



## Monthly Operating Review – January 2019

February 15, 2019

# Monthly Operating Review Meeting Agenda

- ➔ **Executive Summary**
- ➔ Financial Review
- ➔ Governance Reporting
- ➔ Appendix

## Hits

- MTD EBITDA - \$88K compared to target of (\$79k).
- MTD Invoiced EBITDA was \$260k compared to target of \$170k.
- Strong software subscription renewal results - \$300K
- Record month for order volume – 760
- Record month for new customers - 300
- January bookings were \$2.9M and invoiced sales were \$2.7M, compared to target of \$2.7M.
- Large orders for Wework (\$290k), Nike (\$125k) and Kiewitt Corporation (\$106K).
- Office lease – signed on February 13
- G3 Pod hardware began shipping on schedule on 2/7
- Organization/Key Hires
  - Staffing by geo – Denver (81), US field (21), international field (10) = 112
  - Staffing by function – Tech (36), Sales (41), Marketing (14), Finance/Ops/HR (21)
  - Gulf Coast (Dubai) RSD (Cyril Mattar) and Sales Engineer (Ramy Alam) on board
  - Continued interviewing for Sales Ops Director, scheduling first interviews for VP HR
- Customer Adoption
  - Continued strong sales from existing customers - WeWork, Nike, Kiewitt, TD Ameritrade \$97K, Villanova \$57K, Kraft Heinz \$56K, Astra Zeneca \$45K, Convene \$40K, Morgan Lewis \$10K
  - Land orders - CBRE \$44K, Inspire Brands (Arby's) \$30K, Sargento \$18K, ESPN \$24K
  - Upcoming in Q1 – QBE, Accenture, General Dynamics, MLB, FDIC and Pioneer Natural Resources

# Executive Summary (Continued)

## Misses

- While January was a strong month for renewal software subscription, prepaid software subscription fell short of target – resulting in totals of \$417K vs the forecast target of \$478K
- Staffing – resignations; Faith Atkins HR, Jay Fleming PM, two terminations; one in sales, one in Engineering

## Key Go-Forward Actions

- Finalize 2019 AOP and Strategic planning - review **at January BOD**
- Ongoing culture development with focus on effective new hire on-boarding and assimilation with tenured staff, support of monthly employee team building gatherings and onsite wellness activities. Hiring VP HR, completed Mersive 'operating philosophy' for 2019 to help crystalize expectations around employee satisfaction, customer relations and financial goals.
- Assessing recruitment / retention programs, profit participation plan and matching 401k – in process again with Dan and Faith. 2019 MBO planning complete.
- **Roll out G3 Pod upgrade program**
- Pricing study – Kepler, low cost Solstice, subscription GTM – **held initial review of results**
- Entry level Solstice Pod – delayed until further discussion
- Flexera – need to update version based on subscription and maintenance data reporting requirements
- Reviewing maintenance pricing for both prepaid and renewal - new bundled pricing for prepaid being finalized - **done**
- Ongoing analysis of seed/demo Pod programs - finalizing policy for sales team to ensure they are being judicious – **done**

# Executive Summary – Risks and Challenges

Description	Potential Impact	Plan to Address
<ul style="list-style-type: none"> <li>G3 transition</li> </ul>	<ul style="list-style-type: none"> <li>Sales shortfall</li> <li>Discounting on G2i margin impact</li> <li>Customer trade-in cost impact</li> <li>Inventory shortage</li> <li>Distributor inventory</li> </ul>	<ul style="list-style-type: none"> <li>Seed with large, key customers with G3 in late January</li> <li>Delay announcing G3 until just prior to GA</li> <li><b>Announce at ISE - done</b></li> <li><b>Begin shipping in mid February – on schedule</b></li> </ul>
<ul style="list-style-type: none"> <li>VP Engineering hire</li> </ul>	<ul style="list-style-type: none"> <li>Need to extend span of control and increase level of leadership in Engineering</li> </ul>	<ul style="list-style-type: none"> <li>Split Product and Engineering and bring on head of Engineering - search underway</li> <li><b>Have interviewed 3 candidates - one has come back to meet with rest of team</b></li> <li><b>Tae Kim has accepted offer – start date mid-March</b></li> </ul>
<ul style="list-style-type: none"> <li>AV industry</li> </ul>	<ul style="list-style-type: none"> <li>Competitors lowering prices, financial issues at Barco, Plantronics/Polcom looking for buyer, Logitech pulls back bid on Plantronics - \$2B</li> <li><b>Continued competitive pressure from Zoom</b></li> </ul>	<ul style="list-style-type: none"> <li>Expand sales and marketing to exploit, drive roadmap efficacy, launch G3</li> <li><b>Target Zoom with specific marketing resources such as video, topic specific webinars and position papers</b></li> </ul>
<ul style="list-style-type: none"> <li>Improve margin/EBITDA while continuing to invest and grow</li> </ul>	<ul style="list-style-type: none"> <li>Failure to take advantage of market timing and growth</li> </ul>	<ul style="list-style-type: none"> <li>Terminate BTX and move to direct reseller model in US (\$1.5M) - <b>done</b>, repackage/reprice software subscription services (maintenance) (\$1.2M) - <b>done</b>, <b>take renewal subscriptions direct – done</b></li> <li><b>Reduce BOM by making PS optional, or charging where applicable (now that we have POE) - done</b></li> </ul>
<ul style="list-style-type: none"> <li>HR/Staffing/Comp</li> </ul>	<ul style="list-style-type: none"> <li>We need to upgrade leadership to move from tactical/admin to strategic initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Hire VP HR in Q1 – <b>interviewing</b></li> <li><b>MBO program – planning done, announce at Feb QBR</b></li> </ul>
<ul style="list-style-type: none"> <li>Sales Team Productivity</li> </ul>	<ul style="list-style-type: none"> <li>Failure to hit FY target, exploit competitors weaknesses, leverage market growth and timing</li> </ul>	<ul style="list-style-type: none"> <li>Improve on-boarding and training - <b>first sales training scheduled for 1/22 and 23</b></li> </ul>
<ul style="list-style-type: none"> <li>Impact of 606 Revenue Recognition on GAAP EBITDA</li> </ul>	<ul style="list-style-type: none"> <li>Revenue and GAAP EBITDA are not accurate measurements of our business progress</li> <li>See further comment on slide 5 regarding revenue variance</li> </ul>	<ul style="list-style-type: none"> <li>We would like to focus more on Invoiced Sales, deferred revenue and Invoiced EBITDA as KPIs and MIPs metrics</li> </ul>

# Executive Summary – Q1 OKR

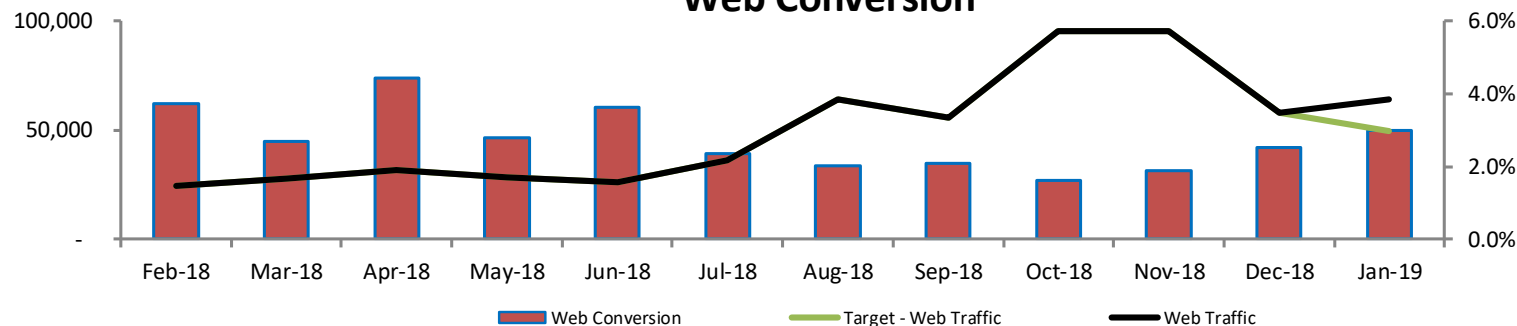
	2019 Corporate Priorities	Corporate Quarterly Objectives - Q1 2019	Key Result - As measured by	Owner
1	Successfully Launch Gen3 Product	Launch Gen3 Product - port SW	Solstice 4.0 port to G3 ready to ship on 2/12 with support for HDMI-in, 4k, POE, dual-HDMI-out mirroring/span/extend, top bug fixes, security testing complete	Jon
		GTM Launch of Gen 3 / 4.0	Execute on content creation for product email campaigns, web pages, and video per launch plan	Martin/Chris
		Meet supply chain timing & target for Gen3 Pods	2,500 pods in Jan; 5,000 pods rec'd in Feb & Mar	Dan/Rob/Chris
2	Scale Sales Organization	Develop & communicate sales plan for Gen3	Finalize/socialize messaging by launch date	Rick/Troy
		International hires	Hire to plan and/or exception hires identified	Rick
		Hire Sales Operations Director	Employee hired by 3/31	Rick
3	Ensure Product Roadmap Drives Market Adoption	Meet or exceed Q1 product release schedule (incl. 4.0 and G3)	Deliver the following scope features to market by end of Q1: HDMI-in, Dual-HDMI-out mirror/span/extend, 4k, POE, Ink, Custom Instructions, Internationalization, Power Management, Dashboard 2.0 phase 1, Kepler maintenance renewal workflow. Releases go live within 3 days of target dates and no hotfix releases are required.	Chris/Jon
		Hire VP of Development	Executive hired by 3/31	Rob
		Improve Solstice Quality	15 P1 tech debt bugs fixed by end of Q1 (existing stability, automation, escalations, etc)	Jon
4	Scale Marketing and Support	Create new brand assets	Create custom photo library by 1/31, create brand architecture and messaging by 3/31, create custom video library by 3/31, complete Gartner Peer Insights page with 25 reviews by 3/31	Martin
		Launch worldwide digital web presences and lead generation	Finalize lead gen plan by 1/31, launch 4 EMEA microsites by ISE, launch 2 APAC microsites by Feb 28, start reporting lead conversion to new accounts by 2/28, launch redesigned corp site by 3/31	Martin
		Scale field marketing internationally	Successful ISE execution Feb 5-8, EMEA Engage event plan finalized by 2/28	Martin
		Scale product marketing / support processes	Launch improved support dashboard by 1/31, refactor / launch updated battle sheets by 2/28, implement new prod doc process as part of Gen 3 launch, move to account-based support model by 3/31	Martin
5	Invest in our people	Implement Company wide MBO Program	Communicated MBO program; developed Q1 dept objectives aligned with Corp objectives	Dan
		Hire VP of HR	Executive hired by 3/31	Rob
		Implement Q1 OKR Program - depart only	Depart level OKRs created and communicated	Dan
6	Improve business intelligence reporting	Develop Recurring Revenue Reporting	Monthly rolling recurring revenue report created	Dan
		Implement Contract Management in NetSuite	Contract management module live in NetSuite	Dan
		Develop key operating metrics report - P vs A	Create/report weekly budget related ops metrics	Dan

# Big Wins, Key Deals and Losses

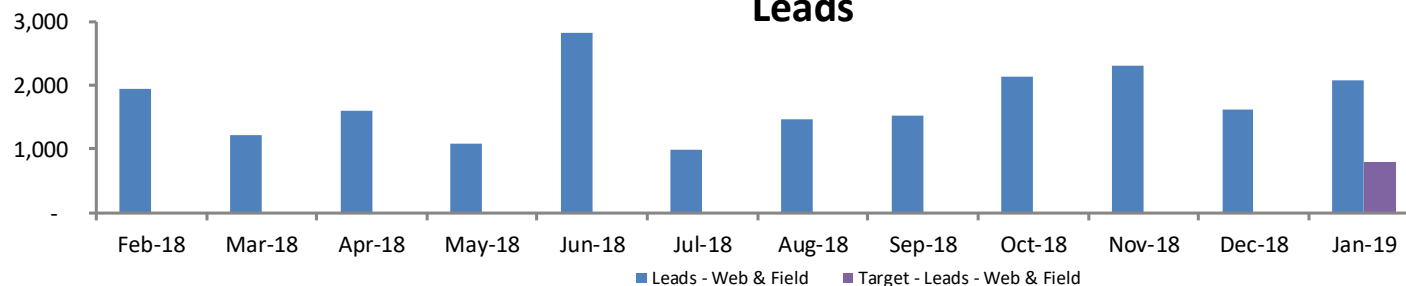
Upcoming Key Deals	Key Losses/Delays
<ul style="list-style-type: none"> <li>• <b>QBE</b> – Pilot went well. Waiting on final decision. 500+ rooms</li> <li>• <b>Accenture</b> – Pilot ongoing. Negotiating agreement in parallel</li> <li>• <b>General Dynamics</b> – Pilot – 100 rooms HQ in Q1</li> <li>• <b>Microsoft</b> – Need Miracast fixed</li> <li>• <b>Pioneer Natural Resources</b> – 180 Rooms in February – Gen3</li> <li>• <b>FDIC</b> – evaluation for 100+ rooms – Q1 '19</li> <li>• <b>Expedia HQ</b> – Evaluation for inclusion for new HQ – met at ISE</li> <li>• <b>P&amp;G</b> – Final decision in March/April</li> <li>• <b>CIBC</b> – 1,200+ rooms over 3 years in Canada – tender out</li> <li>• <b>Medimmune</b> – Spec'd by consultant – 200+ rooms</li> <li>• <b>Altria</b> – 150 room potential for new building – Q2</li> <li>• <b>MLB</b> – 150 units in NY HQ – Q2</li> <li>• <b>Stanford Main Campus</b> – 100 units toward standardization</li> <li>• <b>Expedia</b> – new HQ starting in 2019</li> <li>• <b>TJX</b> – came back to Solstice after selective Cisco</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Daimler (Portland)</b> – paused with new CIO in place</li> <li>• <b>Discover Financial</b> – Cisco endpoint strategy met their need</li> <li>• <b>Bridgewater</b> - Pursuing Zoom</li> <li>• <b>Phoenix Union</b> – Pursuing Intel Unite</li> </ul>
Big Wins	
<ul style="list-style-type: none"> <li>• Nike - \$110K</li> <li>• TD Ameritrade - \$97K</li> <li>• WeWork (Israel) - \$100K+</li> <li>• TOWA - \$71K</li> <li>• Midwich - \$180K</li> <li>• KraftHeinz - \$56K</li> </ul>	<ul style="list-style-type: none"> <li>• Villanova - \$42K</li> <li>• GA Tech - \$40K</li> <li>• Inspire Brands - \$32K</li> <li>• BDC - \$20K</li> <li>• Convene- \$20K+</li> <li>• Sargento - \$18K</li> </ul>

# Key Performance Indicators - Marketing

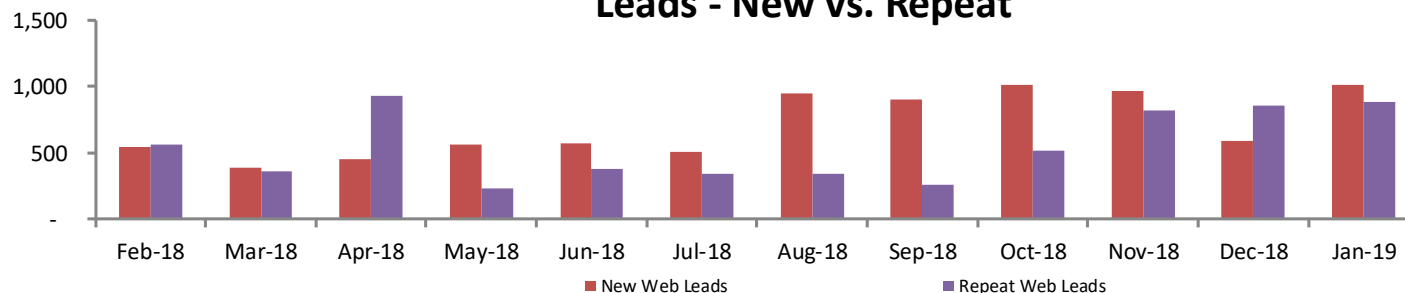
## Web Conversion



## Leads



## Leads - New vs. Repeat



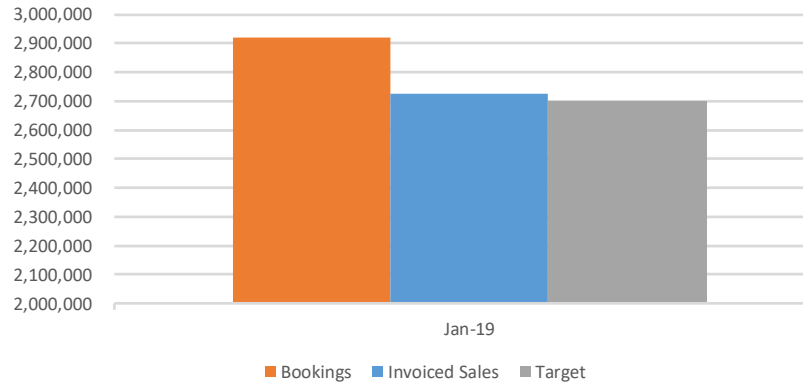
## Management Discussion

- Monthly web traffic exceeded target by 29% and lead exceeded target by 163%.
- January's success is primarily driven by adjustments to the website as well as advertising campaigns. Specifically, improved keyword to page mapping and optimization, landing page conversion rate, custom audience targeting, and updated ad copy.

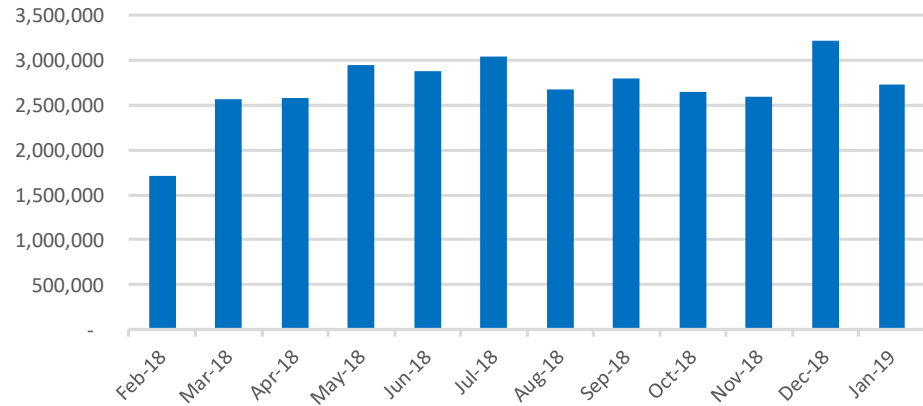


# Operating Metrics

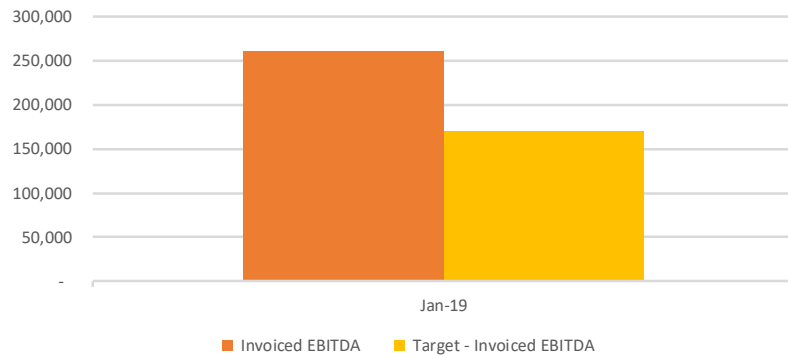
## Bookings and Invoiced Sales



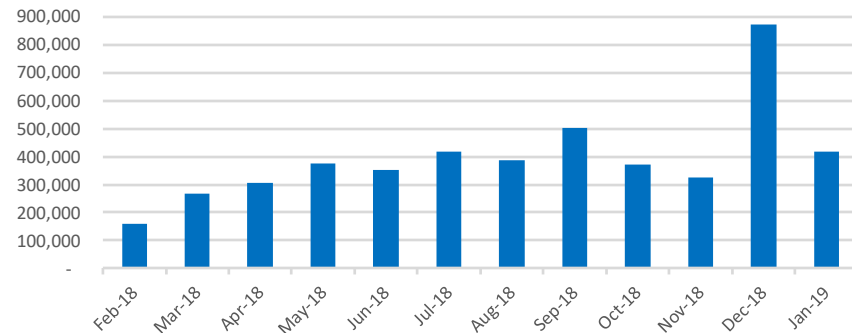
## LTM Invoiced Sales



## Invoiced EBITDA



## LTM Software Subscription Invoiced Sales

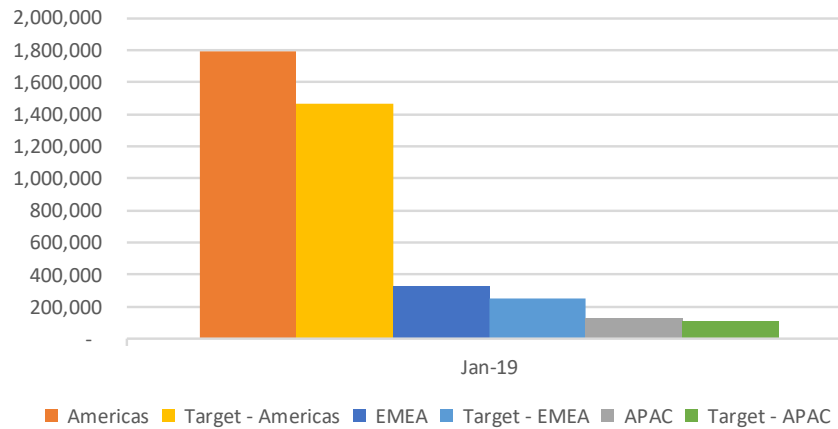


## Management Discussion

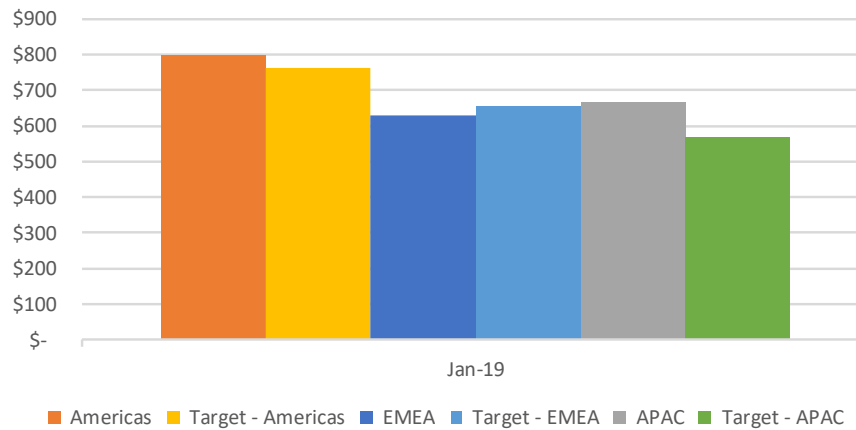
- Total software subscription invoiced sales for the month were \$417k vs the target of \$479k.
- Received \$185k order last day of month from Midwich – UK.

# Operating Metrics - Pods

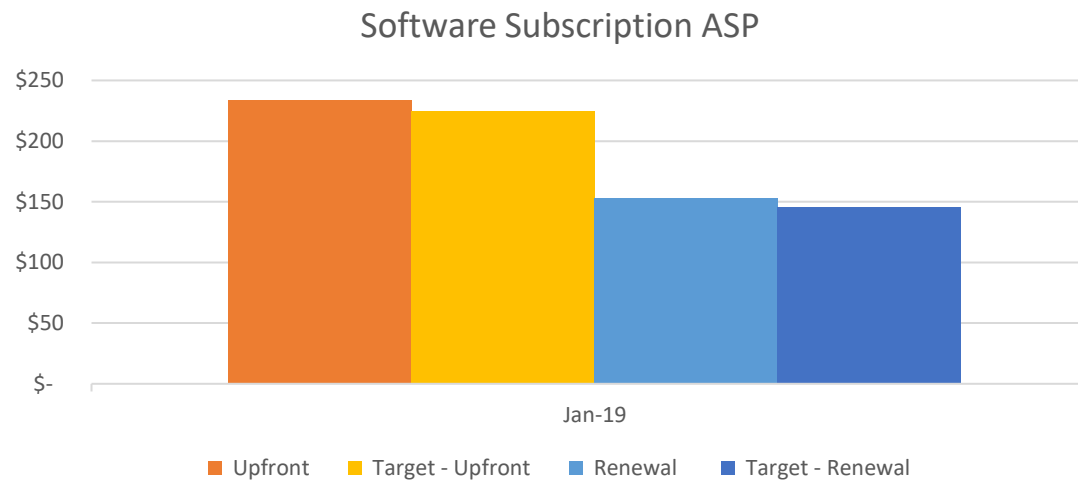
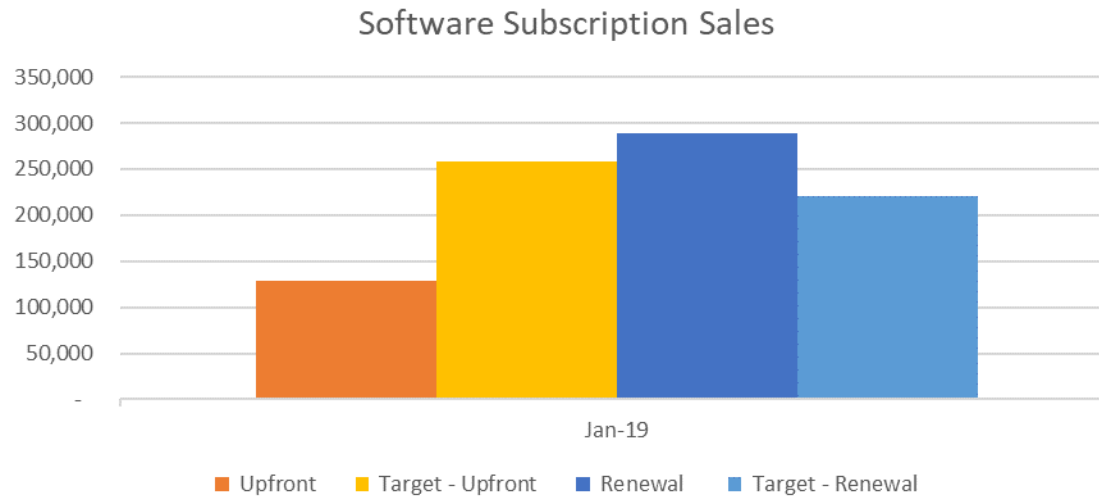
Pod Sales by Region



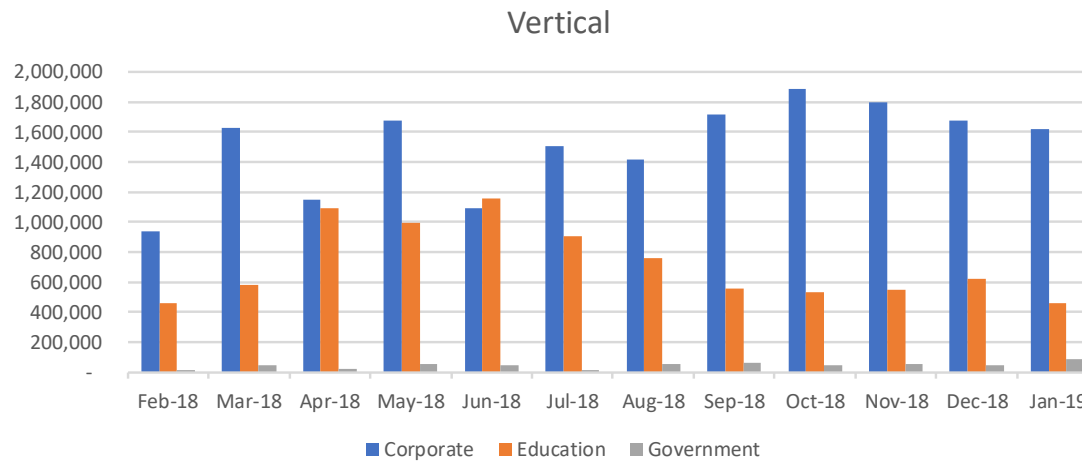
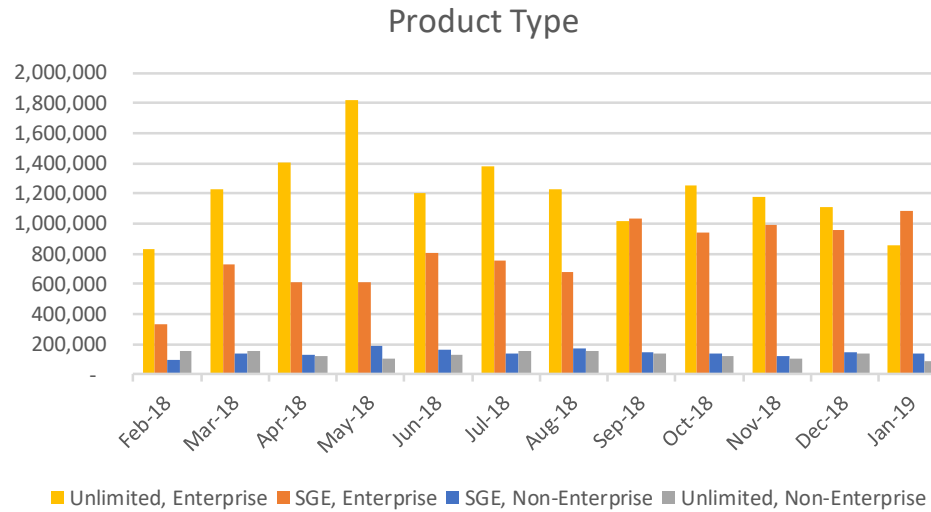
Pod ASP by Region



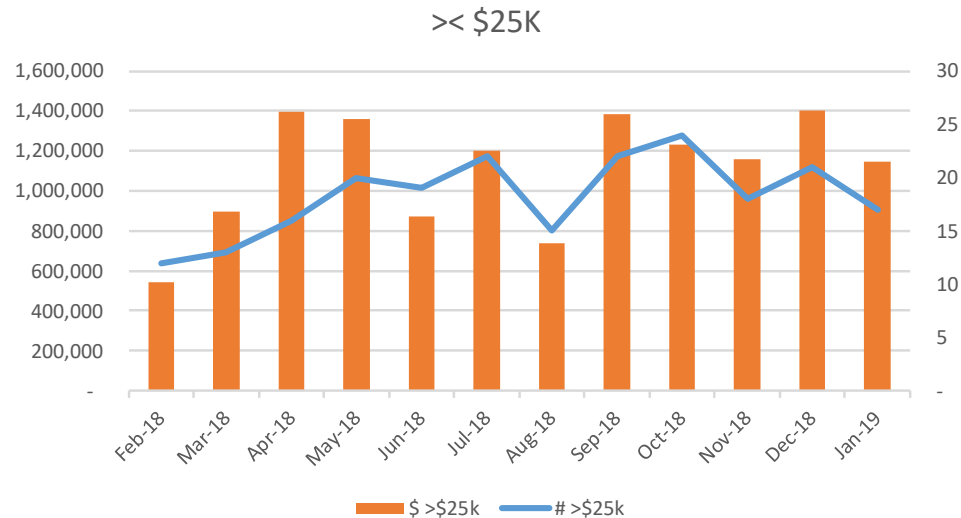
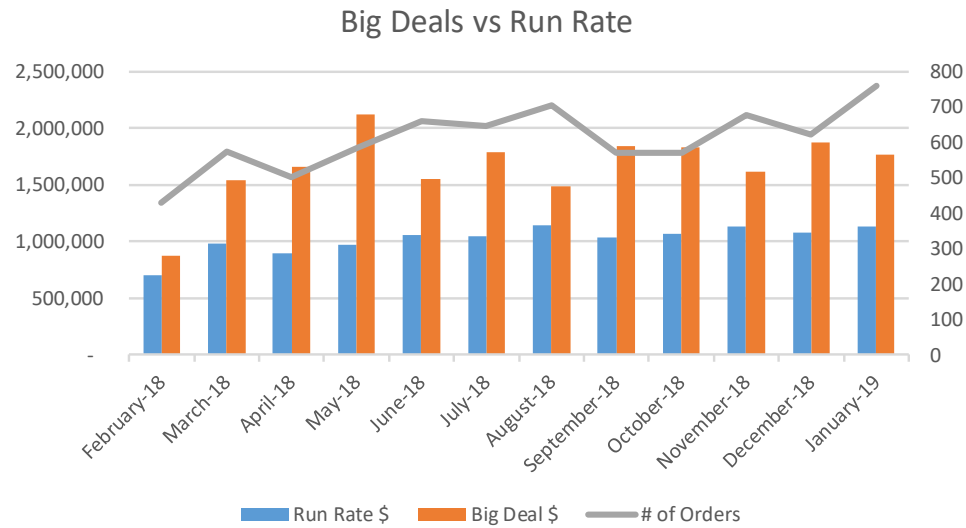
# Software Subscription - Upfront vs. Renewal



# Key Performance Indicators – Product/Vertical

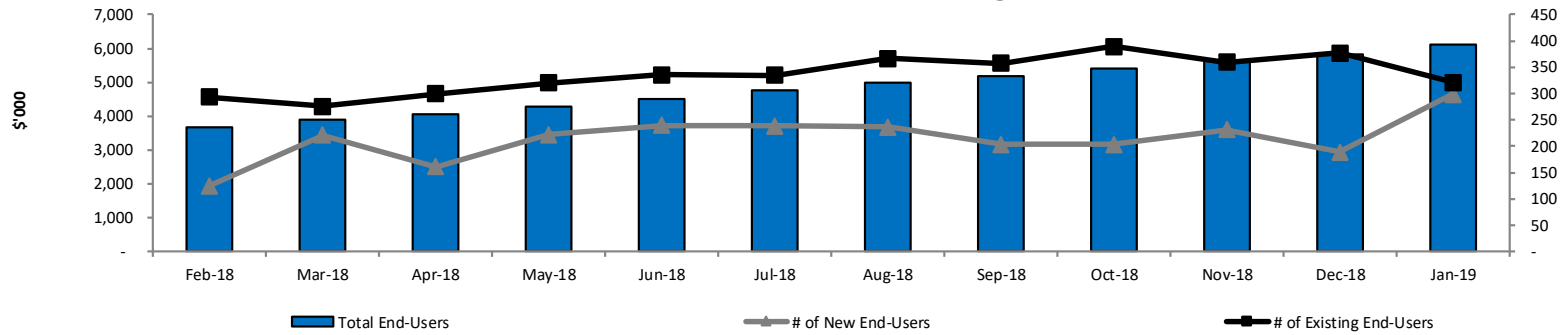


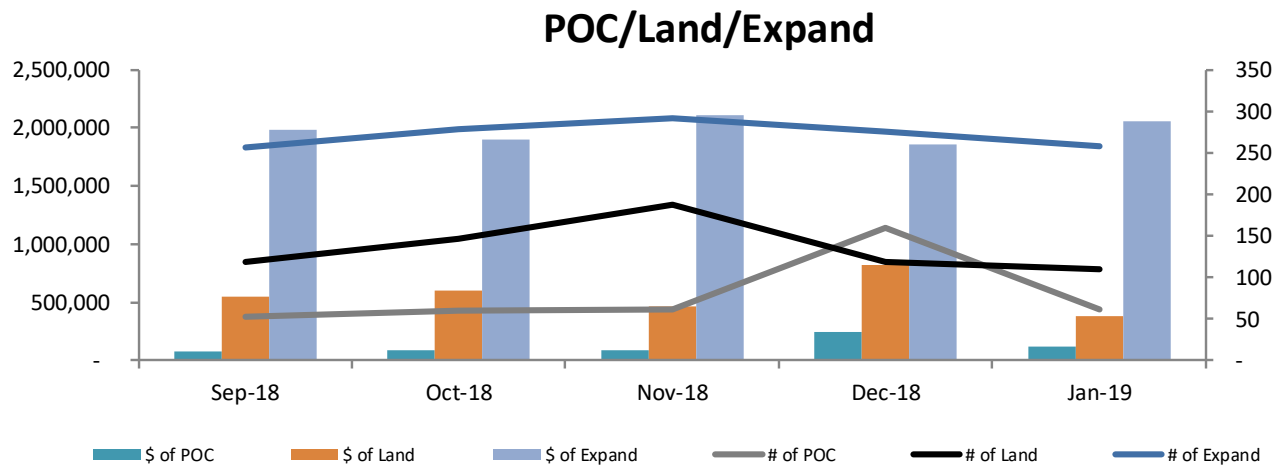
# Big Deals and Run Rate



# New vs. Existing End-Users

New vs. Existing





Lifecycle							
	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Total	%
POC	78,454	98,798	82,215	248,107	118,912	626,485	5%
Land	545,622	639,324	469,375	824,995	381,964	2,861,279	21%
Expand	1,979,358	1,896,181	2,112,443	1,854,519	2,055,559	9,898,060	74%
<b>Total</b>	<b>2,603,434</b>	<b>2,634,303</b>	<b>2,664,032</b>	<b>2,927,621</b>	<b>2,556,435</b>	<b>13,385,824</b>	<b>100%</b>

# Top Customers

End User	Jan Amount	POC/Land/Expand
WeWork	290,642	Expand
Nike	124,744	Expand
Kiewit Corporation	106,010	Expand
TD Ameritrade	97,223	Expand
Villanova University	57,570	Expand
Kraft Heinz - Chicago	56,077	Expand
AstraZeneca Global - Verified	45,727	Expand
CBRE	44,459	Land
Georgia Institute Of Technology	44,271	Expand
Informatica Business Solutions Pvt. Ltd.	44,135	Expand

End User	LTR Amount
WeWork	4,047,932
Comcast	1,039,480
Capital One	779,476
Charter Communications	720,183
Indiana University	652,150
Time Warner	629,017
Booz Allen Hamilton	588,863
Northwestern University	555,096
Penn State University	580,384
T-Mobile	520,892



# Software Subscription – Attach Rate

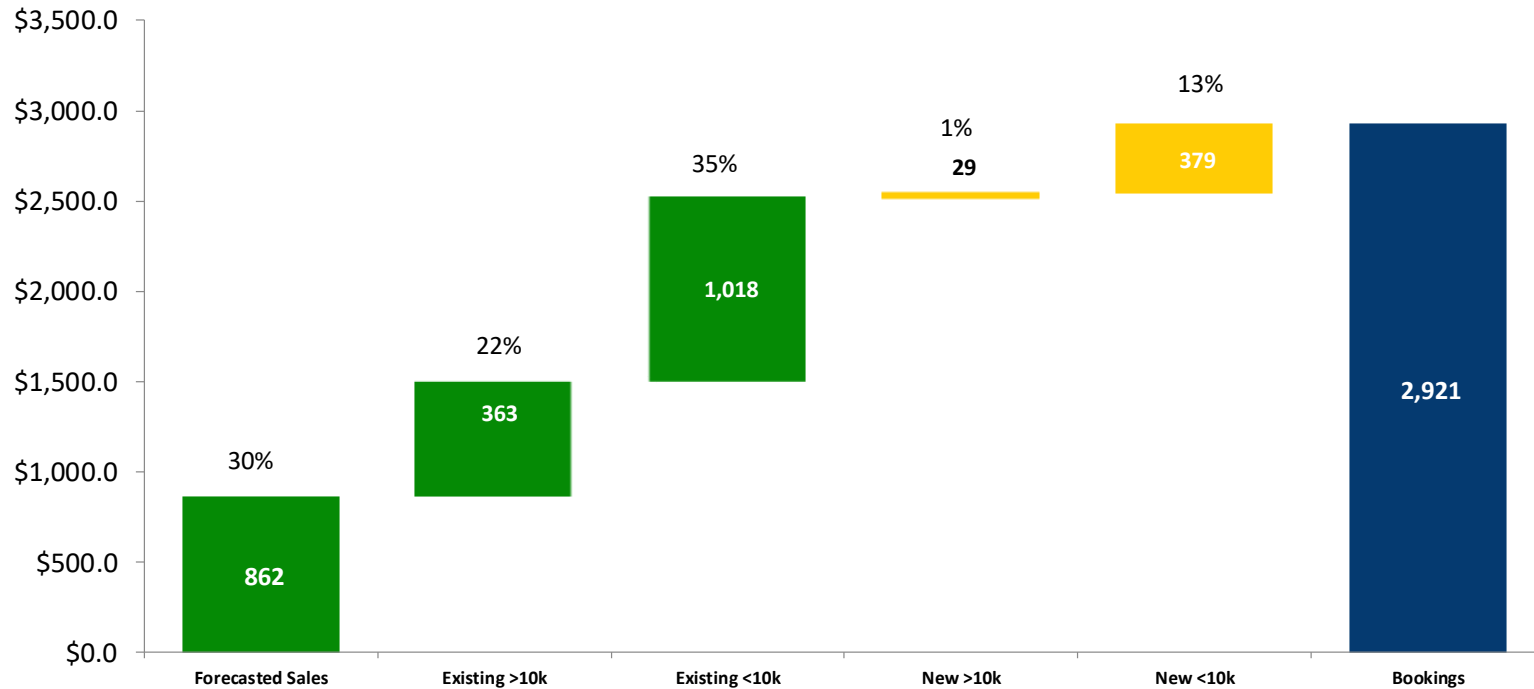
Upfront													
	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	LTM 2019
Total Upfront Units Sold	142	203	616	873	954	848	597	801	853	648	682	549	7,766
Total Unit Sales	1,865	2,945	2,970	3,425	3,034	3,151	2,934	3,142	3,677	3,374	3,297	3,105	36,919
<b>Upfront Rate</b>	<b>8%</b>	<b>7%</b>	<b>21%</b>	<b>25%</b>	<b>31%</b>	<b>27%</b>	<b>20%</b>	<b>25%</b>	<b>23%</b>	<b>19%</b>	<b>21%</b>	<b>18%</b>	<b>21%</b>

Renewal													
	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	
Pods w/ Paid software subscription	6,756	6,992	7,411	8,072	8,628	9,852	9,125	10,319	11,588	12,734	16,809	17,027	
Total Pods, post-free software subscription	12,764	13,593	14,551	16,009	17,814	19,060	20,733	22,409	28,731	30,182	32,633	33,847	
<b>Renewal Rate</b>	<b>53%</b>	<b>51%</b>	<b>51%</b>	<b>50%</b>	<b>48%</b>	<b>52%</b>	<b>44%</b>	<b>46%</b>	<b>40%</b>	<b>42%</b>	<b>52%</b>	<b>50%</b>	

## Management Discussion

- Upfront attach rate decreased in January to 18% below the LTM average of 21%
- Renewal rate remained flat but elevated in Jan-19 at 50% due to WeWork renewal in Dec-18

# Forecast and Attribution Analysis – Jan-19



## Management Discussion

- Total attribution was 86% for Jan-19, slightly below the average of 90% for 2H 2018 and down from a high of 92% in Dec-18.

# Monthly Operating Review Meeting Agenda

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- ➔ Appendix

# Summary P&L

\$'000

	MTD		Variance		PY MTD		Variance		YTD		Var		PY YTD		Variance	
	Act	Bud	\$	%	Act	\$	%		Act	Bud	\$	%	Act	\$	%	
<b>Gross Revenue</b>	<b>\$ 2,555</b>	<b>\$ 2,450</b>	<b>\$ 104</b>	<b>4.3%</b>	<b>\$ 1,727</b>	<b>\$ 828</b>	<b>48.0%</b>		<b>\$ 2,555</b>	<b>\$ 2,450</b>	<b>\$ 104</b>	<b>4.3%</b>	<b>\$ 1,727</b>	<b>\$ 828</b>	<b>48.0%</b>	
Discounts	(0)	–	(0)	N/A	(6)	6	(95.2%)		(0)	–	(0)	N/A	(6)	6	(95.2%)	
<b>Net Revenue</b>	<b>2,555</b>	<b>2,450</b>	<b>104</b>	<b>4.3%</b>	<b>1,720</b>	<b>834</b>	<b>48.5%</b>		<b>2,555</b>	<b>2,450</b>	<b>104</b>	<b>4.3%</b>	<b>1,720</b>	<b>834</b>	<b>48.5%</b>	
Material	475	438	37	8.4%	325	150	46.3%		475	438	37	8.4%	325	150	46.3%	
Labor	52	49	3	6.6%	44	8	16.9%		52	49	3	6.6%	44	8	16.9%	
<b>Total COGS</b>	<b>527</b>	<b>487</b>	<b>40</b>	<b>8.2%</b>	<b>369</b>	<b>158</b>	<b>42.8%</b>		<b>527</b>	<b>487</b>	<b>40</b>	<b>8.2%</b>	<b>369</b>	<b>158</b>	<b>42.8%</b>	
<b>Gross Margin</b>	<b>2,028</b>	<b>1,964</b>	<b>64</b>	<b>3.3%</b>	<b>1,351</b>	<b>677</b>	<b>50.1%</b>		<b>2,028</b>	<b>1,964</b>	<b>64</b>	<b>3.3%</b>	<b>1,351</b>	<b>677</b>	<b>50.1%</b>	
<i>Gross Margin %</i>	<i>79.4%</i>	<i>80.1%</i>			<i>78.5%</i>				<i>79.4%</i>	<i>80.1%</i>			<i>78.5%</i>			
R&D	399	486	(87)	(17.9%)	290	109	37.7%		399	486	(87)	(17.9%)	290	109	37.7%	
Sales & Marketing	993	923	70	7.5%	462	531	115.0%		993	923	70	7.5%	462	531	115.0%	
Administrative	548	634	(86)	(13.6%)	226	322	142.6%		548	634	(86)	(13.6%)	226	322	142.6%	
<b>Total Opex</b>	<b>1,939</b>	<b>2,043</b>	<b>(104)</b>	<b>(5.1%)</b>	<b>977</b>	<b>962</b>	<b>98.5%</b>		<b>1,939</b>	<b>2,043</b>	<b>(104)</b>	<b>(5.1%)</b>	<b>977</b>	<b>962</b>	<b>98.5%</b>	
<b>EBITDA</b>	<b>88</b>	<b>(79)</b>	<b>168</b>	<b>(211.2%)</b>	<b>374</b>	<b>(286)</b>	<b>(76.4%)</b>		<b>88</b>	<b>(79)</b>	<b>168</b>	<b>(211.2%)</b>	<b>374</b>	<b>(286)</b>	<b>(76.4%)</b>	
<i>EBITDA %</i>	<i>3.5%</i>	<i>(3.2%)</i>			<i>21.7%</i>				<i>3.5%</i>	<i>(3.2%)</i>			<i>21.7%</i>			
<b>Net Income (Loss)</b>	<b>\$ (391)</b>	<b>\$ (494)</b>	<b>\$ 104</b>	<b>(21.0%)</b>	<b>\$ 96</b>	<b>\$ (487)</b>	<b>(506.7%)</b>		<b>\$ (391)</b>	<b>\$ (494)</b>	<b>\$ 104</b>	<b>(21.0%)</b>	<b>\$ 96</b>	<b>\$ (487)</b>	<b>(506.7%)</b>	
<b>Capex</b>	<b>\$ (118)</b>	<b>\$ (47)</b>	<b>\$ (71)</b>	<b>149.9%</b>	<b>\$ (14)</b>	<b>\$ (104)</b>	<b>761.7%</b>		<b>\$ (118)</b>	<b>\$ (47)</b>	<b>\$ (71)</b>	<b>149.9%</b>	<b>\$ (14)</b>	<b>\$ (104)</b>	<b>761.7%</b>	

## Management Discussion

- **General** – Revenue recognition in 2019 reflects the impact of a revised FMV allocation applied to Pods and Yr 1 support. This is significant because Yr 1 support is valued at \$112/pod/yr under revised 606 calculations of FMV of bundled sales. This compares to \$138/pod/yr used originally in 2018 and in our 2019 budget model. This \$46 per pod difference results in more revenue attributed to the Pod component of a bundled sale, which is recognized at time of sale. This will have a significant impact on decreasing deferred revenue and increasing revenue in 2019 compared to current budget of potentially \$2M. Budget amounts, PY MTD amounts and PY YTD amounts do not reflect this change. We need to consider adding January actuals to budget and reforecast our 2019 budget to incorporate the impact of 606 rev rec. as part of Board approved 2019 budget.
- Invoiced sales were \$2.7m, including \$764k of software support invoice sales recorded as deferred revenue. Bookings were \$2.9m, which included backlog of \$204K at month end. This is in line with our target invoice sales of \$2.7M for Jan-19.
- Revenue of \$2.6m includes approximately \$2.0m of pod revenue and \$570k of deferred software support revenue from deferred revenue into net revenue. Pod revenue of \$2.0m exceeded budgeted pod revenue of \$1.8M, due primarily to higher volume of pods sold compared to budget, and revised FMV allocation on a bundled sale allocating more to Pods and less to Yr1 Support.
- Pods sold for the month were 2,951 vs target of 2,484. Pod ASP, excluding Yr 1 Support was \$644, which is higher than budgeted ASP of \$598.
- Renewal support licenses sold were 1,885 compared to target of 1,522 resulting in invoiced sales of \$288K compared to budget of \$220K.
- Upfront support licenses sold were 549 compared to target of 1,146 resulting in invoiced sales of \$128K compared to budget of \$258K. Upfront attached rate was 18% compared to a budgeted 40%.
- Gross Margin % and OpEx are in line with expectations.
- EBITDA was above target due to improved margin \$ and Opex below target.
- Capex was higher than expected due to timing of furniture and computer additions relative to budgeted dollars.

# Balance Sheet

	Dec-18	Oct-18	Nov-18	Dec-18	Jan-19		Variance
\$'000	Act	Act	Act	Act	Act	Bud	\$
<b><u>Current Assets</u></b>							
Cash and cash equivalents	\$ 5,777	\$ 6,340	\$ 6,509	\$ 5,777	\$ 6,447	\$ 4,963	\$ 1,484
Short term investments	—	—	—	—	—	—	—
<i>Accounts receivable, gross</i>	5,113	4,415	4,183	5,113	4,513	4,730	(217)
<i>Accounts receivable, reserves</i>	(134)	(37)	(37)	(134)	(134)	(47)	(87)
Accounts receivable, net	4,979	4,378	4,146	4,979	4,378	4,683	(305)
Inventory, net	1,444	2,228	1,788	1,444	1,636	1,911	(275)
Prepaid expenses and other current assets	1,840	863	1,195	1,840	2,432	1,516	916
<b>Total Current Assets</b>	<b>14,041</b>	<b>13,808</b>	<b>13,638</b>	<b>14,041</b>	<b>14,893</b>	<b>13,073</b>	<b>1,820</b>
<b><u>Non-Current Assets</u></b>							
Property, plant & equipment, net	695	520	656	695	842	932	(90)
Goodwill	20,675	20,675	20,675	20,675	20,675	20,675	(0)
Identifiable intangible assets, net	6,711	7,215	6,956	6,711	6,440	6,213	227
Deferred tax asset	6,488	6,361	6,488	6,488	6,488	6,647	(159)
Other non-current assets	14	14	14	14	14	75	(61)
<b>Total Non-Current Assets</b>	<b>34,583</b>	<b>34,786</b>	<b>34,789</b>	<b>34,583</b>	<b>34,459</b>	<b>34,542</b>	<b>(83)</b>
<b>Total Assets</b>	<b>\$ 48,624</b>	<b>\$ 48,594</b>	<b>\$ 48,427</b>	<b>\$ 48,624</b>	<b>\$ 49,352</b>	<b>\$ 47,615</b>	<b>\$ 1,737</b>
<b><u>Current Liabilities</u></b>							
Notes payable	3,500	3,500	3,500	3,500	3,500	3,500	—
Accounts payable	721	680	281	721	1,450	502	948
Accrued liabilities	354	133	259	354	511	159	353
Accrued compensation	1,987	1,537	1,725	1,987	1,902	1,968	(66)
Income taxes payable	694	1,594	1,754	694	694	351	342
Other current liabilities	232	91	92	232	269	259	9
<b>Total Current Liabilities</b>	<b>7,488</b>	<b>7,536</b>	<b>7,612</b>	<b>7,488</b>	<b>8,326</b>	<b>6,740</b>	<b>1,586</b>
<b><u>Long-term liabilities</u></b>							
Long-term unearned revenue	5,606	4,757	4,849	5,606	5,791	7,143	(1,352)
Deferred liabilities	154	150	154	154	154	127	27
<b>Total Long-Term Liabilities</b>	<b>5,760</b>	<b>4,907</b>	<b>5,003</b>	<b>5,760</b>	<b>5,945</b>	<b>7,270</b>	<b>(1,325)</b>
<b>Total Liabilities</b>	<b>13,248</b>	<b>12,443</b>	<b>12,615</b>	<b>13,248</b>	<b>14,271</b>	<b>14,010</b>	<b>261</b>
<b><u>Shareholders' Equity</u></b>							
<b>Total Shareholders' Equity</b>	<b>35,376</b>	<b>36,151</b>	<b>35,812</b>	<b>35,376</b>	<b>35,081</b>	<b>33,605</b>	<b>1,476</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 48,624</b>	<b>\$ 48,594</b>	<b>\$ 48,427</b>	<b>\$ 48,624</b>	<b>\$ 49,352</b>	<b>\$ 47,615</b>	<b>\$ 1,737</b>

## Management Discussion

- **General** – As we have implemented a new accounting system, a new revenue recognition pronouncement and a new budgeting model, while also having our Controller resign in the midst of it all, we are experiencing anomalies in our variances. We will clear these up in our February financials. We also need to consider adding January actuals to budget and reforecast our 2019 budget to incorporate the impact of 606 rev rec. as part of Board approved 2019 budget.
- AR is below expectation due to improved collection efforts on past due balances during Jan-19.
- Inventory balances are below expectation due to timing of actual inventory receipts & shipments compared to timing assumed in our budgeting.
- Prepaid and OCA balances are higher than expected due to receivable from landlord, trade show prepaids, prepaid commission related to 606 and additional prepaids from various vendors.
- Payables were higher than expected due primarily to a \$550K invoice from Inforce rec'd at month end.
- Income taxes payable was larger than expected due to taking a conservative approach with tax liabilities related to taxable income associated with invoiced software subscription. The liability will likely decrease significantly as we complete our corporate tax returns in March.
- Increase in deferred revenue is primarily due to a change in deferred revenue assumptions related to ASC 606 revenue recognition. We need to reforecast deferred revenue using the revised FMV allocations recently computed for 2018 & 2019.

# Cash Flow Statement

\$'000	MTD		Var	PY-MTD		Var	YTD		Var	PY YTD		Var
	Act	Bud	\$	Act	\$		Act	Bud	\$	Act	\$	
<b>Cash flow from operations</b>												
Net Income (Loss)	\$ (391)	\$ (494)	\$ 104	\$ 96	\$ (487)		\$ (391)	\$ (494)	\$ 104	\$ 96	\$ (487)	
Depreciation, amortization and other	304	281	23	278	26		304	281	23	278	26	
Deferred income tax	–	(159)	159	–	–		–	(159)	159	–	–	
<i>Change in operating assets and liabilities:</i>												
Accounts receivable	601	296	305	345	256		601	296	305	345	256	
Inventory	(192)	(521)	329	(190)	(2)		(192)	(521)	329	(190)	(2)	
Prepaid expenses and other current assets	(591)	324	(916)	(48)	(544)		(591)	324	(916)	(48)	(544)	
Accounts payable	729	(152)	881	(18)	747		729	(152)	881	(18)	747	
Accrued expenses	72	138	(66)	(260)	332		72	138	(66)	(260)	332	
Accrued income taxes	(0)	(343)	342	–	(0)		(0)	(343)	342	–	(0)	
Other changes in operating assets and liabilities	185	223	(37)	307	(121)		185	223	(37)	307	(121)	
Other cash flow from operations	74	(402)	476	9	65		74	(402)	476	9	65	
<b>Total Cash Flow from Operations</b>	<b>\$ 791</b>	<b>\$ (809)</b>	<b>\$ 1,601</b>	<b>\$ 519</b>	<b>\$ 272</b>		<b>\$ 791</b>	<b>\$ (809)</b>	<b>\$ 1,601</b>	<b>\$ 519</b>	<b>\$ 272</b>	
<b>Cash flow from investing</b>												
Additions to property, plant and equipment	\$ (118)	\$ (47)	\$ (71)	\$ (14)	\$ (104)		\$ (118)	\$ (47)	\$ (71)	\$ (14)	\$ (104)	
Investment in intangibles	(4)	42	(46)	–	(4)		(4)	42	(46)	–	(4)	
<b>Total Cash Flow from Investing</b>	<b>\$ (122)</b>	<b>\$ (5)</b>	<b>\$ (117)</b>	<b>\$ (14)</b>	<b>\$ (108)</b>		<b>\$ (122)</b>	<b>\$ (5)</b>	<b>\$ (117)</b>	<b>\$ (14)</b>	<b>\$ (108)</b>	
<b>Cash flow from financing</b>												
<b>Total Cash Flow from Financing</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>		<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	
<b>Net change in cash</b>	<b>\$ 669</b>	<b>(814)</b>	<b>\$ 1,484</b>	<b>\$ 505</b>	<b>\$ 164</b>		<b>\$ 669</b>	<b>(814)</b>	<b>\$ 1,484</b>	<b>\$ 505</b>	<b>\$ 164</b>	
Beginning cash	5,777	5,777	–	2,550	3,227		5,777	5,777	–	2,550	3,227	
Change in cash	669	(814)	1,484	505	164		669	(814)	1,484	505	164	
<b>Ending cash</b>	<b>\$ 6,447</b>	<b>\$ 4,963</b>	<b>\$ 1,484</b>	<b>\$ 3,055</b>	<b>\$ 3,392</b>		<b>\$ 6,447</b>	<b>\$ 4,963</b>	<b>\$ 1,484</b>	<b>\$ 3,055</b>	<b>\$ 3,392</b>	

## Management Discussion

- Cash is \$1.5M over budget due primarily to an improvement in AR collections and agings as well as significant increase in payables related to timing of invoices rec'd relative to payment.

# 2018 Hiring Schedule

Department	Not active	Sourcing Resumes	Phone Screen	In Person Interview	Offer Sent	Offer Accepted	Hired	Candidate Name/DOH	Requisitions Status
									Total Reqs: 42
									Open Reqs: 22
									Inactive Reqs: 4
									Filled Reqs: 16
									Fill Rate: 42.1%
Engineering		Sr. Software Engineer C++/Network Engineer Expert		Engineering VP Sr. Software Engineer C++/Architect (VTC) Sr. QA Engineer UX Designer Sr. Software Engineer (Rust)					Sourcing
									Interviewing
									Interviewing
									Interviewing
									Interviewing
			Sr. Product Manager (Replacement) Sr. Product Manager (Replacement)						Interviewing
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# Monthly Operating Review Meeting Agenda

- ➔ Executive Summary
- ➔ Financial Review
- ➔ Full Year Financial Outlook
- ➔ **Governance Reporting**
- ➔ Appendix



# Management Governance Report

## **Board of Directors**

- Andrew Nikou
- Rob Young
- Chris Jaynes
- Rob Balgley
- John Case
- Paul Bridwell

## **Audit Committee**

- Dan Hudspeth
- Paul Bridwell
- Jennifer de Leon

## **2018 Year End Auditors**

- Deloitte

## **Anonymous Hotline**

- Navex implementation complete; hotline is now live

## **Internal Control & Authority Matrix**

- Adopted effective 2/27/18

## Management Governance Report (Continued)

A)	Requests for waivers or out-of-the-ordinary course approvals under the Internal Control and Corporate Governance Matrix, Code of Ethics or any internal control:	None
B)	Any conflicts of interest or the appearance of any such conflict or potential conflict:	None
C)	Any actual or apparent weakness or inadequacy in the Company's policies of internal controls and financial reporting:	None
D)	Any reports or complaints regarding accounting, internal accounting controls or auditing matters.	None

# Monthly Operating Review Meeting Agenda

- ➔ Executive Summary
- ➔ Financial Review
- ➔ Governance Reporting
- ➔ **Appendix**

# YTD Opex Analysis

\$'000

	YTD			Explanation of Variance					Variance Impact		
			Variance	One-Time /		Change in			Total Variance	YoY Impact	Annualized
	Act	Bud	B / (W)	Non-recurring	Timing	Run-rate	Other		B / (W)	B / (W)	Impact B / (W)
Payroll	\$ 1,007	\$ 1,081	\$ (74)	\$ –	\$ (74)	\$ –	\$ –		\$ (74)	\$ –	\$ –
Benefits	70	141	(71)	\$ –	\$ (71)	–	–		(71)	–	–
Bonus	148	132	16	\$ –	\$ 16	–	–		16	–	–
Commissions	121	99	22	–	22	–	–		22	–	–
Marketing	181	160	20	–	20	–	–		20	–	–
Travel and Entertainment	88	78	10	–	10	–	–		10	–	–
Rent and Facilities	100	78	23	–	23	–	–		23	–	–
Insurance	4	4	(0)	–	(0)	–	–		(0)	–	–
Professional Fees	59	61	(2)	–	(2)	–	–		(2)	–	–
Utl., Repair, Maint., & Sec.	18	35	(17)	–	(17)	–	–		(17)	–	–
Office Expense	77	82	(5)	–	(5)	–	–		(5)	–	–
IT	57	74	(18)	–	(18)	–	–		(18)	–	–
Other Expenses	10	17	(7)	–	(7)	–	–		(7)	–	–
<b>Total Opex</b>	<b>\$ 1,939</b>	<b>\$ 2,043</b>	<b>\$ (104)</b>	<b>\$ –</b>	<b>\$ (104)</b>	<b>\$ –</b>	<b>\$ –</b>		<b>\$ (104)</b>	<b>\$ –</b>	<b>\$ –</b>

## Management Discussion

- Overall expenses are in line with target.

# Operating Expenses Summary

\$'000

## Opex Overview:

	MTD		Variance		PY MTD		Variance		YTD		Var		PY YTD		Variance	
	Act	Bud	\$	%	Act	\$	%		Act	Bud	\$	%	Act	\$	%	
Payroll	\$ 1,007	\$ 1,081	\$ (74)	(6.9%)	\$ 504	\$ 503	99.7%		\$ 1,007	\$ 1,081	\$ (74)	(6.9%)	\$ 504	\$ 503	99.7%	
Overtime	—	—	—	N/A	—	—	N/A		—	—	—	N/A	—	—	N/A	
Benefits	70	141	(71)	(50.4%)	149	(79)	(53.2%)		70	141	(71)	(50.4%)	149	(79)	(53.2%)	
Bonus	148	132	16	12.1%	23	125	539.0%		148	132	16	12.1%	23	125	539.0%	
Severance	—	—	—	N/A	—	—	N/A		—	—	—	N/A	—	—	N/A	
Commissions	121	99	22	22.5%	85	36	42.9%		121	99	22	22.5%	85	36	42.9%	
Marketing	181	160	20	12.7%	69	112	161.7%		181	160	20	12.7%	69	112	161.7%	
Travel and Entertainment	88	78	10	12.8%	36	52	146.9%		88	78	10	12.8%	36	52	146.9%	
Rent and Facilities	100	78	23	29.3%	41	59	142.3%		100	78	23	29.3%	41	59	142.3%	
Insurance	4	4	(0)	(0.8%)	1	4	611.1%		4	4	(0)	(0.8%)	1	4	611.1%	
Professional Fees	59	61	(2)	(3.5%)	20	39	197.6%		59	61	(2)	(3.5%)	20	39	197.6%	
Utl., Repair, Maint., & Sec.	18	35	(17)	(49.3%)	16	2	14.2%		18	35	(17)	(49.3%)	16	2	14.2%	
Office Expenses	77	82	(5)	(6.3%)	13	63	477.2%		77	82	(5)	(6.3%)	13	63	477.2%	
IT	57	74	(18)	(23.6%)	1	56	10701.8%		57	74	(18)	(23.6%)	1	56	10701.8%	
Bad Debts	—	—	—	N/A	(3)	3	(100.0%)		—	—	—	N/A	(3)	3	(100.0%)	
Other Expenses	10	17	(7)	(43.1%)	22	(12)	(55.7%)		10	17	(7)	(43.1%)	22	(12)	(55.7%)	
<b>Total Opex</b>	<b>\$ 1,939</b>	<b>\$ 2,043</b>	<b>\$ (104)</b>	<b>(5.1%)</b>	<b>\$ 977</b>	<b>\$ 962</b>	<b>98.5%</b>		<b>\$ 1,939</b>	<b>\$ 2,043</b>	<b>\$ (104)</b>	<b>(5.1%)</b>	<b>\$ 977</b>	<b>\$ 962</b>	<b>98.5%</b>	

## Management Discussion

- Please see previous slide on expense analysis.

# AR and AP Aging Detail

\$'000

AR Aging				
Days	Nov-18	Dec-18	Jan-19	
0-30	\$ 3,665	\$ 3,493	\$ 3,519	
30-60	239	1,057	640	
60-90	167	332	189	
>90	112	232	164	
<b>Total Gross AR</b>	<b>\$ 4,183</b>	<b>\$ 5,113</b>	<b>\$ 4,513</b>	
<b>Reserves</b>	<b>(37)</b>	<b>(134)</b>	<b>(134)</b>	
<b>Total Net AR</b>	<b>\$ 4,146</b>	<b>\$ 4,979</b>	<b>\$ 4,378</b>	

AP Aging				
Days	Nov-18	Dec-18	Jan-19	
0-30	\$ 259	\$ 230	\$ 1,297	
30-60	23	308	130	
60-90	0	159	0	
>90	0	24	24	
<b>Total</b>	<b>\$ 281</b>	<b>\$ 721</b>	<b>\$ 1,450</b>	

## Management Discussion

- Past due AR balances decreased in all categories >30 days due to improved collection efforts during January, primarily driven by collection of \$400k from BTX. Over 60 days decreased to 8% vs prior month at 11%.
- Increase in payables driven by a significant increase in inventory payables and timing of other payments to other vendors.

# QBR Performance – Actual vs Quota

Mersive Technologies - Quota Attainment							
Name	Region	Hire Date	Annual Quota	Jan-19			
				Quota	Actual	Var	%
Burt Feldman	Northeast	4/21/2014	\$ 7,500,000	454,128	479,272	25,144	106%
Connie Bolt	Southeast	4/16/2016	\$ 5,500,000	333,027	343,866	10,839	103%
Ryan Shannon	Midwest	4/17/2017	\$ 9,000,000	544,954	541,195	(3,759)	99%
Jason Parson	Northwest	11/19/2018	\$ 2,250,000	136,238	125,292	(10,946)	92%
Chris Charran	UK	5/14/2018	\$ 3,250,000	196,789	140,111	(56,678)	71%
Gark Tan	Asia Pacific	8/15/2014	\$ 3,000,000	181,651	123,931	(57,720)	68%
John Chandler	TOLA	6/18/2018	\$ 3,000,000	181,651	117,282	(64,369)	65%
Amelia Vrabel	Rocky Mtn.	9/4/2018	\$ 1,750,000	105,963	67,822	(38,141)	64%
Jeff Meyer	EMEA	6/5/2017	\$ 10,150,000	438,868	228,896	(209,972)	52%
Rosario Marseglia	Germany/Italy	1/1/2019	\$ 1,500,000	33,854	16,943	(16,911)	50%
Danny Fabre	Canada	10/1/2018	\$ 2,000,000	121,101	51,776	(69,325)	43%
Mats Bergqvist	West	10/1/2018	\$ 4,000,000	242,202	101,783	(140,419)	42%
Joe Hoffmann	Mid-Atlantic	9/18/2017	\$ 4,500,000	272,477	108,039	(164,438)	40%
Jonathan Davies	New England	8/20/2018	\$ 3,000,000	181,651	69,481	(112,170)	38%
Cyril Mattar	MEA	11/19/2018	\$ 1,500,000	33,854	11,116	(22,738)	33%
Thomas Liot	France/Spain	6/4/2018	\$ 1,800,000	108,991	22,178	(86,813)	20%
<b>Total</b>				<b>3,567,400</b>	<b>2,548,984</b>	<b>(1,018,416)</b>	<b>71%</b>



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