement	-	-
Total Other Comprehensive Income for the Period	-	7
Total Comprehensive Income (Loss) for the Period	32	182
Attributed to Equity Holders of Parent	32	182

(Amounts in USD 1,000)	Six Months Ended	
	June 30, 2014	June 30, 2013
	IFRS	IFRS
Income for the Period	102	541
Exchange Rate Differences on Translation of Foreign Operations	(8)	24
Items that may be Reclassified Subsequently to Income Statement	(8)	24
Items that will not be Reclassified to Income Statement	-	-
Total Other Comprehensive Income / (Loss) for the Period	(8)	24
Total Comprehensive Income for the Period	94	565
Attributed to Equity Holders of Parent	94	565

Apptix ASA
Interim Consolidated Statement of Financial Position

(Amounts in USD 1,000)	June - 30	December - 31	June - 30
	2014	2013	2013
	IFRS	IFRS	IFRS
ASSETS			
Non-Current Assets			
Intangible Assets	22,150	22,246	22,481
Total Intangible Assets, net	<u>22,150</u>	<u>22,246</u>	<u>22,481</u>
Property, Plant and Equipment, net	10,831	8,534	9,228
Total Non-Current Assets	<u>32,981</u>	<u>30,780</u>	<u>31,709</u>
Current Assets			
Accounts Receivable	2,032	1,799	1,709
Other Current Assets	165	245	269
Prepaid Expenses	1,731	937	1,619
Cash and Cash Equivalents	2,173	3,124	2,569
Total Current Assets	<u>6,101</u>	<u>6,105</u>	<u>6,166</u>
TOTAL ASSETS	<u><u>39,082</u></u>	<u><u>36,885</u></u>	<u><u>37,875</u></u>
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	6,148	6,107	6,055
Retained Earnings	(62,610)	(62,704)	(62,947)
Total Shareholders Equity	<u>21,641</u>	<u>21,506</u>	<u>21,211</u>
Long-Term Debt			
Other Long-Term Debt	4,705	7,582	7,731
Total Long-Term Debt	<u>4,705</u>	<u>7,582</u>	<u>7,731</u>
Current Liabilities			
Trade Accounts Payable	1,432	1,145	1,718
Interest Bearing Short-Term Debt	8,011	2,740	3,113
Other Current Liabilities	3,293	3,912	4,102
Total Current Liabilities	<u>12,736</u>	<u>7,797</u>	<u>8,933</u>
TOTAL LIABILITIES AND EQUITY	<u><u>39,082</u></u>	<u><u>36,885</u></u>	<u><u>37,875</u></u>

Apptix ASA
Interim Consolidated Cash Flow Statement

	Six Months Ended June 30,	
	2014	2013
(Amounts in USD 1,000)	IFRS	IFRS
Cash Flows from Operating Activities		
Earnings Before Interest and Taxes	708	1,216
Stock Based Compensation Expense	41	77
Depreciation and Amortization	2,179	1,906
Change in Accounts Receivable	(233)	(64)
Change in Trade Accounts Payable	287	412
Change in Other Assets and Liabilities	(1,322)	(702)
Cash Flows Provided by Operating Activities	1,660	2,845
Interest Paid	(606)	(593)
Income Tax Paid	(10)	(166)
Net Cash Flows Provided by Operating Activities	1,044	2,086
Cash Flows from Investing Activities		
Purchases of Intangibles and Property and Equipment	(63)	(85)
Cash Flows Used in Investing Activities	(63)	(85)
Cash Flows from Financing Activities		
Payments on Capital Lease and Debt Obligations	(1,923)	(1,792)
Cash Flows Used in Financing Activities	(1,923)	(1,792)
Effect of Exchange Rates on Cash and Cash Equivalents	(9)	2
Net Change in Cash and Cash Equivalents	(951)	211
Cash and Cash Equivalents at Beginning of Period	3,124	2,358
Cash and Cash Equivalents at End of Period	2,173	2,569

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, 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
Net Income for the Period	-	-	-	-	32	32
Other Comprehensive Income	-	-	-	-	-	-
Total Comprehensive Income	-	-	-	-	32	32
Equity Element of Expensed Options	-	-	23	-	-	23
Equity June 30, 2014	4,666	73,437	6,148	3,927	(66,537)	21,641

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 520,000 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 three to six months.

In June 2014, the Company entered into a Seventh Loan Modification Agreement which lowered the Company's required Fixed Charge Ratios through the remainder of the existing term (January 31, 2015). No other material changes were made the revolving credit facility.

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 net income of USD 32 thousand during the second quarter of 2014. Including the effects of exchange rate differences, the Company generated cash of USD 707 thousand during the second quarter from operating activities. Since January 2011, the Company has generated sufficient liquidity from operating cash flows in nine 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 in the 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 June 30, 2014, the Company estimates it has a QRR backlog of USD 0.9 million. However, during the second quarter 2014, a partner notified the Company informally that they may challenge some or all of its commitments, which account for USD 270 thousand of the June 30, 2014 Backlog. The Company believes that it has a valid contractual commitment with this partner.

Risk and Uncertainty

As described in the Company's Annual Report for 2013 (Note 25), the Company's financial risk exposure includes foreign currency risk, credit risk, interest rate risk, and liquidity risk.

In addition to the above described financial risks, the Company is subject to a variety of operating and market risks including but not limited to:

- The Company's backlog may not convert into billable revenues as planned because end-user on-boarding may experience delays among other things.
- The Company's business model is dependent upon the expansion of products and services beyond the Hosted Exchange service offering.
- The Company's ability to expand sales, marketing, and product related initiatives may require additional capital to fund expenditure levels consistent with market leaders.
- Network infrastructure including such services provided by third parties could fail which would damage our ability to provide guaranteed levels of service and result in increased customer churn.
- Continued pricing pressure and other competitive developments in the market could impact the Company's ability to grow.
- The Company's success depends on the increased acceptance and use of Software as a Service (SaaS) or hosted service business model by commercial users in the geographical markets where Apptix delivers services to its customers.
- The Company's business model is dependent upon continued success with the implementation and execution of a channel driven sales strategy.
- The Company's business model requires investment in technology, intellectual property, and other assets that are potentially subject to technological change, impairment and/or obsolescence.
- The Company's ability to grow could be limited as a result of the deterioration in the overall U.S. economy and accordingly could impact the net realizable value of the assets of the Company.
- The U.S. and world economic conditions may adversely impact the Company's customer base, leading to additional customer losses or slower growth.

The Company continues to implement various initiatives designed to enhance operating control and efficiency, including the simplification of the Company's overall technical and operating architecture. The Company has consolidated its multiple operating platforms and data center facilities into two primary data center facilities and platforms. The Company believes the operational efforts taken over the past few years, including its platform consolidation efforts, reduces the Company's exposure of a serious platform outage.

Related Parties

Note 23 in the Company's Annual Report for 2013 provides details of transactions with related parties. As described in Note 23, the Company enters into certain transactions with related parties as part of its ordinary course of business. The transactions include a consulting agreement with its Chairman which is approved annually by the Company's shareholders, a services contract with a former Board member and current shareholder to provide legal services at prevailing market rates and an agreement to provide remuneration fees to three shareholders (who each serve two year terms as elected by shareholders) to be members of the Company's nominating committee. Excluding the aforementioned transactions and the compensation of key management and Board of Directors, there were no other related party transactions during the first half of 2014.

Responsibility Statement

We confirm to the best of our knowledge that the condensed set of interim consolidated financial statements as of June 30, 2014 and for the six month period January 1, 2014 to June 30, 2014 has been prepared in accordance with IAS 34 '*Interim Financial Reporting*' and gives a true and fair view of the Company's assets, liabilities, financial position and the result for the period viewed in their entirety, and that the interim management report in accordance with the Norwegian Securities Trading Act section 5-6 fourth paragraph includes a fair review of any of the significant events that arose during the six-month period and their effect on the half-yearly financial report, and any significant related parties transactions, and a description of the principal risks and uncertainties for the remaining six months of the year.

The Board of Directors and Chief Executive Officer
Apptix ASA

/s/Johan Lindqvist
Chairman of the Board

/s/ David Ehrhardt
President and CEO

/s/Terje Rogne
Board Member

/s/Ebba Asly Fahraeus
Board Member