Monthly Operating Review – February 2019

March 18, 2019

Monthly Operating Review Meeting Agenda

→ **Executive Summary**

→ Financial Review

→ Governance Reporting

→ Appendix

Executive Summary

Hits

- February bookings were $3M and invoiced sales were $2.4M, compared to target of $2.6M.
- Strong Solstice subscription renewal results - $438K against a target of $155K (trending up from January's $288K)
- Overall Solstice subscription sales (renewal + pre-paid) was $531K against a target of $410K
- Strong month for order volume – 715 (trending up from Jan)
- New customers – 203 (trending flat for month)
- Large orders for Wework ($294k), Pioneer ($164k) and Mercy Health ($115K).
- Office remodel planning has begun – architectural plans have been formalized, next step is contactor bid request
- Organization/Key Hires
  - Staffing by geo – Denver (80), US field (23), international field (11) = 114
  - Staffing by function – Tech (40), Sales (41), Marketing (12), Finance/Ops/HR (21)
  - VP of Engineering start date 3/11/19
  - Sales Ops Director recruitment in progress
  - VP HR recruitment in process
- Customer Adoption
  - Continued strong sales from existing customers – WeWork $294K, Mercy $115K, Charter $106K, Cushman Wakefield $94K, Stevens $64K, Georgia Pacific $60K, Mastercard $54K, NYU $58K,
  - Land orders - Pioneer Natural Resources - $164K (Texas), University of Texas Medical Center -$58K (Texas), Boss Design Group - $50K (UK) Ankura $34K (Colorado)
  - New deals – Bradley University - $250K, Comcast - $155K, Stanford - $80K, WeWork

Executive Summary (Continued)

Misses

- MTD EBITDA – ($481K) compared to target of ($238k)

- Pre-paid Solstice subscription was $92K against a target of $254K

- MTD Invoiced EBITDA was ($152k) compared to target of ($62k) – 'as if' adjustment for backlog $800K x .8 = $640K for an EBITDA of $490K

- Staffing – resignations; Ann Dietrich - Operations, Kirk Roenig - Engineering

Key Go-Forward Actions

- Ongoing culture development with focus on effective new hire onboarding and assimilation with tenured staff, support of monthly employee team building gatherings and onsite wellness activities.

- Finalizing matching 401K – rollout in May, finalized MBO program – rolling out over next week.

- **Roll out G3 Pod upgrade program – we have a dozen quotes pending totaling nearly $1M in both Solstice subscription and cash upgrades**

- Flexera – need to update version based on subscription and maintenance data reporting requirements

Executive Summary – Risks and Challenges

| Description	Potential Impact	Plan to Address
▪ G3 transition	▪ Sales shortfall ▪ Discounting on G2i margin impact ▪ Customer trade-in cost impact ▪ Inventory shortage ▪ Distributor inventory	▪ Seed with large, key customers with G3 in late January - ▪ Delay announcing G3 until just prior to GA - done ▪ Announce at ISE - done ▪ **Begin shipping in mid February – revised ship date is March** ▪ **$800K in backlog**
▪ VP Engineering hire	▪ Need to extend span of control and increase level of leadership in Engineering	▪ Split Product and Engineering and bring on head of Engineering - search underway ▪ **Have interviewed 3 candidates - one has come back to meet with rest of team** ▪ **Tae Kim started on 3/11**
▪ AV industry	▪ Competitors lowering prices, financial issues at Barco, Plantronics/Polcom looking for buyer, Logictech pulls back bid on Plantroncis - $2B ▪ **Continued competitive pressure from Zoom** ▪ **Working on room system integration with Zoom**	▪ Expand sales and marketing to exploit, drive roadmap efficacy, launch G3 ▪ **Target Zoom with specific marketing resources such as video, topic specific webinars and position papers** ▪ **Start VTC initiave**
▪ Improve margin/EBITDA while continuing to invest and grow	▪ Failure to take advantage of market timing and growth	▪ Terminate BTX and move to direct reseller model in US ($1.5M) - **done**, repackage/reprice software subscription services (maintenance) ($1.2M) - **done, take renewal subscriptions direct – done** ▪ **Reduce BOM by making PS optional, or charging where applicable (now that we have POE) - done**
▪ HR/Staffing/Comp	▪ We need to upgrade leadership to move from tactical/admin to strategic initiatives	▪ Hire VP HR in Q1 – **interviewing** ▪ **MBO program – announcing in March**
▪ Sales Team Productivity	▪ Failure to hit FY target, exploit competitors weaknesses, leverage market growth and timing	▪ Improve on-boarding and training - **first sales training scheduled for 1/22 and 23** ▪ **Determine whether Salesforce or Netsuite is the right go forward for CRM and sales forecasting**
▪ Impact of 606 Revenue Recognition on GAAP EBITDA	▪ Revenue and GAAP EBITDA are not accurate measurements of our business progress ▪ See further comment on slide 5 regarding revenue variance	▪ We would like to focus more on Invoiced Sales, deferred revenue and Invoiced EBITDA as KPIs and MIPs metrics

	2019 Corporate Priorities	Corporate Quarterly Objectives - Q1 2019	Key Result - As measured by	Owner	% Achieved	Status
1	Successfully Launch Gen3 Product	Launch Gen3 Product - port SW	Solstice 4.0 completed in February with HDMI-in, 4k, POE, dual-HDMI-out mirroring/span/extend, top bug fixes, Ink, OpenControl API extensions, 10 new languages, security testing complete	Jon		3/14: 98% complete (functional complete, in final regression testing. release is imminent. Delayed launch due to several stability showstopper bugs that had to be addressed)
		GTM Launch of Gen 3 / 4.0	Execute on content creation for product email campaigns, web pages, and video per launch plan	Martin/Chris		This is proceeding to plan (launch webinar videos, Gen3 spec sheets, Sales Slides, and latest roadmap complete). Penetration test reports uploaded to enable sales conversations.
		Meet supply chain timging & target for Gen3 Pods	2,500 pods in Jan; 5,000 pods rec'd in Feb & Mar	Dan/Rob/Chris		Rec'd 3,500 of appr. 10,000 expected thru mid-March
2	Scale Sales Organization	Develop & communicate sales plan for Gen3	Finalize/socialize messaging by launch date	Rick/Troy		Will be complete by launch in March
		International hires	Hire to plan and/or exception hires identified	Rick		Nordics RSD lagging but all SEs hired or in offer stage. UK channel manager being interviewed. China RSM accepted and HK SE almost complete
		Hire Sales Operations Director	Employee hired by 3/31	Rick		Challenging - recruiter hired and additional candidates being screened
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, Kepler maintenance renewal workflow. Releases go live within 7 days of target dates.	Chris/Jon		3/14: 95% complete (4.0 release imminent; kepler maintenance renewal flow in final testing with release next week - week of 3/18)
		Hire VP of Development	Executive hired by 3/31	Rob	100%	
		Improve Solstice Quality	10 P1 tech debt bugs fixed by end of Q1 (existing stability, automation, escalations, etc)	Jon		3/14: 100% complete (3 time-based issues, 2 memory leak, 1 stability, 4 support escalations)
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		Custom photo and video ibraries have been created and is now being used in presentations and on web sites (ie, they will continue to receive updates going forward).
		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 converstion to new accounts by 2/28, launch redesigned corp site by 3/31	Martin		4 EMEA and 2 APAC sites launched in time for ISE. UK site launched last week. 2019 Marketing KPIs have been updated for upcoming Feb MOR. Corp website redesign progressing to plan.
		Scale field marketing internationally	Successful ISE execution Feb 5-8, EMEA Engage event plan finalized by 2/28	Martin		ISE went well and early indications are that we grew show leads materially. EMEA engage schedule is close to being finalized.
		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		New support dashboard and product doc process have been launched. Battle sheets are finished. Account-based support model will be implemented on-time by end of Mar.
5	Invest in our people	Impliment Company wide MBO Program	Communicated MBO program; developed Q1 dept objectives aligned with Corp objectives	Dan		Complete
		Hire VP of HR	Executive hired by 3/31	Rob		Several candidates interviewed by Rob. Hire date anticipated in April.
		Implement Q1 OKR Program - depart only	Depart level OKRs created and communicated	Dan		Complete
6	Improve business intelligence reporting	Develop Recurring Revenue Reporting	Monthly rolling recurring revenue report created	Dan		RSM developing Contract Management Module functionality. Mersive preparing SF data for upload.
		Implement Contract Management in NetSuite	Contract management module live in NetSuite	Dan		Expected go live is now April due to customer development requirements necessary to meet Mersive functional requirements.
		Develop key operating metrics report - P vs A	Create/report weekly budget related ops metrics	Dan		On hold pending RSM developing functionality it Netsuite. Departure of Controller has set us back.

Big Wins, Key Deals and Losses

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Upcoming Key Deals

- **QBE** – Pilot went well. Waiting on final decision. 500+ rooms
- **Accenture** – Pilot ongoing. Negotiating agreement in parallel
- **General Dynamics** – HQ deployment. 100 rooms HQ in Q1/Q2
- **FDIC** – evaluation for 100+ rooms – Q2 '19
- **Expedia HQ** – Evaluation for inclusion for new HQ – met at ISE
- **P&G –** Final decision in late March
- **CIBC** – 1,200+ rooms over 3 years in Canada – tender out
- **Altria** – 150 room potential for new building – Q2
- **MLB** – 150 units in NY HQ – Q2
- **Stanford Main Campus** – 100 units toward standardization
- **TJX** – came back to Solstice after selecting Cisco
- **Phoenix Union** – dumped Unite. Bidding on 1,700 rooms
- **CBRE** – 500 room potential in Q2 – require vlan tagging
- **Comcast** - $155K maintenance renewal + 70 Rooms
- **McDermott** – 200 rooms in Q2
- **Northern Trust** – 300+ rooms by Q3

Key Losses/Delays

- **Microsoft - on hold until Miracast fixed**
- **Puget Sound Energy – sticking with Crestron**
- **JustCo - WeWork competitor in SE Asia – Polycom house**

Big Wins

- WeWork - $294K
- Pioneer Natural Res - $163K
- Mercy Health - $115K
- Charter (M/S) - $106K
- Cushman/Wakefield M/S - $94K
- Stevens Institute - $64K

- Georgia Pacific - $61K
- U of Texas Medical - - $58K
- NYU - $57K
- Mastercard M/S - $54K
- Northwestern U - $52K
- Boss Design Group - $50K

Product Sales Metrics

Invoiced Sales & Bookings
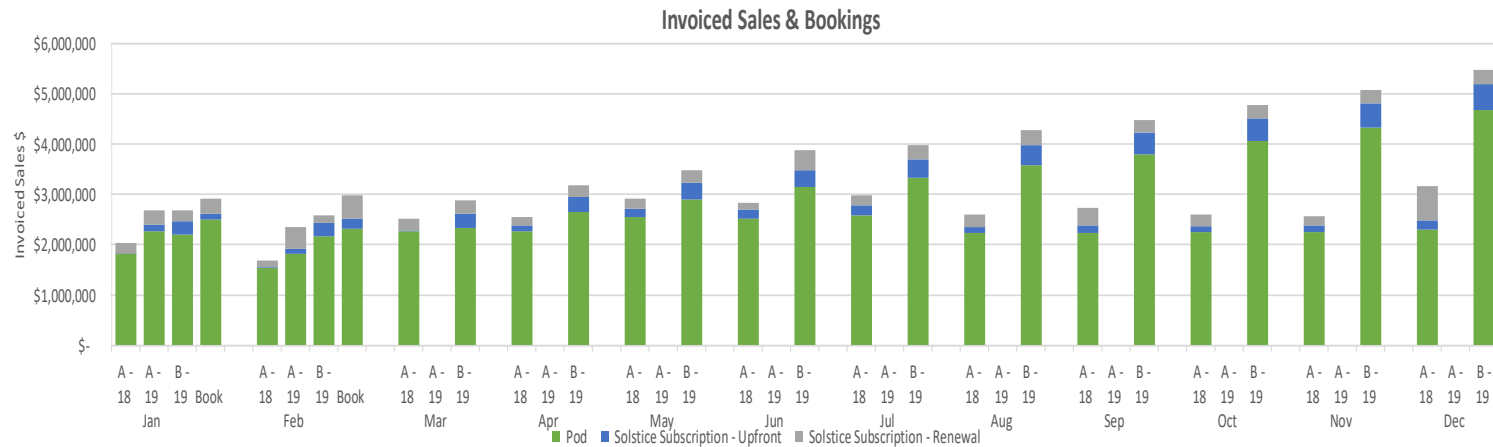
- Graph shows monthly comparatives for invoiced sales and bookings of '18 Actual, '19 Actual, '19 Budget, Bookings actual for Jan & Feb. Future months show '18 Actual and '19 Budget
- Overall invoiced sales in '18 slightly below budgeted invoiced sales; however, bookings exceed invoiced sales resulting in $800K of backlog, primarily due to Gen3.
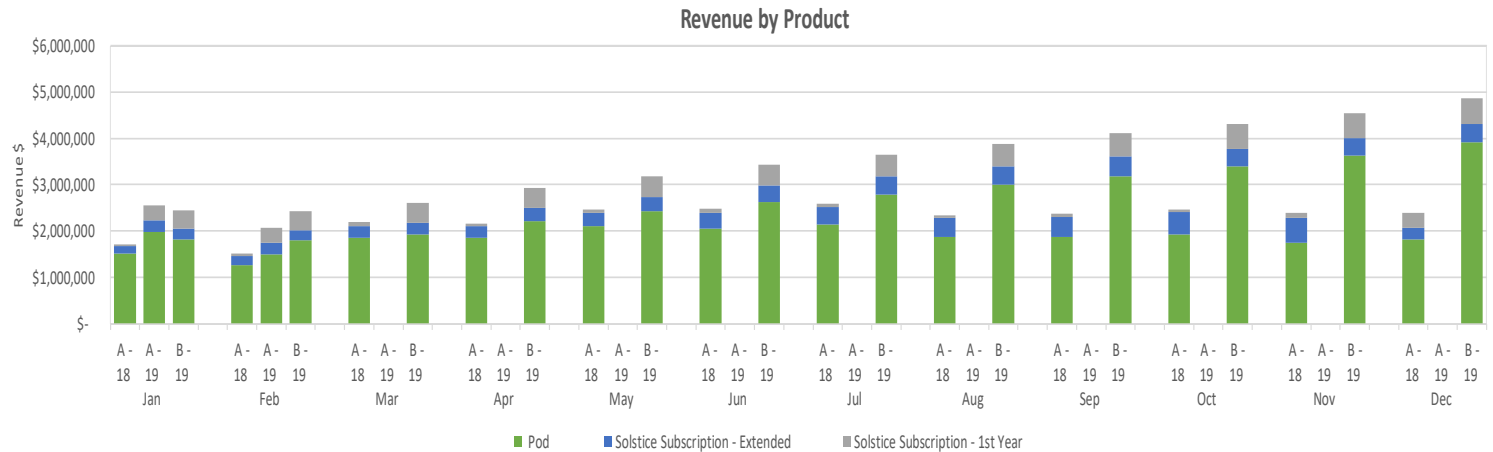
Revenue by Product

- Graph shows revenue comparatives by product type of '18 Actual, '19 Actual & '19 Budget.
- Revenue in Feb. is below budget primarily because invoice sales were below budget related to delayed of shipping Gen3 product and resulting backlog.

Pod Sales Metrics
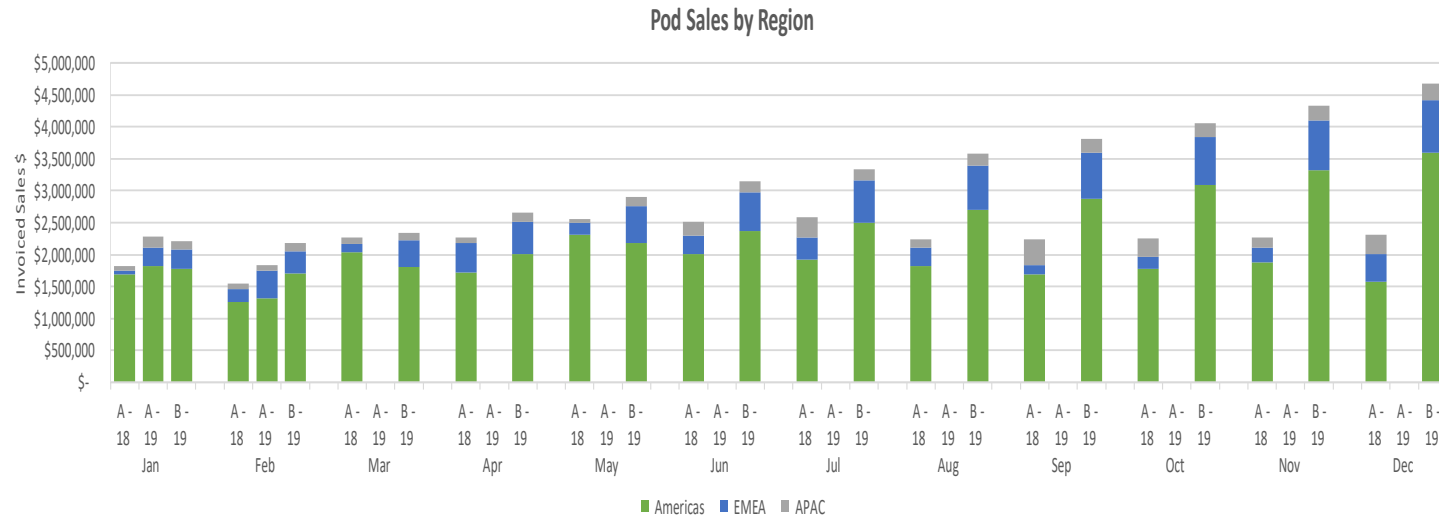
Pod Sales by Region

- Graph shows pod invoiced sales only by region comparing Americas, EMEA and APAC comparatives for '18 Actual, '19 Actual & '19 Budget.
- Pod unit sales were higher in EMEA and represented a greater portion of mix between regions. APAC unit sales were lower than planned and the ASP per unit was slightly below plan.
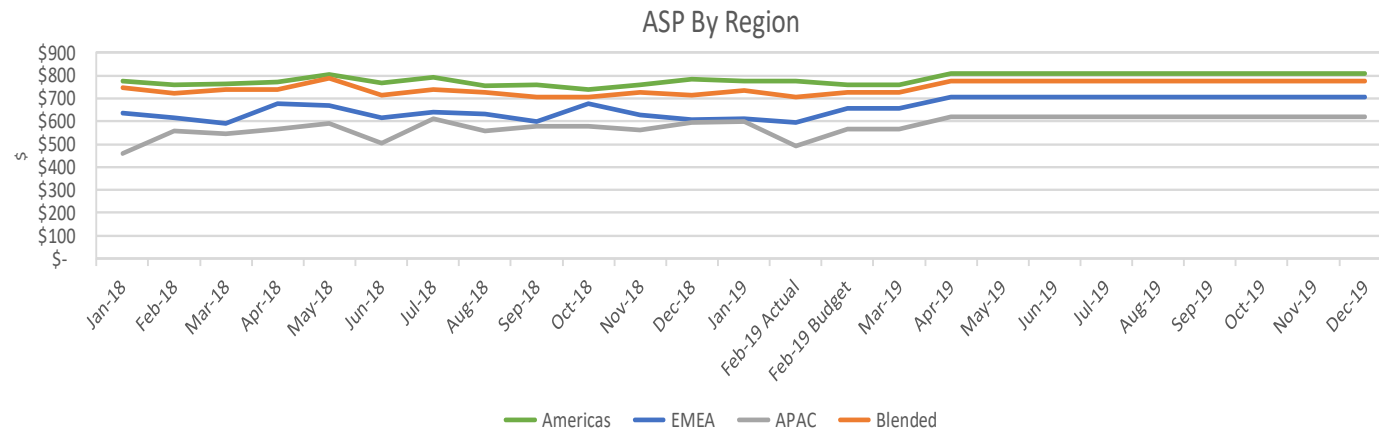
ASP By Region

- Graph shows ASP by region historically and planned for remaining 2019
- Overall ASP across all regions was $707, which is lower than plan of $729 due to a higher mix of pod sales in EMEA and APAC than anticipated. These regions have an overall lower ASP than Americas due to all sales are through distributor channel. APAC ASP was 14% below plan.

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Solstice Subscription Metrics

Invoiced Sales - Solstice Subscription
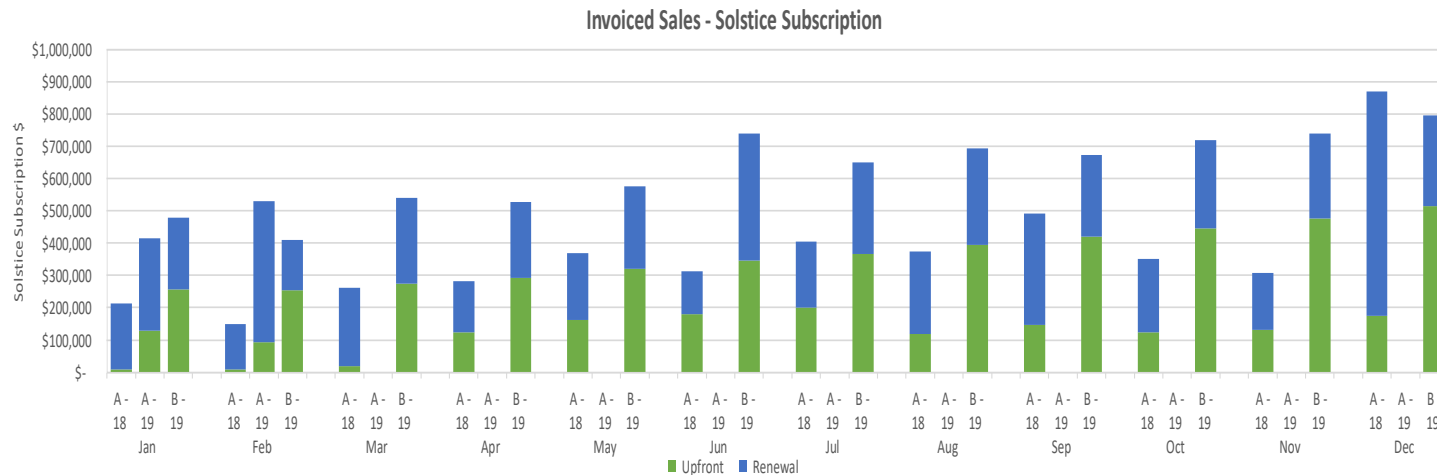
- Graph shows Invoiced Solstice subscription (AKA Maintenance) comparing Upfront versus Renewal comparatives for '18 Actual, '19 Actual and '19 Budget.
- Overall invoiced sales for subscriptions was significantly greater than budget due to renewals exceeding plan, offset by lower than expected upfront subscriptions.

Solstice Subscription Revenue
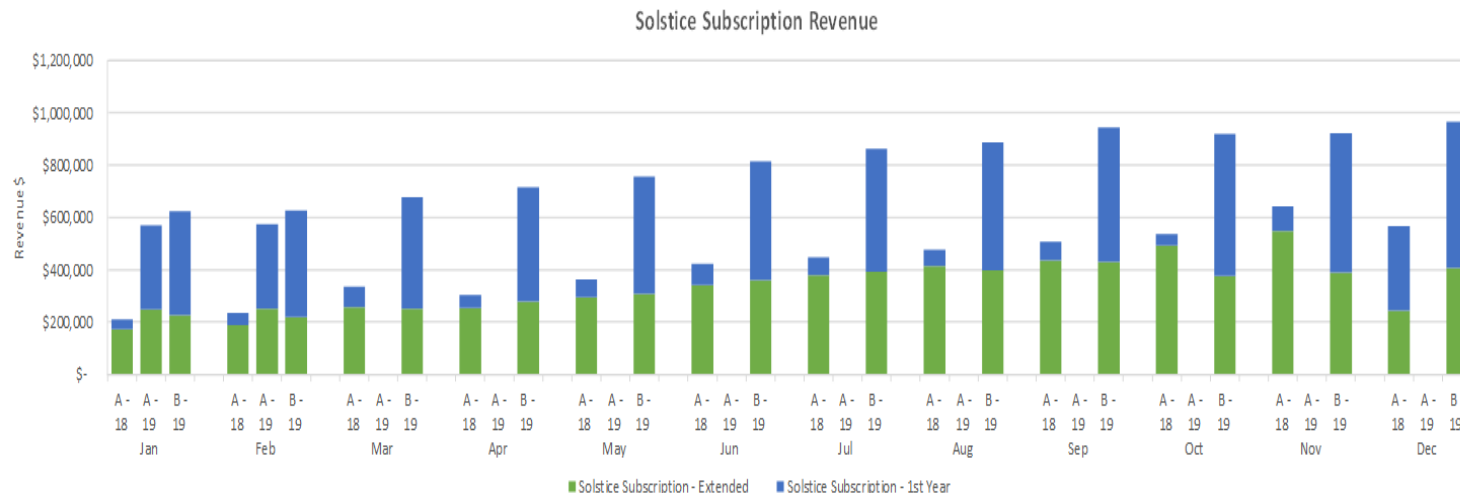
- Graph shows revenue from Solstice subscription (AKA Maintenance) comparing Upfront versus Renewal comparatives for '18 Actual, '19 Actual and '19 Budget.
- Revenue in Feb. is slightly below budget. Note there is no direct correlation between invoiced sales in a particular month and revenue. Revenue begins upon activation of pod following sell-through from distributor to end user.

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Product Type & Channel Metrics

Product Type

Sales Type
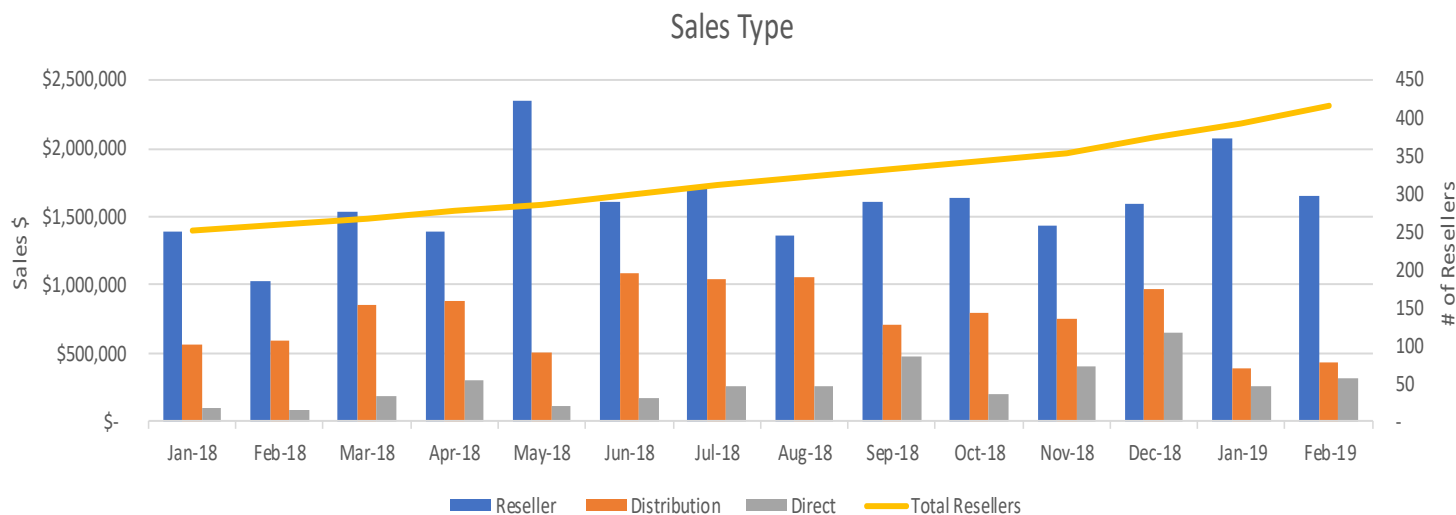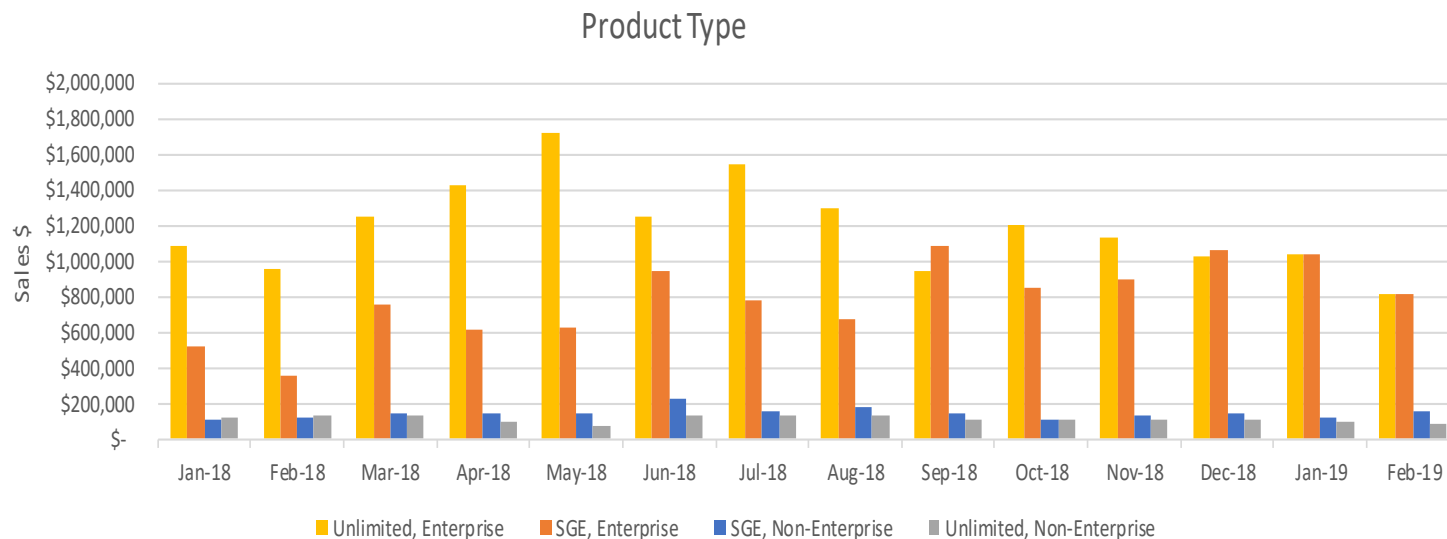
- Invoiced Sales

Customer Segment Metrics

Vertical
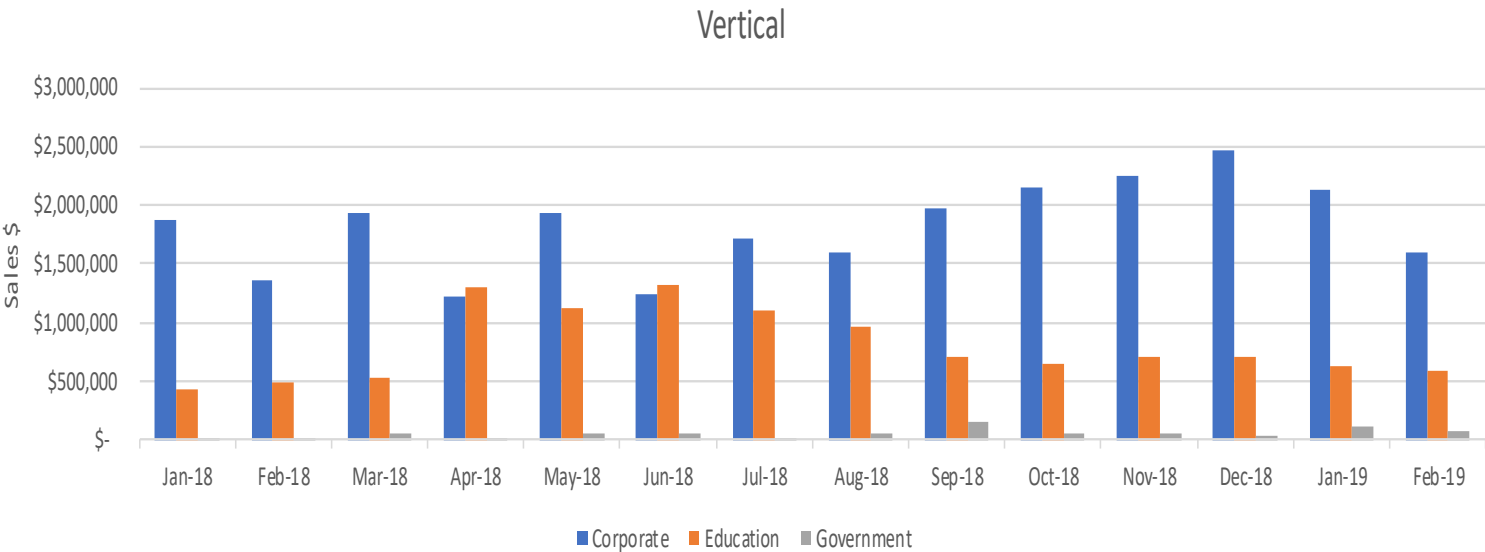
• Invoiced sales excluding stocking orders and including sales out

Big Deals and Run Rate Metrics

Big Deals vs Run Rate

✕ $25K

- Bookings excluding stocking orders and including sales out

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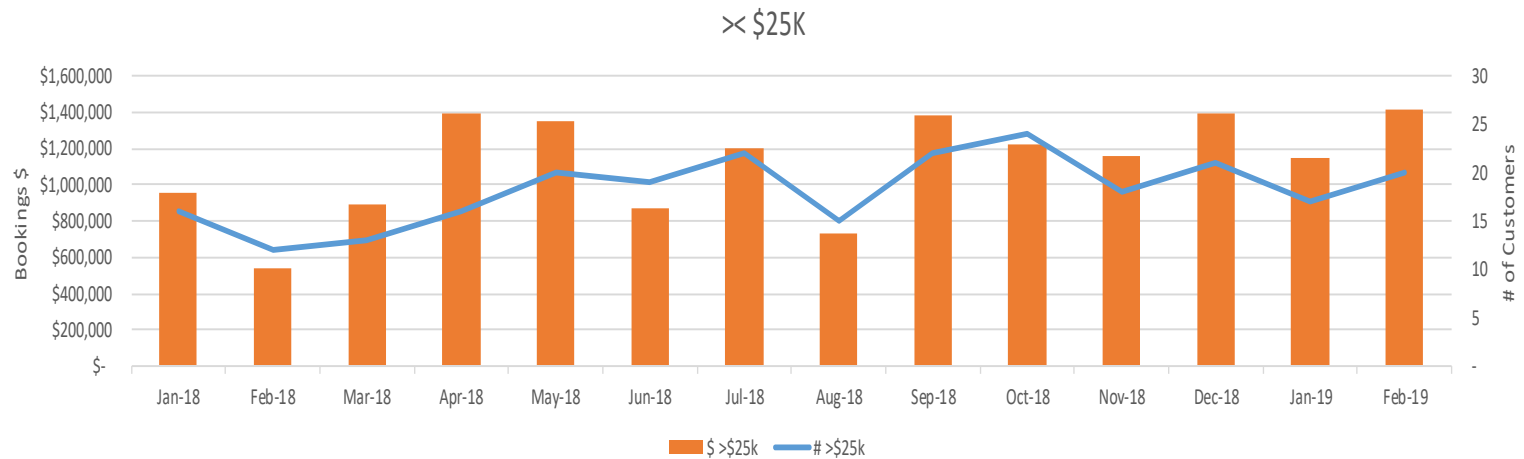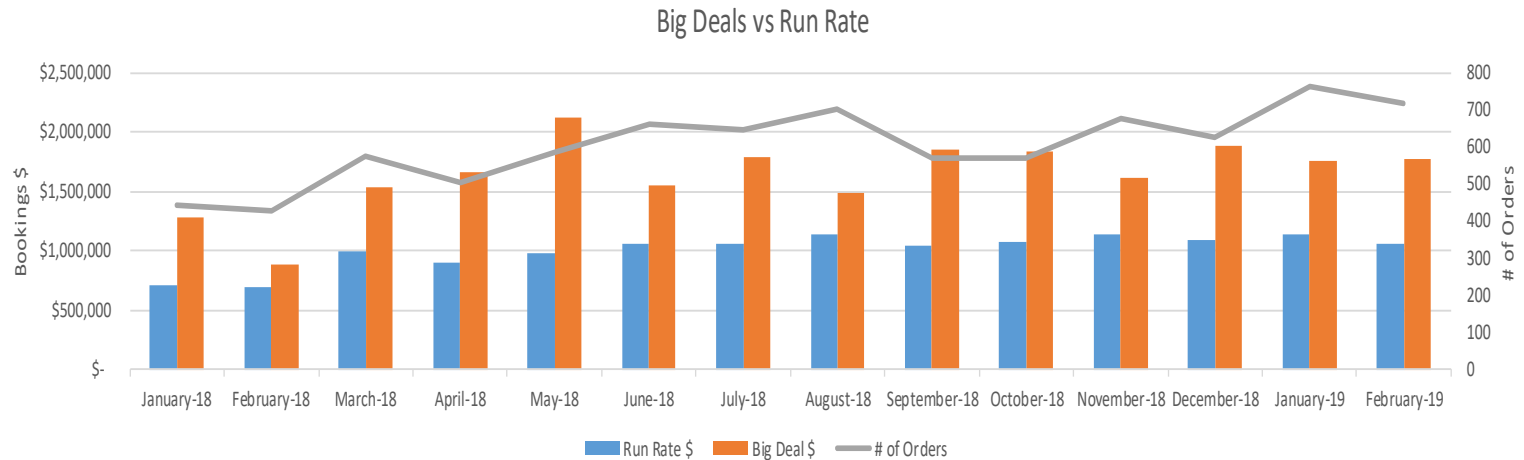
Customer Lifecycle Metrics

POC/Land/Expand
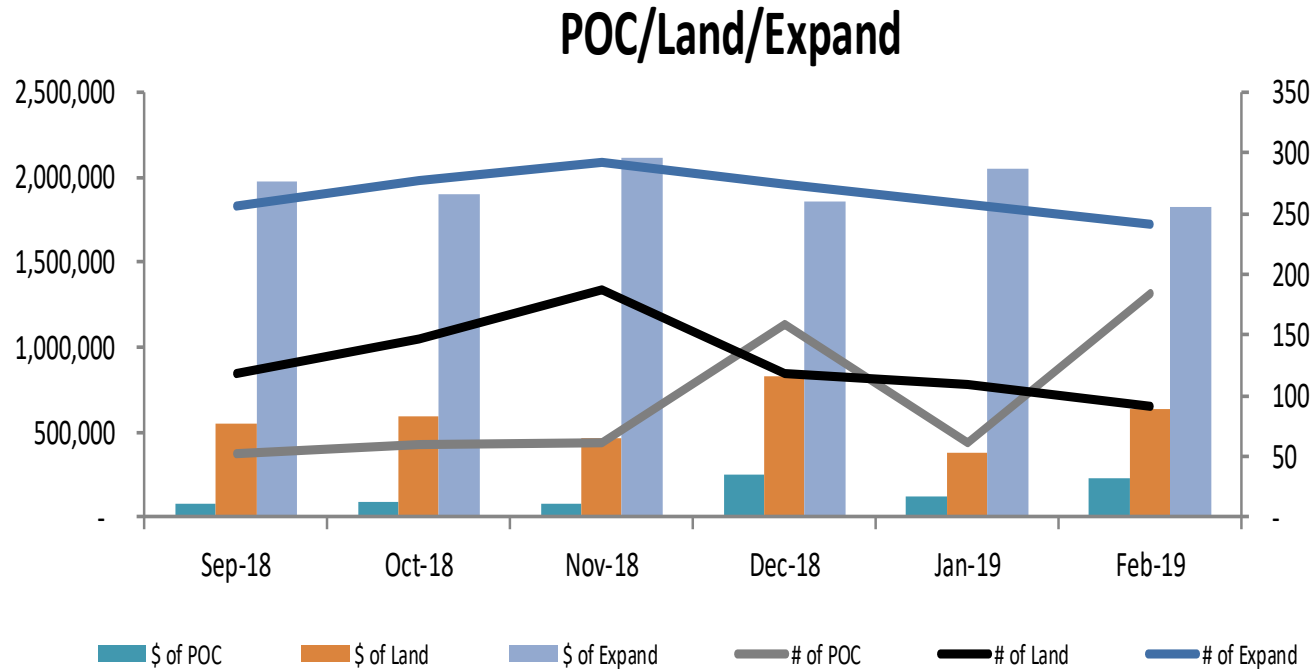
Lifecycle								
	Sep-18	**Oct-18**	**Nov-18**	**Dec-18**	**Jan-19**	**Feb-19**	**Total**	**%**
POC	78,454	98,798	82,215	248,107	118,912	226,336	852,821	5%
Land	545,622	639,324	469,375	824,995	381,964	630,944	3,492,223	22%
Expand	1,979,358	1,896,181	2,112,443	1,854,519	2,055,559	1,829,387	11,727,447	73%
Total	**2,603,434**	**2,634,303**	**2,664,032**	**2,927,621**	**2,556,435**	**2,686,667**	**16,072,491**	**100%**

Top Customer Metrics

End User	LTM Amount	% of Total
WeWork	2,614,300	8%
Comcast	749,384	2%
Nike	447,513	1%
Time Warner	446,429	1%
Penn State University	396,105	1%
Charter Communications	394,038	1%
University of Illinois at Urbana-Champaign	360,611	1%
The University of Manchester	308,139	1%
Kiewit Corporation	278,120	1%
Astra Zeneca	263,543	1%
Other Customers	27,037,472	81%
Total	**33,295,654**	**100%**

End User	Feb Amount	% of Total
WeWork	294,429	10%
Pioneer Natural Resources	163,978	6%
Mercy Health	115,349	4%
Charter Communications	106,869	4%
Cushman & Wakefield	94,807	3%
Stevens Institute of Technology	63,981	2%
Georgia-Pacific	60,708	2%
University of Texas Medical Branch	58,520	2%
New York University	57,878	2%
Mastercard	53,669	2%
Other Customers	1,751,713	62%
Total	**2,821,901**	**100%**

Solstice Subscription – Attach Rate

Upfront

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	LTM 2019
Total Upfront Units Sold	76	142	203	616	873	954	848	597	801	853	648	682	549	355	8,197
Total Unit Sales	2,281	1,865	2,945	2,970	3,425	3,034	3,151	2,934	3,142	3,677	3,374	3,297	3,096	2,592	41,783
Upfront Rate	**3%**	**8%**	**7%**	**21%**	**25%**	**31%**	**27%**	**20%**	**25%**	**23%**	**19%**	**21%**	**18%**	**14%**	**20%**

Renewal

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Pods w/ Paid solstice subscription	6,485	6,756	6,992	7,411	8,072	8,628	9,852	9,125	10,319	11,588	12,734	16,809	17,027	18,813
Total Pods, post-free solstice subscription	12,088	12,764	13,593	14,551	16,009	17,814	19,060	20,733	22,409	28,731	30,182	32,633	33,847	38,356
Renewal Rate	**54%**	**53%**	**51%**	**51%**	**50%**	**48%**	**52%**	**44%**	**46%**	**40%**	**42%**	**52%**	**50%**	**49%**

Management Discussion

- Upfront attach rate decreased in January to 14% below the LTM average of 21%
- Renewal rate remained flat during Feb-19 at 49% above with the LTM average of 48%

Bookings Attribution Analysis
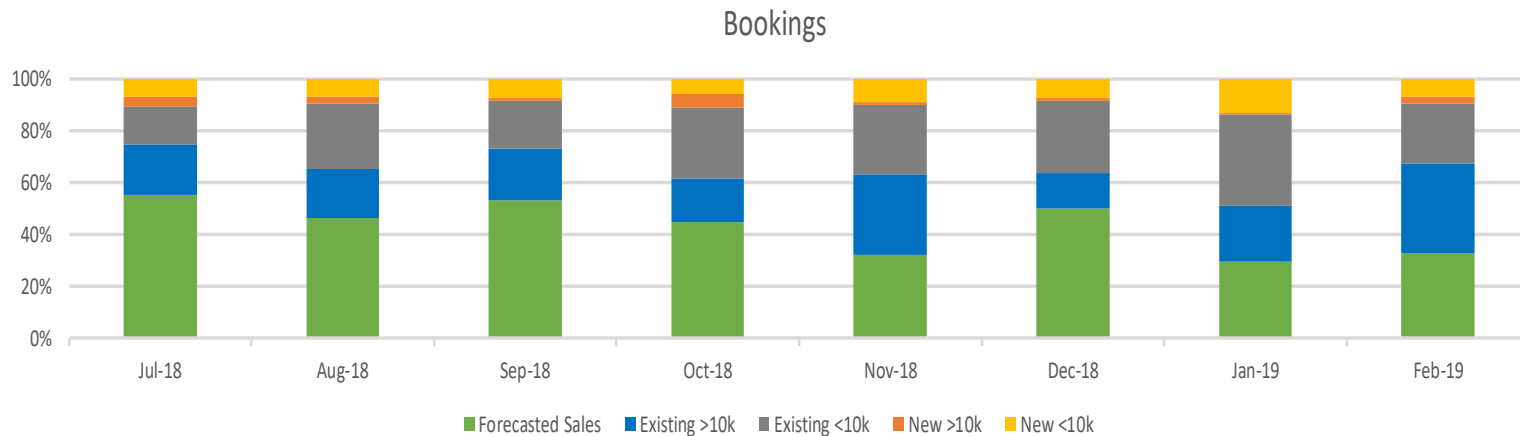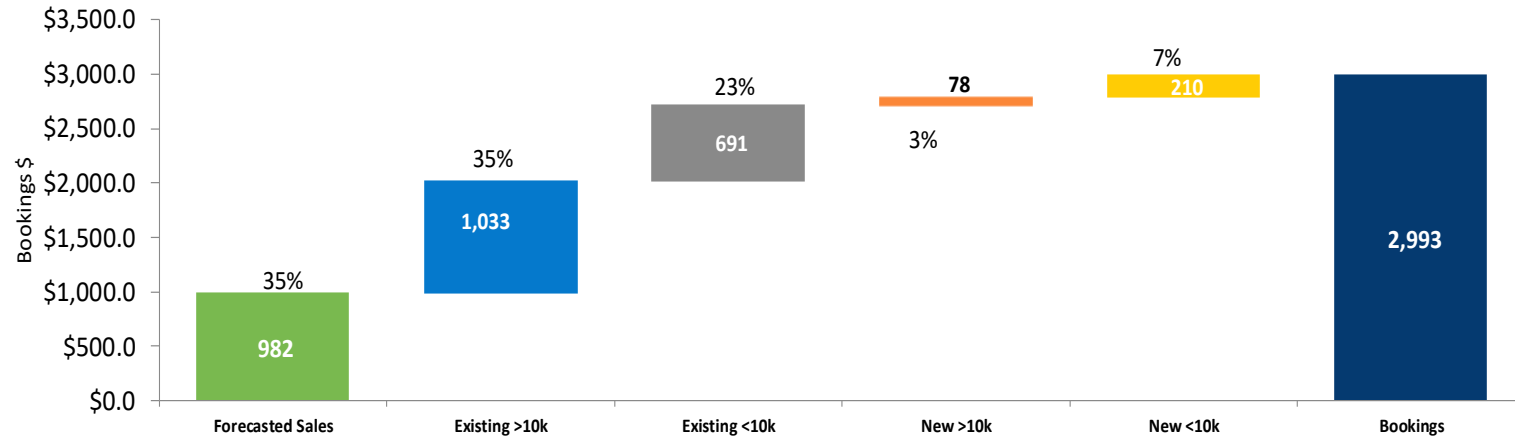
Management Discussion

- 35% of total bookings for the month were included in forecasted sales by the sales team for the month of February.
- Another 35% of bookings were from orders over $10K from existing customers but were not included in forecasted sales for the month.
- 23% of bookings were from orders under $10K from existing customers and which are not part of forecast.
- Remaining 10% of bookings were from new customers and not included in forecasted sales for the month.

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Marketing Metrics

Sessions (Web Traffic)
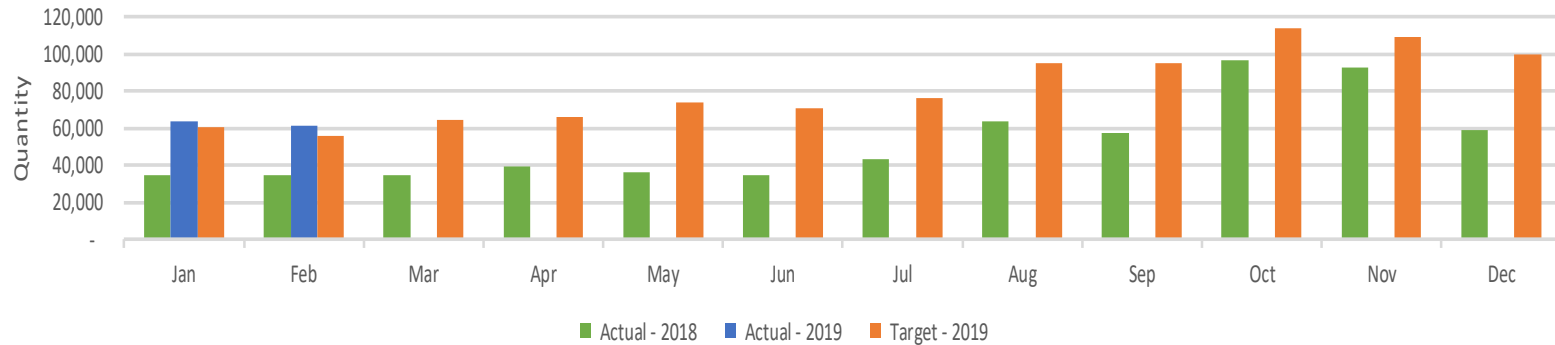
Marketing Qualified Leads (MQLs)
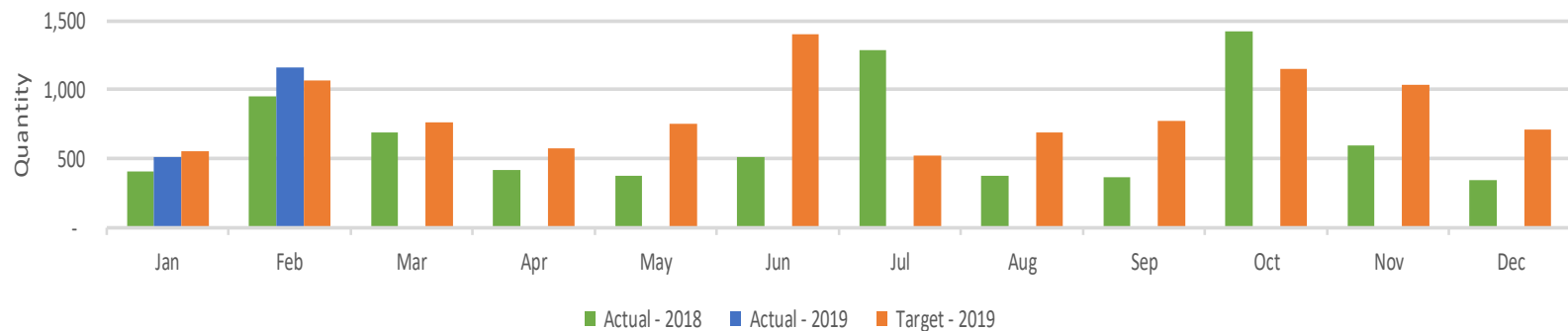
Management Discussion

- MQLs are defined by a HubSpot Score greater or equal to 75
- Web traffic is slightly ahead of plan on a YTD basis mainly due to strong performance in organic search
- MQLs are slightly ahead of plan on a YTD basis due to web traffic performance and strong ISE lead generation
- MQL conversion rates on the whole are nearly on plan with particular strength in Direct Traffic and improvement needed in SEO

New Customer Metrics

Monthly New vs. Existing Customers

Legend: New Customers - $ | Existing Customers - $ | New Customers - # | Existing Customers - #

Marketing Attributed New Accounts

Legend: Actual - 2018 | Actual - 2019 | Target - 2019
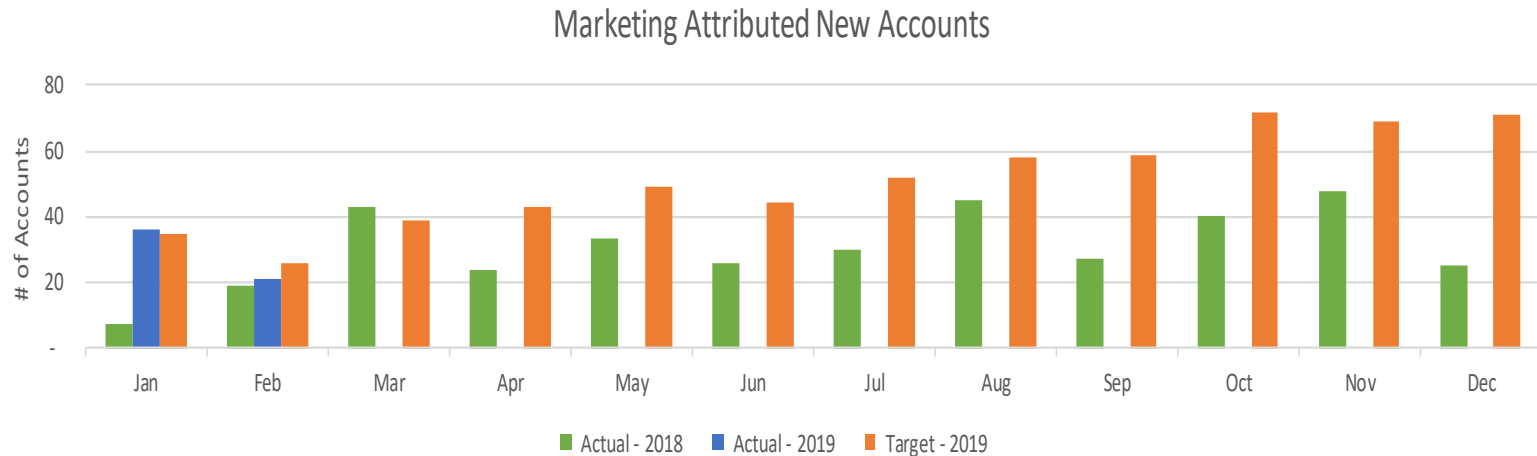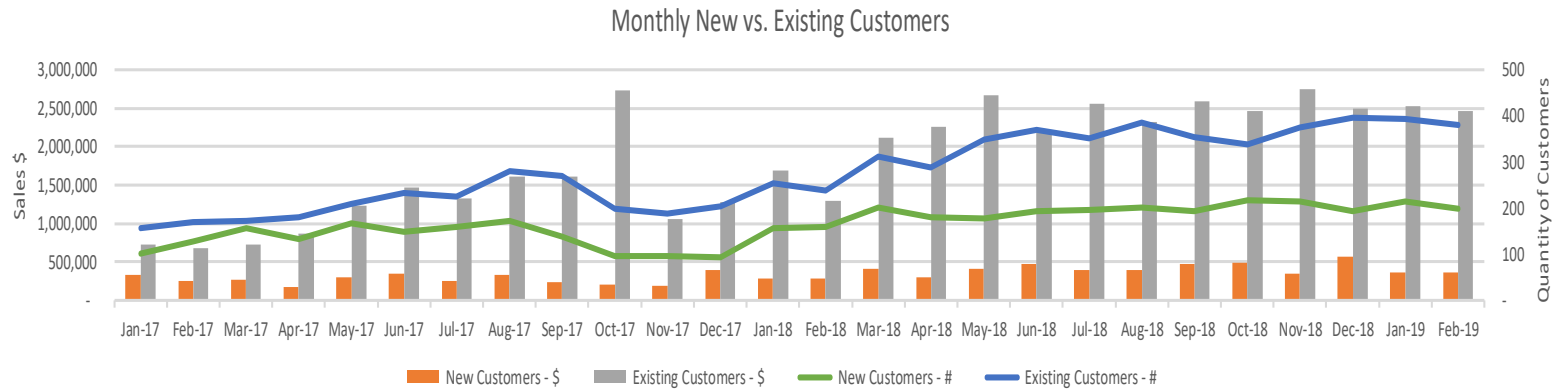
- Net new accounts have been growing steadily over time with marketing attribution at 14% of NN accounts (367) in 2018
- YTD, marketing-attributed NN accounts is at 93% of plan / 119% YOY growth due to lower than expected close rate on SEO-sourced MQLs
- Reasons for overall decreases in Feb are partly due to seasonality and partly due to decreased traffic and ad spend in Dec
- New and Existing Customers are calculated as bookings excluding stocking orders and including sales out

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Marketing Spend

Digital Ad Spend

Spend $

80,000
60,000
40,000
20,000
-

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

■ Actual - 2018   ■ Target - 2019   ■ Actual - 2019

Field Marketing Spend

250,000
200,000
150,000
100,000
50,000
-

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

■ Actual - 2018   ■ Target - 2019   ■ Actual - 2019
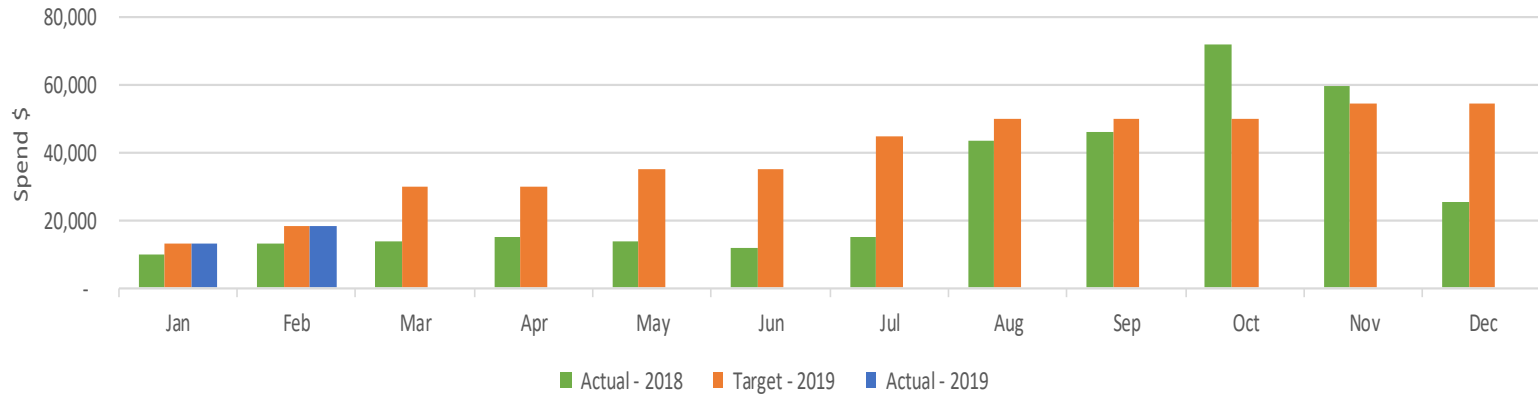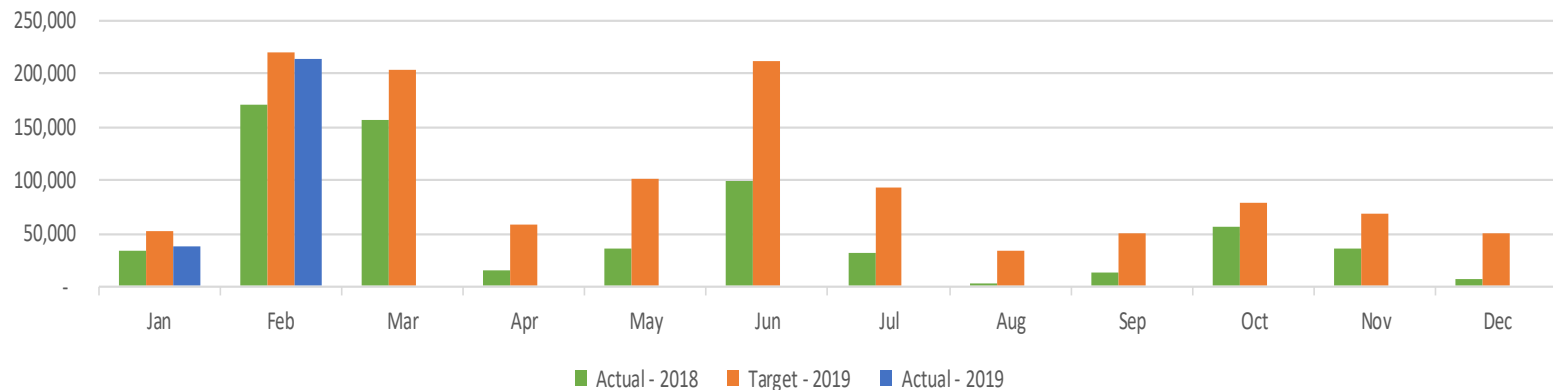
Management Discussion

- Digital ad spend was slowed to start the year while we added international websites and account-based-marketing
- Spike in field marketing spend in Feb is due to ISE

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Staffing Analysis

Headcount by Department

Management Discussion

- Staffing is generally on plan through February 2019.

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Requisitions Status

Total Reqs: 52	
Open Reqs: 23	
Inactive Reqs: 4	
Filled Reqs: 25	
Fill Rate: 52.1%	

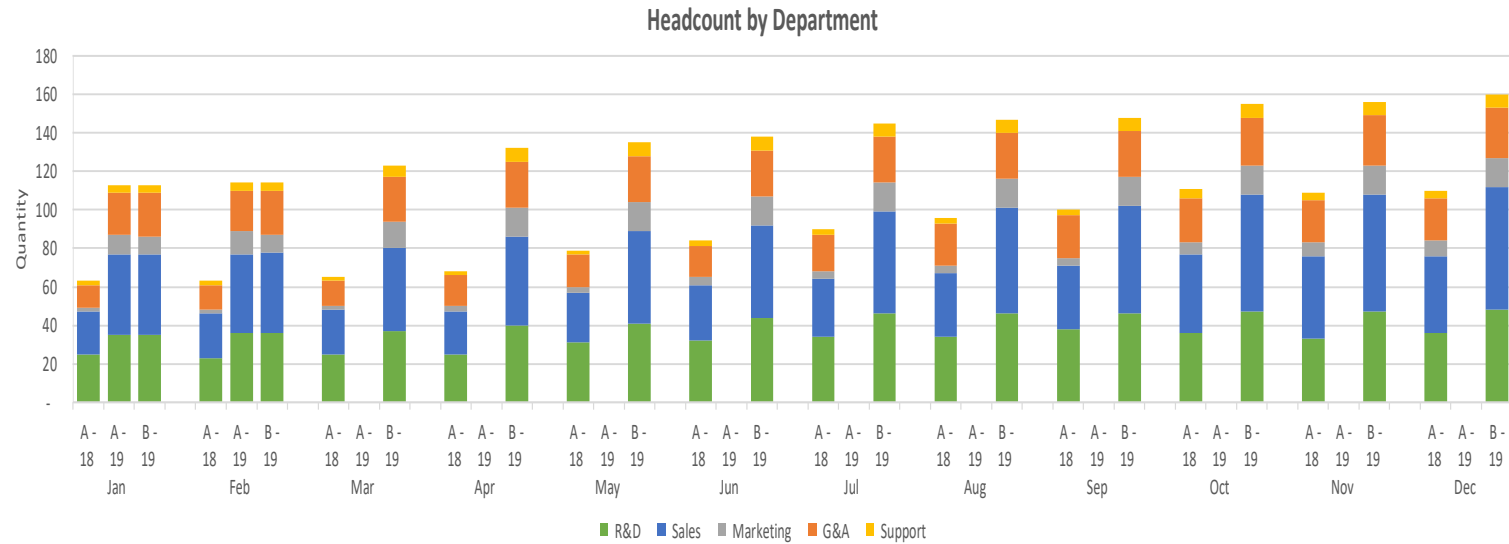| Department	Not active	Sourcing Resumes	Phone Screen	In Person Interview	Offer Sent	Offer Accepted	Hired	Candidate Name/DOH	Status
Engineering	SDET (Replacement)								Hold
	Agile Coach (Replacement)								Hold
	Dev Ops								Hold
		Sr. Software Engineer C++/Network Engineer Expert							Sourcing
			Sr. Frontend Engineer (Replacement)						Interviewing
			Sr. QA Engineer						Interviewing
			Sr. Product Manager (Replacement)						Interviewing
				Sr. Software Engineer C++/Architect (VTC)					Interviewing
				Sr. Product Manager (Replacement)					Interviewing
					UX Designer				Interviewing
							Full Stack/Back End (Enterprise)	Mathew Norby (DOH 1/7/19)	Filled
							Sr. Product Manager	Greg Newman (DOH 1/14/19)	Filled
							Fullstack/Frontend Engineer (Replacement)	Tim Arsenault (DOH 1/28/19)	Filled
							Sr. Software Engineer Android OS (Replacement)	Steven Tang (DOH 2/11/19)	Filled
							Fullstack/Frontend Engineer (Replacement)	Spencer Brigham (DOH 2/18/19)	Filled
							Software Engineer (QT/QML Front End)	David Ward (DOH 3/4/19)	Filled
							VP, Engineering	Tae Kim (DOH 3/11/19)	Filled
							Sr. Software Engineer (Rust)	Cayle Stickler (DOH 3/25/19)	Filled
Sales		RSD - Mid Atlantic (Replacement)							Interviewing
		Channel Sales Mgr- Southeast (Replacement)							Interviewing
		Sales Ops Coordinator (Replacement)							Interviewing
			RSD - Netherlands						Interviewing
			RSD - Australia						Interviewing
			Channel Sales Mgr - UK						Interviewing
			Business Development Director						Interviewing
			Sales Operations Director						Interviewing
				SE - Germany					Interviewing
				Customer Technical Support - EMEA					Interviewing
				Regional TS Mgr - APAC (Replacement)					Interviewing
							RSD - Germany	Rosario Marseglia (DOH 1/1/19)	Filled
							Channel Manager - Outside (Atlanta)	Bruno Pasquali (DOH 1/2/19)	Filled
							Outbound Inside Sales Rep (Denver)	Megan Paul (DOH 1/21/19)	Filled
							SE - MEA	Ramez Alam (DOH 1/7/19)	Filled
							Inside Sales Rep - EMEA	Simone Oberti (DOH 2/1/19)	Filled
							SE - Rocky Mountain Region	Steve Whitehurst (DOH 3/4/19)	Filled
							RSD - China	Jeff Liu (DOH 4/1/19)	Filled
							SE - France (Replacement)	Laurent Garcia (DOH 4/1/19)	Filled
Marketing	Content Marketing Manager								Hold
			Support Engineer III						Interviewing
			Customer Success Manager/Director						Interviewing
				Support Engineer I (Replacement)					Interviewing
							Media Specialist	Trevor Peach (DOH 1/1/19)	Filled
							Field Marketing Manager	Helena Schliefman (DOH 1/14/19)	Filled
							Product Marketing Manager	Kimberly Ronsse (DOH 1/17/19)	Filled
							Digital Marketing Manager	Graeme Rothe (DOH 2/4/19)	Filled
							Marketing Manager - Email (Replacement)	Trevor Rawls (DOH 2/20/19)	Filled
							Graphic Designer (Temp To Hire)	Amber Rich (Start Date 3/7/19)	Filled
							Support Engineer II	Kevin Webb (DOH 3/25/19)	Filled
G&A			Operations Coordinator (Replacement)						Interviewing
				VP, HR					Interviewing
							Staff Accountant	Ani Moore (DOH 2/19/19)	Filled
							Jr. Systems Administrator	Sam Lunny (DOH 3/11/19)	Filled

Monthly Operating Review Meeting Agenda

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Summary P&L

$'000	MTD Act	MTD Bud	Variance $	Variance %	PY MTD Act	Variance $	Variance %	YTD Act	YTD Bud	Var $	Var %	PY YTD Act	Variance $	Variance %
Gross Revenue	$ 2,076	$ 2,425	$ (349)	(14.4%)	$ 1,516	$ 560	36.9%	$ 4,630	$ 4,875	$ (245)	(5.0%)	$ 3,243	$ 1,388	42.8%
Discounts	(10)	–	(10)	N/A	(6)	(5)	78.1%	(11)	–	(11)	N/A	(12)	2	(12.8%)
Net Revenue	2,065	2,425	(360)	(14.8%)	1,510	555	36.7%	4,620	4,875	(255)	(5.2%)	3,230	1,389	43.0%
Material	368	433	(65)	(15.0%)	317	51	16.1%	845	871	(26)	(3.0%)	642	203	31.6%
Labor	47	49	(2)	(3.9%)	31	16	51.5%	100	98	2	2.4%	75	25	32.5%
Total COGS	415	482	(67)	(13.9%)	348	67	19.3%	945	969	(24)	(2.5%)	717	227	31.7%
Gross Margin	1,650	1,943	(293)	(15.1%)	1,162	488	42.0%	3,675	3,907	(231)	(5.9%)	2,513	1,162	46.2%
Gross Margin %	*79.9%*	*80.1%*			*77.0%*			*79.6%*	*80.1%*			*77.8%*		
R&D	504	497	7	1.5%	308	197	63.9%	903	983	(79)	(8.1%)	597	306	51.2%
Sales & Marketing	1,057	1,067	(10)	(1.0%)	561	496	88.3%	2,048	1,990	58	2.9%	1,023	1,026	100.3%
Administrative	565	617	(52)	(8.4%)	233	332	142.5%	1,116	1,251	(135)	(10.8%)	459	657	143.2%
Total Opex	2,126	2,181	(55)	(2.5%)	1,102	1,024	92.9%	4,068	4,224	(156)	(3.7%)	2,079	1,989	95.6%
EBITDA	(476)	(238)	(238)	100.0%	60	(536)	(890.5%)	(393)	(317)	(75)	23.7%	434	(827)	(190.4%)
EBITDA %	*(23.1%)*	*(9.8%)*			*4.0%*			*(8.5%)*	*(6.5%)*			*13.4%*		
Net Income (Loss)	$ (883)	$ (653)	$ (230)	35.1%	$ (350)	$ (533)	152.4%	$ (1,182)	$ (1,147)	$ (35)	3.0%	$ (254)	$ (928)	366.1%
Capex	$ (18)	$ (5)	$ (13)	256.6%	$ (3)	$ (15)	533.4%	$ (136)	$ (52)	$ (84)	160.1%	$ (17)	$ (119)	722.8%

Management Discussion

- Invoiced sales were $2.4m compared to target of $2.6m, including $531k of solstice subscription invoice sales recorded. Bookings were $3m, resulting in backlog of $141k related to Gen 2i pods and $666k of Gen 3 pods at month end.

- Revenue of $2.1m includes approximately $1.5m of pod revenue and $573k of deferred software support revenue from prior months amortized into net revenue. Pod revenue of $1.5M is 17% below budget of $1.8M with the shortfall to budget due to Gen 3 pod backlog.

- Pods sold for the month were 2,592 vs target of 2,990. Pod ASP across all regions was $707, which is lower than budgeted ASP of $729. Overall ASP variance to budget largely driven by Geographical mix, with higher mix of unit sales to EMEA than plan but at a lower ASP per unit to plan as well as compared to ASP for Americas. Unit sales to APAC were 16% below plan and ASP per unit for APAC was 14% below plan.

- Renewal support licenses sold were 3,119 compared to target of 1,074 resulting in invoiced sales of $439K compared to budget of $156K.

- Upfront support licenses sold were 355 compared to target of 1,133 resulting in invoiced sales of $92K compared to budget of $255K. Upfront attached rate was 14% compared to a budgeted 40%.

- Gross Margin % and OpEx both in line with expectations. YTD OpEx remains below budget.

- EBITDA, while below target due to Gen 3 backlog, would be positive on a normalized basis had Gen 3 shipped.

- Capex was higher than expected due to timing of furniture and computer additions relative to budgeted dollars.

Balance Sheet

$'000	Dec-18 Act	Nov-18 Act	Dec-18 Act	Jan-19 Act	Feb-19 Act	Feb-19 Bud	Variance $
Current Assets							
Cash and cash equivalents	$ 5,777	$ 6,509	$ 5,777	$ 6,447	$ 5,686	$ 4,272	$ 1,414
Short term investments	–	–	–	–	–	–	–
Accounts receivable, gross	5,113	4,183	5,113	4,513	3,949	4,761	(812)
Accounts receivable, reserves	(134)	(37)	(134)	(134)	(127)	(48)	(79)
Accounts receivable, net	4,979	4,146	4,979	4,378	3,822	4,713	(891)
Inventory, net	1,444	1,788	1,444	1,637	2,298	2,173	125
Prepaid expenses and other current assets	1,840	1,195	1,840	2,431	2,179	1,510	669
Total Current Assets	**14,041**	**13,638**	**14,041**	**14,893**	**13,985**	**12,668**	**1,317**
Non-Current Assets							
Property, plant & equipment, gross	911	861	911	1,029	1,047	963	84
Accumulated depreciation	(216)	(205)	(216)	(187)	(212)	(36)	(176)
Property, plant & equipment, net	695	656	695	842	835	927	(92)
Goodwill	20,675	20,675	20,675	20,675	20,675	20,675	(0)
Identifiable intangible assets, net	6,711	6,956	6,711	6,440	6,174	5,941	233
Deferred tax asset	6,488	6,488	6,488	6,488	6,488	6,647	(159)
Other non-current assets	14	14	14	14	80	75	5
Total Non-Current Assets	**34,583**	**34,789**	**34,583**	**34,459**	**34,251**	**34,265**	**(14)**
Total Assets	**$ 48,624**	**$ 48,427**	**$ 48,624**	**$ 49,352**	**$ 48,235**	**$ 46,933**	**$ 1,302**
Current Liabilities							
Notes payable	3,500	3,500	3,500	3,500	3,500	3,500	–
Accounts payable	721	281	721	1,457	1,715	476	1,238
Accrued liabilities	354	259	354	511	437	191	246
Accrued compensation	1,987	1,725	1,987	1,902	1,157	2,118	(961)
Income taxes payable	694	1,754	694	694	694	–	694
Other current liabilities	232	92	232	269	333	255	77
Total Current Liabilities	**7,488**	**7,612**	**7,488**	**8,333**	**7,835**	**6,541**	**1,294**
Long-term liabilities							
Long-term unearned revenue	5,606	4,849	5,606	5,791	6,055	7,318	(1,263)
Deferred liabilities	154	154	154	154	154	122	32
Total Long-Term Liabilities	**5,760**	**5,003**	**5,760**	**5,945**	**6,209**	**7,441**	**(1,232)**
Total Liabilities	**13,248**	**12,615**	**13,248**	**14,278**	**14,044**	**13,981**	**63**
Shareholders' Equity							
Total Shareholders' Equity	**35,376**	**35,812**	**35,376**	**35,074**	**34,192**	**32,952**	**1,240**
Total Liabilities and Shareholders' Equity	**$ 48,624**	**$ 48,427**	**$ 48,624**	**$ 49,352**	**$ 48,235**	**$ 46,933**	**$ 1,302**

Management Discussion

- Cash continues to be over budget even with early payout of 80% of MIPs bonus in Feb based on 2018 financial results. We originally budgeted payout of MIPs in May 2019 following the audit.

- AR is below budget due to below budget invoiced sales and significantly improved AR collections in our 60 day category.

- Inventory balances are above budget due to not shipping Gen 3 pods.

- Prepaid and OCA balances are higher than budget primarily due to receivable from landlord for TI, trade show prepaids, and deferred commission expense. Also include in Prepaids are appr. $900K of prepayment to Inforce for Gen3 product that will be applied to invoices in March.

- Increase in payables driven by a significant increase in inventory payables due to recent shipments of Gen3 product. We will apply prepayments to Inforce invoices in March.

- Accrued Compensation is below budget due to paying 80% of MIPs during February.

- Income taxes payable was larger than expected due to taking a conservative approach with tax liabilities related to taxable income associated with invoiced solstice subscription in 2018. The liability will likely decrease significantly as we complete our corporate tax returns in March. We do not anticipate further tax liabilities in Q1-19 based on operating results.

- Deferred revenue remains below budget primarily due to a change in deferred revenue assumptions related to ASC 606 revenue recognition. As previously stated, we are not revising the budget for deferred revenue until completion of the audit to assure we have proper FMV allocations under 606 as recently computed for 2018 & 2019.

Cash Flow Statement

$'000	MTD Act	MTD Bud	Var $	PY-MTD Act	Var $	YTD Act	YTD Bud	Var $	PY YTD Act	Var $
Cash flow from operations										
Net Income (Loss)	$ (883)	$ (653)	$ (230)	$ (350)	$ (533)	$ (1,182)	$ (1,147)	$ (35)	$ (254)	$ (928)
Depreciation, amortization and other	301	281	20	278	23	601	562	40	556	45
Deferred income tax	–	–	–	–	–	–	(159)	159	–	–
Change in operating assets and liabilities:										
Accounts receivable	556	(30)	586	(37)	594	1,157	266	891	307	850
Inventory	(661)	(262)	(399)	40	(701)	(854)	(783)	(71)	(150)	(704)
Prepaid expenses and other current assets	252	6	246	157	95	(339)	330	(669)	109	(448)
Accounts payable	258	(26)	284	120	138	994	(178)	1,172	102	892
Accrued expenses	(819)	182	(1,002)	61	(880)	(747)	321	(1,068)	(199)	(548)
Accrued income taxes	(0)	(351)	351	–	(0)	(0)	(694)	694	–	(0)
Other changes in operating assets and liabilities	264	170	93	189	75	449	393	56	496	(47)
Other cash flow from operations	(2)	(3)	1	8	(11)	(22)	(405)	382	18	(40)
Total Cash Flow from Operations	$ (735)	$ (686)	$ (49)	$ 467	$ (1,201)	$ 57	$ (1,495)	$ 1,552	$ 986	$ (929)
Cash flow from investing										
Additions to property, plant and equipment	$ (18)	$ (5)	$ (13)	$ (3)	$ (15)	$ (136)	$ (52)	$ (84)	$ (17)	$ (119)
Investment in intangibles	(9)	–	(9)	–	(9)	(13)	42	(55)	–	(13)
Total Cash Flow from Investing	$ (27)	$ (5)	$ (22)	$ (3)	$ (24)	$ (149)	$ (10)	$ (138)	$ (17)	$ (132)
Cash flow from financing										
Total Cash Flow from Financing	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Net change in cash	$ (761)	(691)	$ (70)	$ 464	$ (1,225)	$ (92)	$ (1,505)	$ 1,414	$ 969	$ (1,061)
Beginning cash	6,447	4,963	1,484	3,055	3,392	5,777	5,777	–	2,550	3,227
Change in cash	(761)	(691)	(70)	464	(1,225)	(92)	(1,505)	1,414	969	(1,061)
Ending cash	$ 5,686	$ 4,272	$ 1,414	$ 3,519	$ 2,166	$ 5,686	$ 4,272	$ 1,414	$ 3,519	$ 2,166

Management Discussion

- Cash is $1.4M over budget due primarily to an improvement in AR collections and agings, significant increase in payables related to timing of inventory receipts and state and federal taxes.

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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

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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	$ 2,019	$ 2,173	$ (154)	$ —	$ (154)	$ —	$ —	$ (154)	$ —	$ —
Benefits	239	283	(44)	$ —	$ (44)	—	—	(44)	—	—
Bonus	272	264	8	$ —	$ 8	—	—	8	—	—
Commissions	225	194	31	—	31	—	—	31	—	—
Marketing	450	469	(19)	—	(19)	—	—	(19)	—	—
Travel and Entertainment	234	156	78	—	78	—	—	78	—	—
Rent and Facilities	193	155	37	—	37	—	—	37	—	—
Insurance	8	8	(0)	—	(0)	—	—	(0)	—	—
Professional Fees	127	122	5	—	5	—	—	5	—	—
Utl., Repair, Maint., & Sec.	59	70	(11)	—	(11)	—	—	(11)	—	—
Office Expense	106	146	(39)	—	(39)	—	—	(39)	—	—
IT	118	148	(30)	—	(30)	—	—	(30)	—	—
Other Expenses	18	34	(17)	—	(17)	—	—	(17)	—	—
Total Opex	**$ 4,068**	**$ 4,224**	**$ (156)**	$ —	$ (156)	$ —	$ —	(156)	$ —	$ —

Management Discussion

- Overall expenses are in line with target.

Operating Expenses Summary

$'000	MTD		Variance		PY MTD	Variance		YTD		Var		PY YTD	Variance	
	Act	Bud	$	%	Act	$	%	Act	Bud	$	%	Act	$	%
Opex Overview:														
Payroll	$ 1,012	$ 1,092	$ (80)	(7.3%)	$ 497	$ 515	103.5%	$ 2,019	$ 2,173	$ (154)	(7.1%)	$ 1,001	$ 1,018	101.6%
Overtime	–	–	–	N/A	–	–	N/A	–	–	–	N/A	–	–	N/A
Benefits	169	142	27	18.8%	76	93	121.4%	239	283	(44)	(15.7%)	226	13	5.9%
Bonus	124	131	(8)	(5.7%)	29	94	323.4%	272	264	8	3.2%	52	220	418.9%
Commissions	104	95	9	9.6%	80	24	30.4%	225	194	31	16.2%	165	61	36.8%
Marketing	270	309	(39)	(12.5%)	213	57	26.8%	450	469	(19)	(4.1%)	282	168	59.5%
Travel and Entertainment	146	78	67	86.4%	34	112	333.5%	234	156	78	49.6%	69	164	237.4%
Rent and Facilities	92	78	15	18.8%	47	45	95.6%	193	155	37	24.1%	89	104	117.4%
Insurance	4	4	(0)	(0.8%)	1	4	611.1%	8	8	(0)	(0.8%)	1	7	611.1%
Professional Fees	68	61	7	11.0%	29	39	131.3%	127	122	5	3.7%	49	78	157.9%
Utl., Repair, Maint., & Sec.	41	35	6	16.5%	27	14	53.6%	59	70	(11)	(16.4%)	42	16	39.0%
Office Expenses	29	64	(35)	(54.8%)	19	9	49.0%	106	146	(39)	(27.1%)	33	73	225.2%
IT	59	74	(15)	(20.1%)	31	29	93.7%	118	148	(30)	(20.2%)	31	87	280.4%
Bad Debts	–	–	–	N/A	–	–	N/A	–	–	–	N/A	(3)	3	(100.0%)
Other Expenses	8	17	(9)	(53.1%)	19	(11)	(57.4%)	18	34	(17)	(48.1%)	41	(23)	(56.5%)
Total Opex	**$ 2,126**	**$ 2,181**	**$ (55)**	**(2.5%)**	**$ 1,102**	**$ 1,024**	**92.9%**	**$ 4,068**	**$ 4,224**	**$ (156)**	**(3.7%)**	**$ 2,079**	**$ 1,989**	**95.6%**

Management Discussion

- Please see previous slide on expense analysis.

Operating Expenses Summary

OPEX by Department

Research & Development · General & Administrative · Marketing · Sales
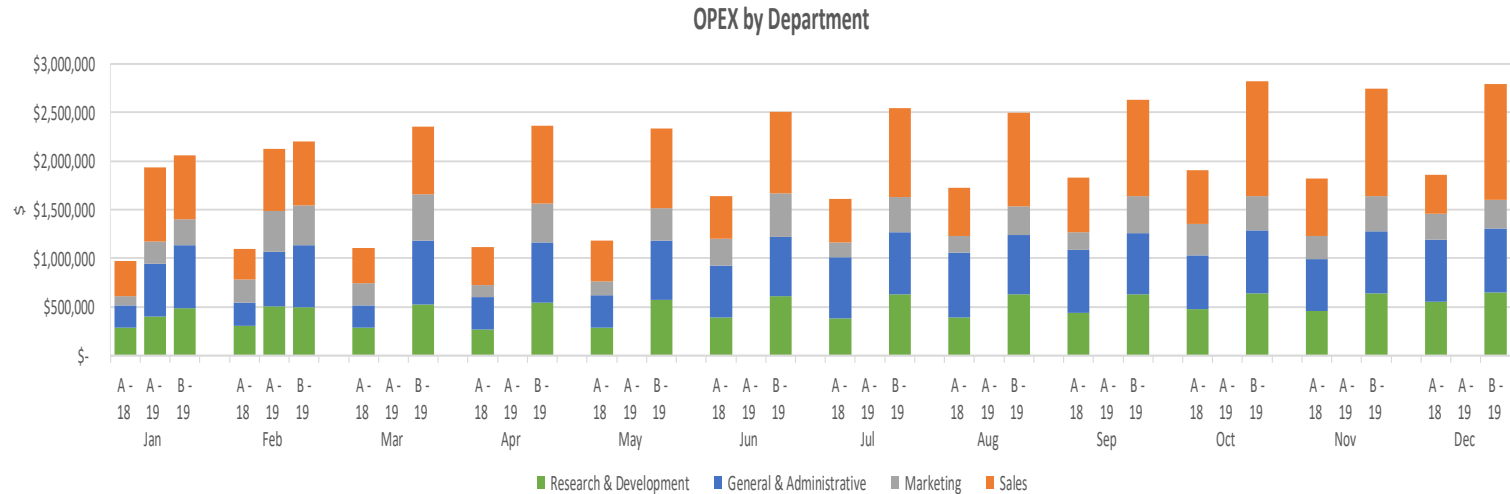
Management Discussion

- Graph shows departmental spend comparatives for '18 actual, '19 actual and '19 budget.
- Overall OpEx is below plan YTD with Sales expenses slightly ahead of plan as we are ahead of plan on hiring international employees.

AR and AP Aging Detail

$'000

AR Aging				
Days	**Dec-18**	**Jan-19**	**Feb-19**
0-30	$ 3,493	$ 3,519	$ 2,995
30-60	1,057	640	396
60-90	332	189	279
>90	232	164	279
Total Gross AR	$ 5,113	$ 4,513	$ 3,949
Reserves	(134)	(134)	(127)
Total Net AR	$ 4,979	$ 4,378	$ 3,822

AP Aging				
Days	**Dec-18**	**Jan-19**	**Feb-19**
0-30	$ 230	$ 1,303	$ 780
30-60	308	130	867
14% 60-90	159	0	74
>90	24	24	(6)
Total	$ 721	$ 1,457	$ 1,715

Management Discussion

- AR dropped due to decrease in invoiced sales, especially due to not shipping Gen 3 pods. >60 days is increasing due to BTX.
- Increase in payables driven by a significant increase in inventory payables and timing of other payments to other vendors.