

# Global IP Solutions

Investor Presentation  
August 14, 2007

# Agenda

- Q2'07 Business Review
- Q2'07 Financial Results
- Company Perspective
  - Market Overview
  - Growth Strategy
- Conclusion
- Q & A

# Q2'07 Business Review

- Continued growth but below capabilities
  - Best quarter in company's history
- 28 agreements signed, including 15 new design wins
  - Below expected sales productivity
  - Market continues to show delayed promise
- Broadened existing agreements
  - Google, Oracle, Samsung
- Substantial wins in growth platforms
  - Oracle signed for GIPS LSVX – real-time video
  - Other companies also sign GIPS LSVX deals
  - LG-Nortel Licensing VoiceEngine Mobile for its mobile line of products
  - Citrix, Conference Engine
  - Continued delays in other key opportunities

## Q2'07 Business Review

- Integrated GIPS technology into the Solutions group products
  - Remote Extension 5.0 and Click-to-Talk now have AEC and iSAC
- GIPS and Skype are in disagreement over the term of our main agreement
  - Both companies have agreed to arbitration to be held in Sweden
    - In addition a Breach notice has been issued regarding payment terms
  - Anticipated arbitration process throughout 2007
  - Skype revenue represents a single digit percentage of gross annualized revenue
  - Anticipate revenue impact over the balance of 2007

# Partial List of Accounts Signed in Q2



SAMSUNG NETWORKS

ORACLE®

ASCENT.  
TECHNOLOGY, INC.



CITRIX®



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# Financial Highlights Q2'07

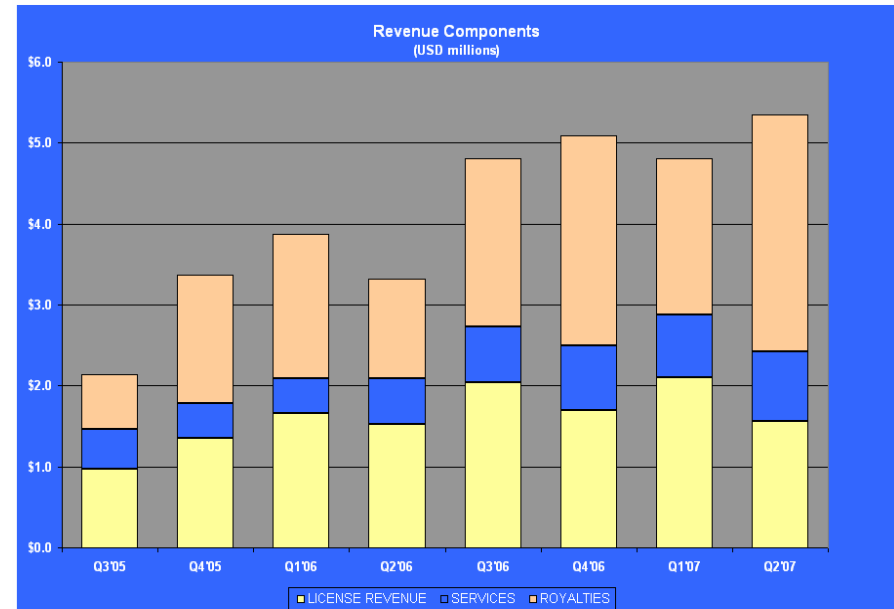
# Q2'07 Financial Highlights

(unaudited)

## Revenue

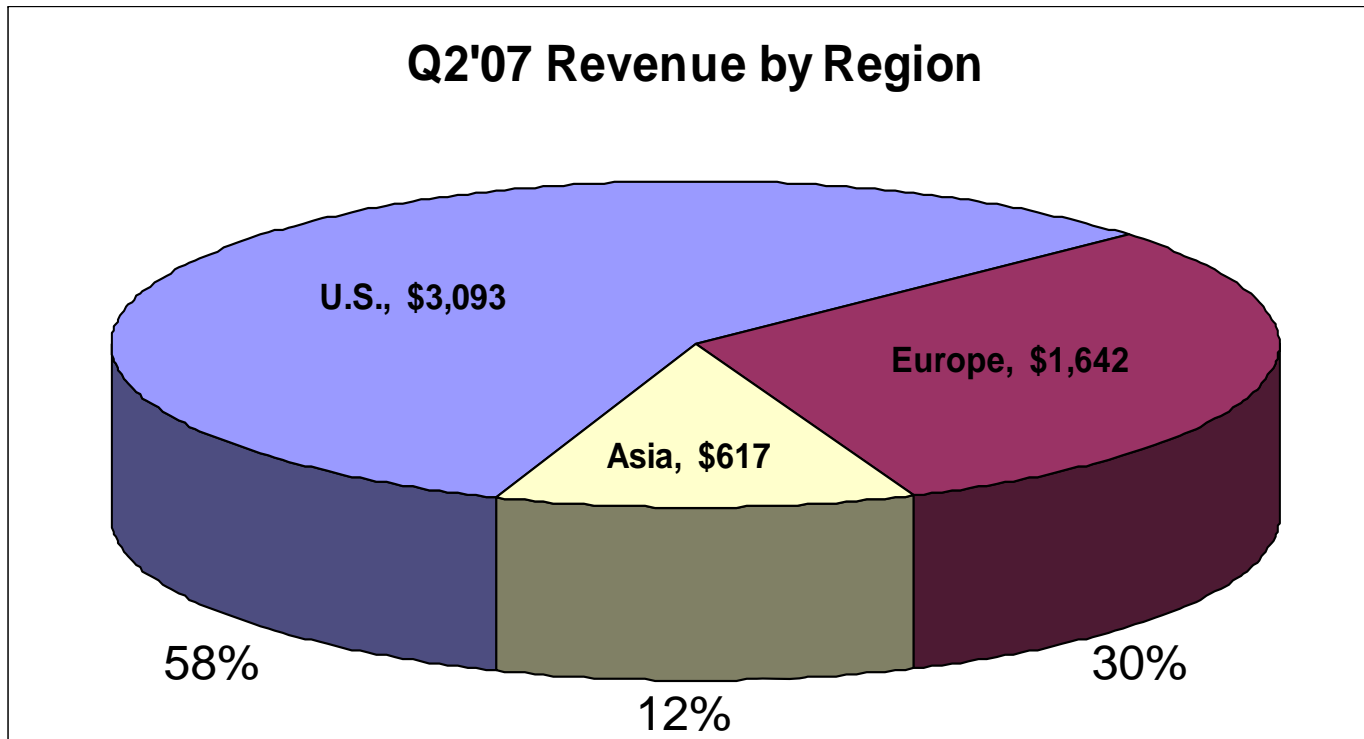
- Q2'07 revenue \$5.4m, 61% increase over Q2'06, 11% increase over Q1'07
  - Royalty revenue was \$2.9M in Q2'07, which was 55% of total revenue, compared to \$1.9M in Q1'07
- 11% increase the result of:
  - Renewed relationships and significant new deals with key Tier 1 customers
  - First LSVX Multimedia deals

Revenue (usd) (000)					
	Q2'07	Q1'07	Chg	Q2'06	Chg
Revenue					
Product	4,492	4,034	11%	2,764	63%
Services	860	772	11%	555	55%
Net Revenue	5,352	4,806	11%	3,319	61%



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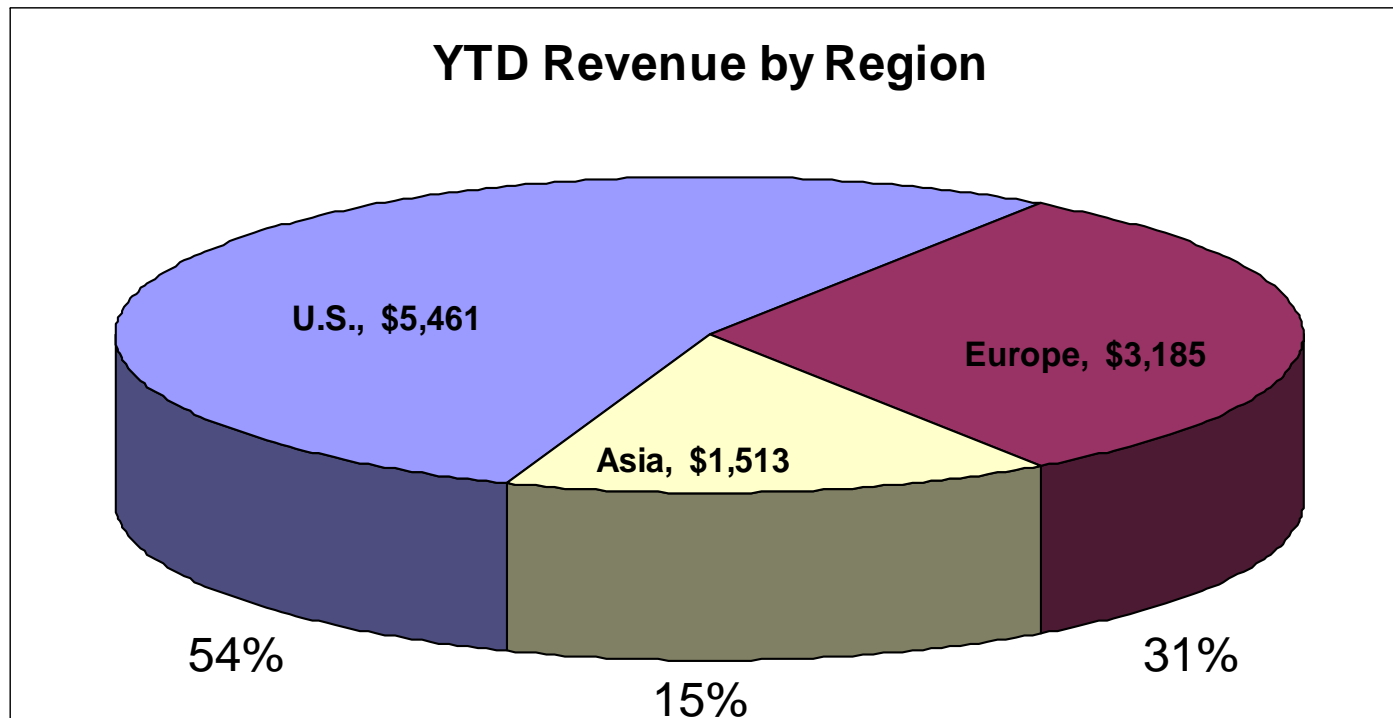
## Revenue

- YTD revenue was \$10.2m, a 41% increase over the prior year period
  - Royalty revenue was \$4.9M YTD for 2007 compared to \$3.0M YTD for 2006, an increase of 63%
- 41% increase the result of
  - Expanded agreements with existing customers, primarily Tier 1 customers
  - Continued signing of new customers agreements
  - Growth in royalty revenue

Revenue (usd) (000)			
Year to date	2007	2006	Chg
Revenue			
Product	8,526	6,203	37%
Services	1,633	987	65%
Net Revenue	10,159	7,190	41%

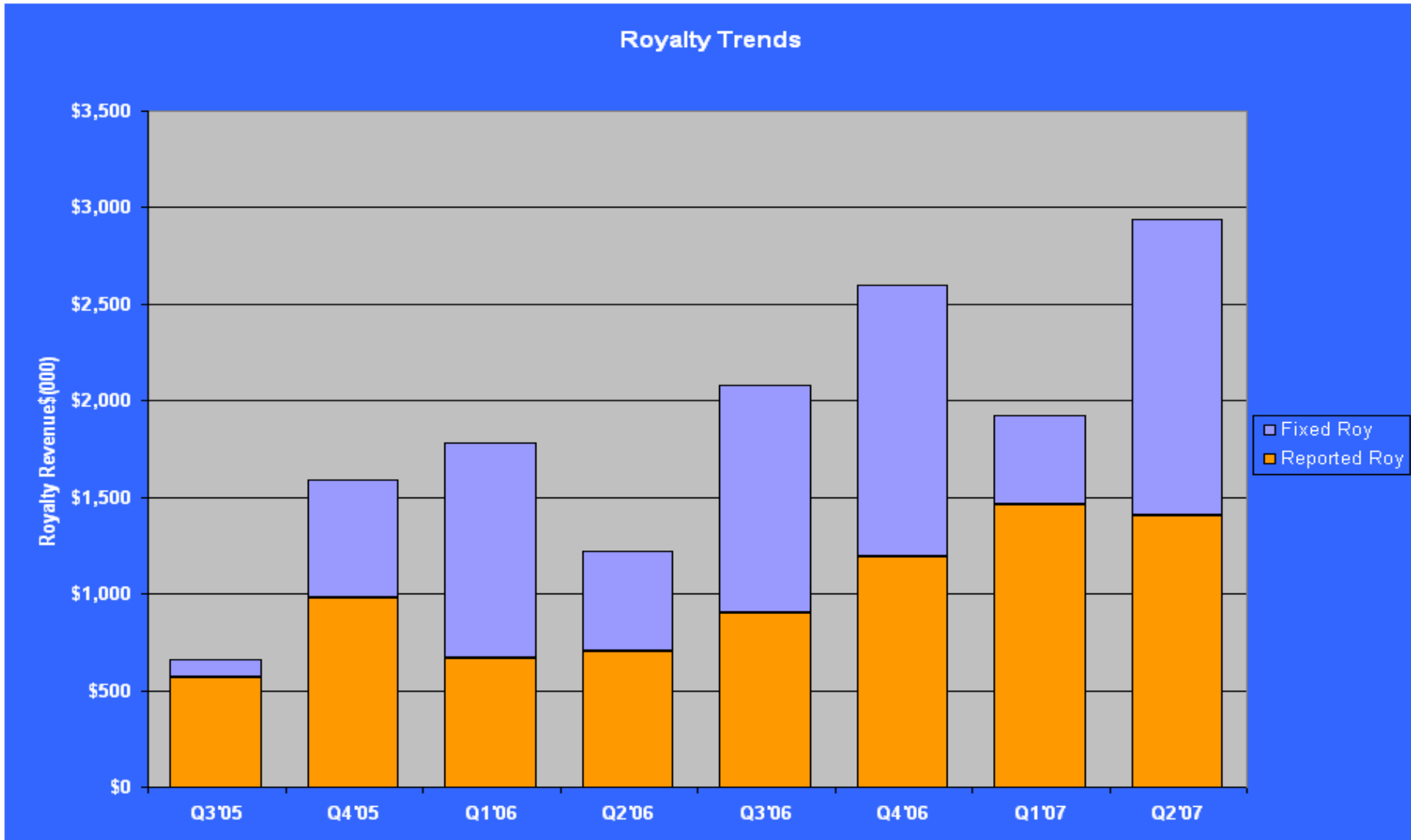
# Q2'07 Financial Highlights

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(unaudited)



# Q2'07 Financial Highlights

(unaudited)

## Profitability

- Q2'07 EBITDA \$0.4m vs. \$0.7m in Q2'06 and \$(0.3)m in Q1'07
- EBITDA margin was 8% vs. (6)% in Q1'07
  - Revenue growth was the primary reason for the increase over Q1
- Q2'07 Net Income \$0.2m vs. \$0.8m in Q2'06 and a Net Loss of \$(0.6)m in Q1'07
- Net Income decrease versus Q2'06 due to ramp up of Operating Expenses intended to support further growth

Income Statement (usd) (000)					
	Q2'07	Q1'07	Chg	Q2'06	Chg
Revenue					
Product	4,492	4,034	11%	2,764	63%
Services	860	772	11%	555	55%
Net Revenue	5,352	4,806	11%	3,319	61%
Total COGS	400	642	-38%	474	-16%
Gross Margin	4,952	4,164	19%	2,845	74%
<i>% Revenue</i>	93%	87%		86%	
Operating Expenses	4,548	4,435	3%	2,144	112%
EBITDA	404	(271)	-249%	701	-42%
<i>% Revenue</i>	8%	-6%		21%	
EBIT	88	(610)	-114%	660	-87%
Net Profit (Loss)	231	(550)	-142%	778	-70%
<i>% Revenue</i>	4%	-11%		23%	

# Q2'07 Financial Highlights

(unaudited)

## Profitability

- YTD EBITDA \$0.1m vs. \$1.9m in the prior year period
- EBITDA margin was 1% vs. 27% in the prior year period
  - Expanded Operating Expenses were the primary reason for the decrease
- YTD Net Loss \$(0.3)m vs. Net Profit \$1.9m in the prior year period
- Net Income decrease due to a significant ramp up of Operating Expenses intended to support growth

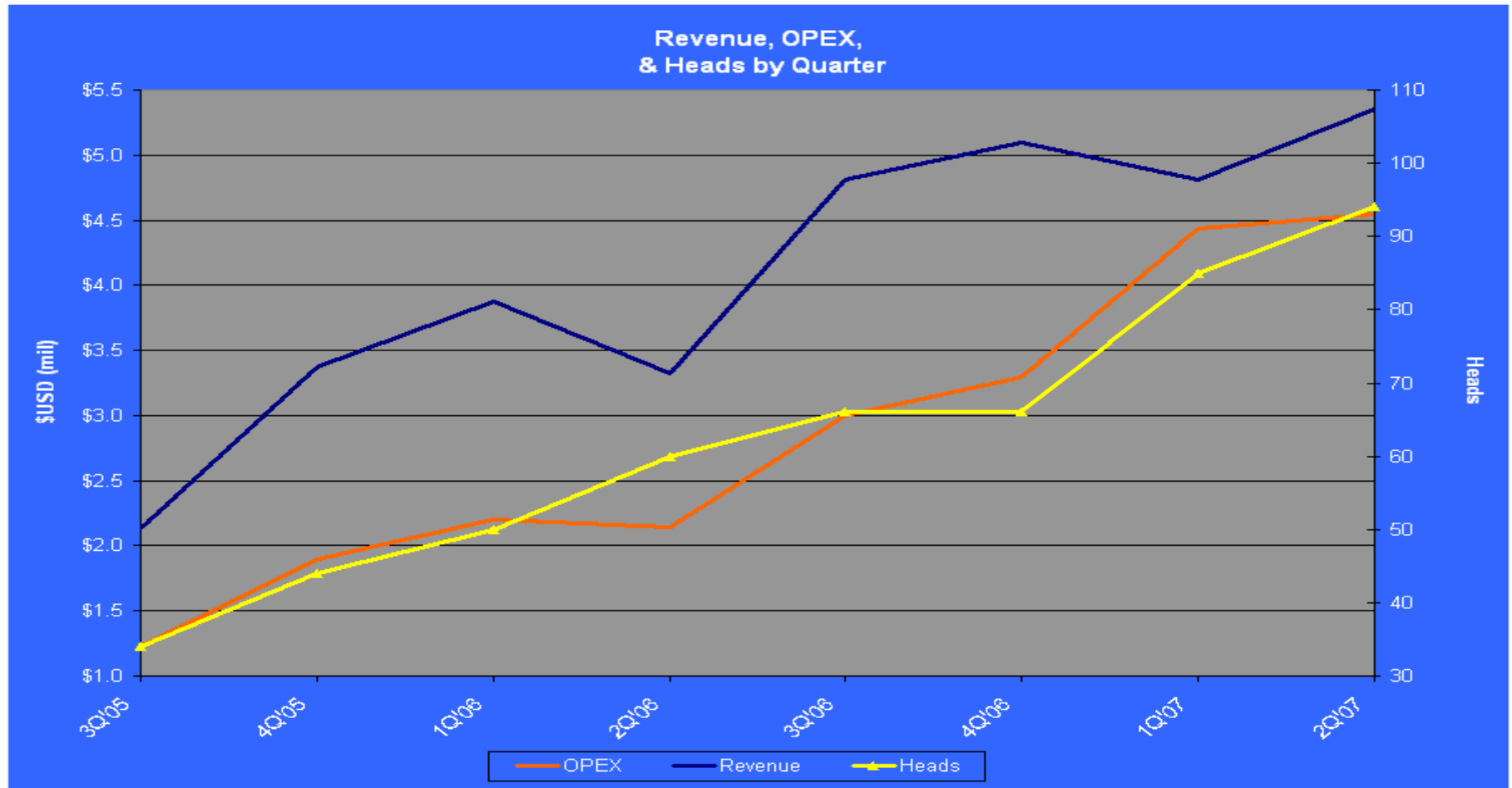
Income Statement (usd) (000)			
Year to date	2007	2006	Chg
Revenue			
Product	8,526	6,203	37%
Services	1,633	987	65%
Net Revenue	10,159	7,190	41%
COGS			
Total COGS	1,042	929	12%
Gross Margin	9,117	6,261	46%
<i>% Revenue</i>	90%	87%	
Operating Expenses	8,984	4,349	107%
EBITDA	133	1,912	-93%
<i>% Revenue</i>	1%	27%	
EBIT	(521)	1,832	-128%
Net Profit (Loss)	(319)	1,987	-116%
<i>% Revenue</i>	-3%	28%	



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# Q2'07 Financial Highlights

(unaudited)



# Q2'07 Financial Highlights

(unaudited)

- **Balance Sheet**

- No significant changes versus Q1'07
- The valuation of the acquisition assets is ongoing. The effect will be recorded in Q3

- **Cash Flow**

- Cash and equivalents were \$8.3m at the end of Q2'07, down from Q1'07 due to purchased technology payments, the re-classification of certain cash balances as ST Investments, increased operational costs, and the timing of collections
- Operating Cash Flow was \$(1.1)m YTD, compared to 0.7m in the 2006 period. The decrease was primarily due the increase of operating expenses
- Cash flow from investing reflects the costs of the acquisition of Crystal Voice

<b>Balance Sheet (usd) (000)</b>			
As of	6/30/07	3/31/07	Chg
Cash & ST investments	9,315	10,663	-13%
Accounts receivable	5,550	5,100	9%
Other current assets	1,994	2,036	-2%
Intangible assets	10,485	9,643	9%
Other assets	2,882	2,837	2%
<b>Total assets</b>	<b>30,226</b>	<b>30,279</b>	<b>0%</b>
Current liabilities	3,587	3,378	6%
Unearned revenue	1,413	2,032	-30%
Other liabilities	98	89	10%
Equity	25,128	24,780	1%
<b>Total liabilities &amp; equity</b>	<b>30,226</b>	<b>30,279</b>	<b>0%</b>

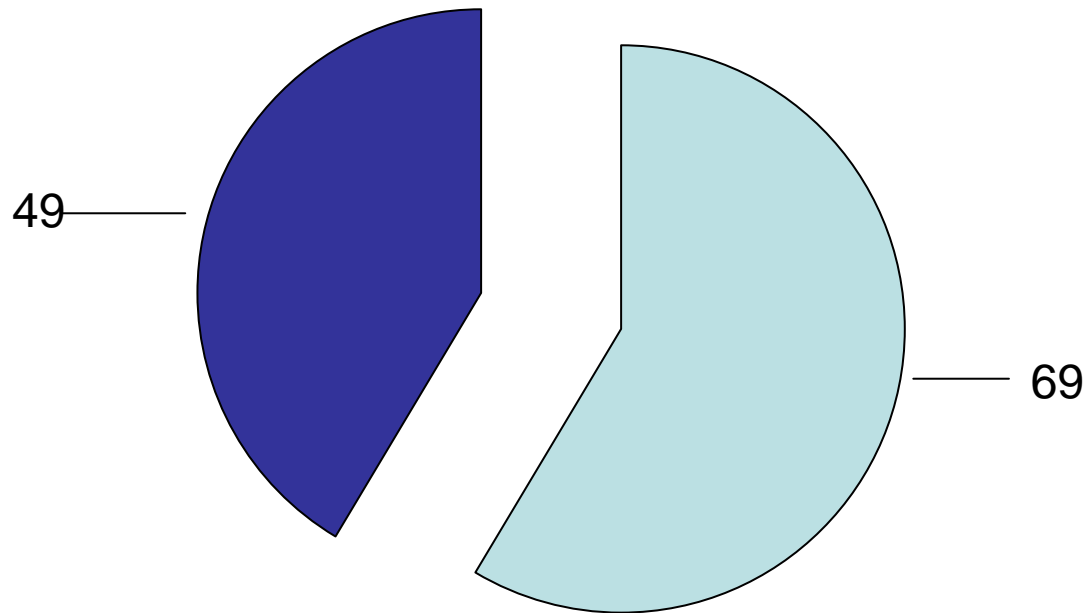
<b>Cash Flow (usd) (000)</b>			
Year to date ended	Jun-07	Jun-06	Chg
Cash flow from operating activities	(1,052)	668	-257%
Cash flow from investing	(6,512)	(249)	2515%
Cash flow from financing	-	1,272	-100%
Net cash flow	(7,564)	1,691	-547%
Beginning cash	15,836	13,654	16%
Exchange difference	34	604	-94%
<b>Ending cash</b>	<b>8,306</b>	<b>15,949</b>	<b>-48%</b>



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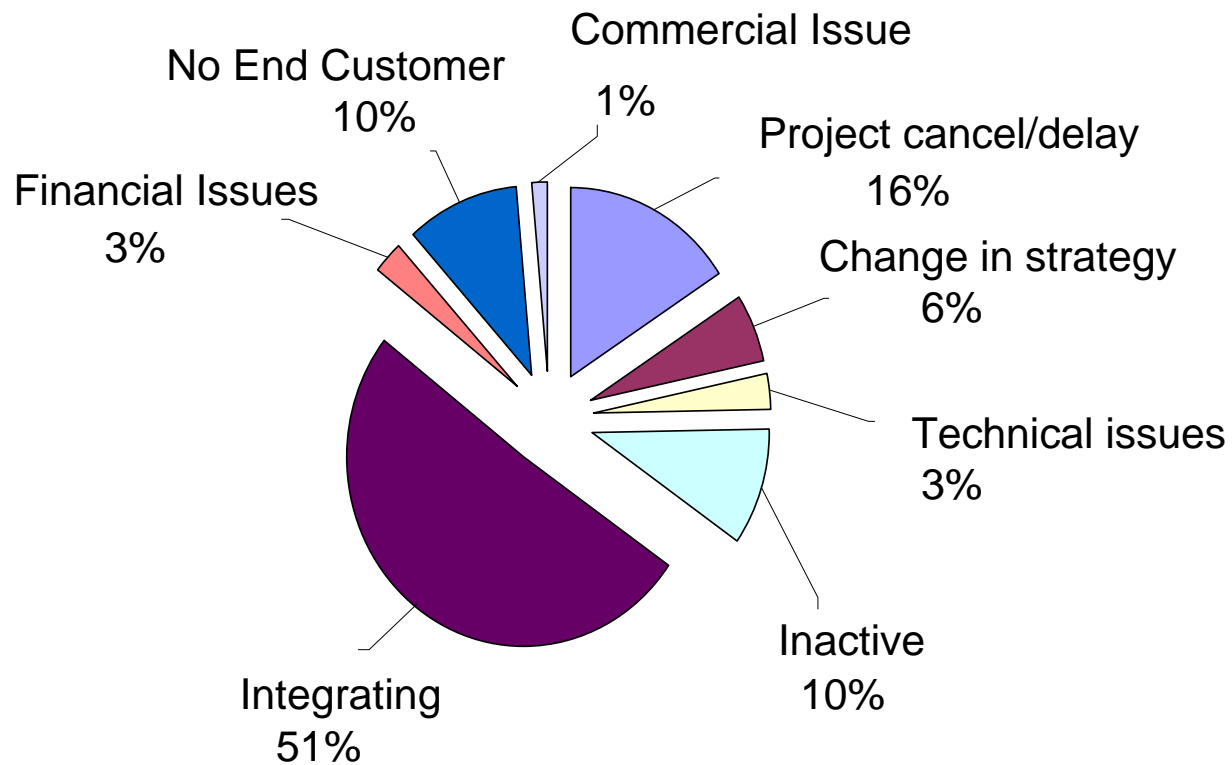
# Company Perspective

# Royalty Analysis



**Number of GIPS Customers**  
■ Not Launched ■ Reported

# Reasons Why Customers Have Not Launched



# Royalty Summary Analysis

- More customers are reporting royalties, however time to launch and market ramp are significant drivers
  - Positives
    - Significant number of customers still to produce royalties
    - Number of customers at the earlier stage of producing significant royalties
  - Issues
    - On average 13 months to receive first royalty report
    - ~50% not launched due to issues outside GIPS control, e.g. project delayed or cancelled

# Performance Results

- *Q2 Performance improved but continued improvement required*

## Positives

- Royalties growing. Total royalties 55% of revenue
  - Fixed royalties Q2 driver
  - Need for continued sales effort on deployments
- Several LSVX deals signed including Oracle
  - Need for continued engineering development
- 1<sup>st</sup> deal with Samsung Networks
- Product Marketing and Management put in place to deliver Sales and Engineering support
- Increased headcount for direct Solutions sales team
- Gained hardware traction with ADI partnership

## Issues

- Revenue lower than expectations
- Number of new customer agreements signed not in line with sales capabilities
- Customer deployments and corresponding royalty revenue has not grown as expected
- Overall VoIP market is delayed

# Performance Results

## Actions taken since Q1

- Tactical Sales effort in Asia employed to realize resources with stronger focus on Japan, China and Korea
- Focus on video, server and Solutions' products
  - Fully staffed Product Marketing and Product Management teams focused on delivering roadmap targets
  - Engineering development prioritization based on roadmaps
- Sales Emphasis
  - Added additional channel resources for Solutions group

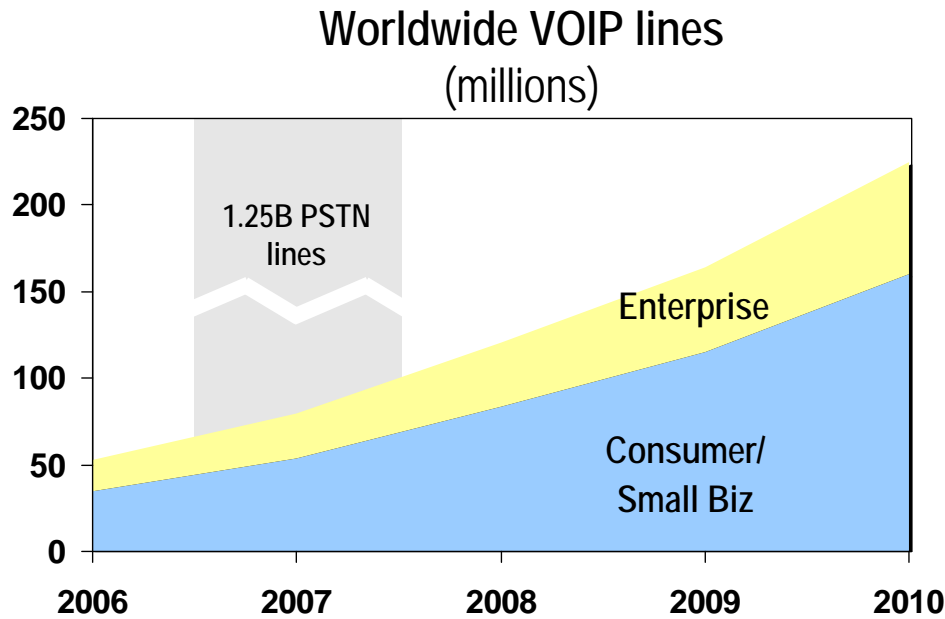
# Performance Results

## Actions currently being taken

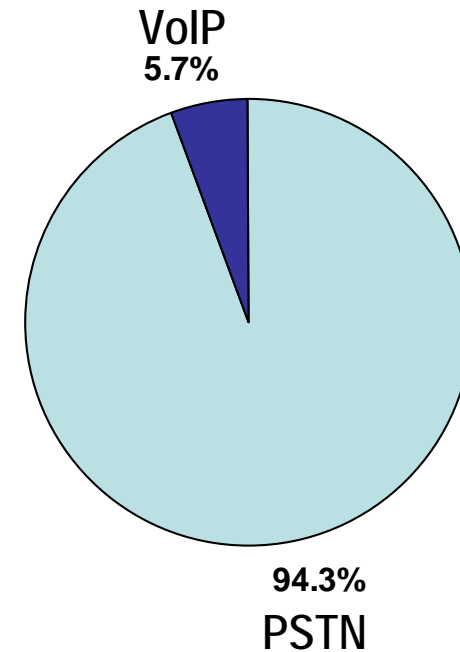
- Continued focus Asia on core markets, pipeline and team
  - Reduce headcount by closing India office
- Add energy to Solutions Sales
  - Realigning 20% of Media Sales to focus on Solutions Sales
  - Focus on direct sales opportunities
- Improve sales effectiveness of Media sales
  - Review and scrub pipeline
  - Focus on royalties
- Business Development exploration of growth opportunities

# Market Overview and Growth Strategy

# VoIP is Still Early in the Adoption Cycle...

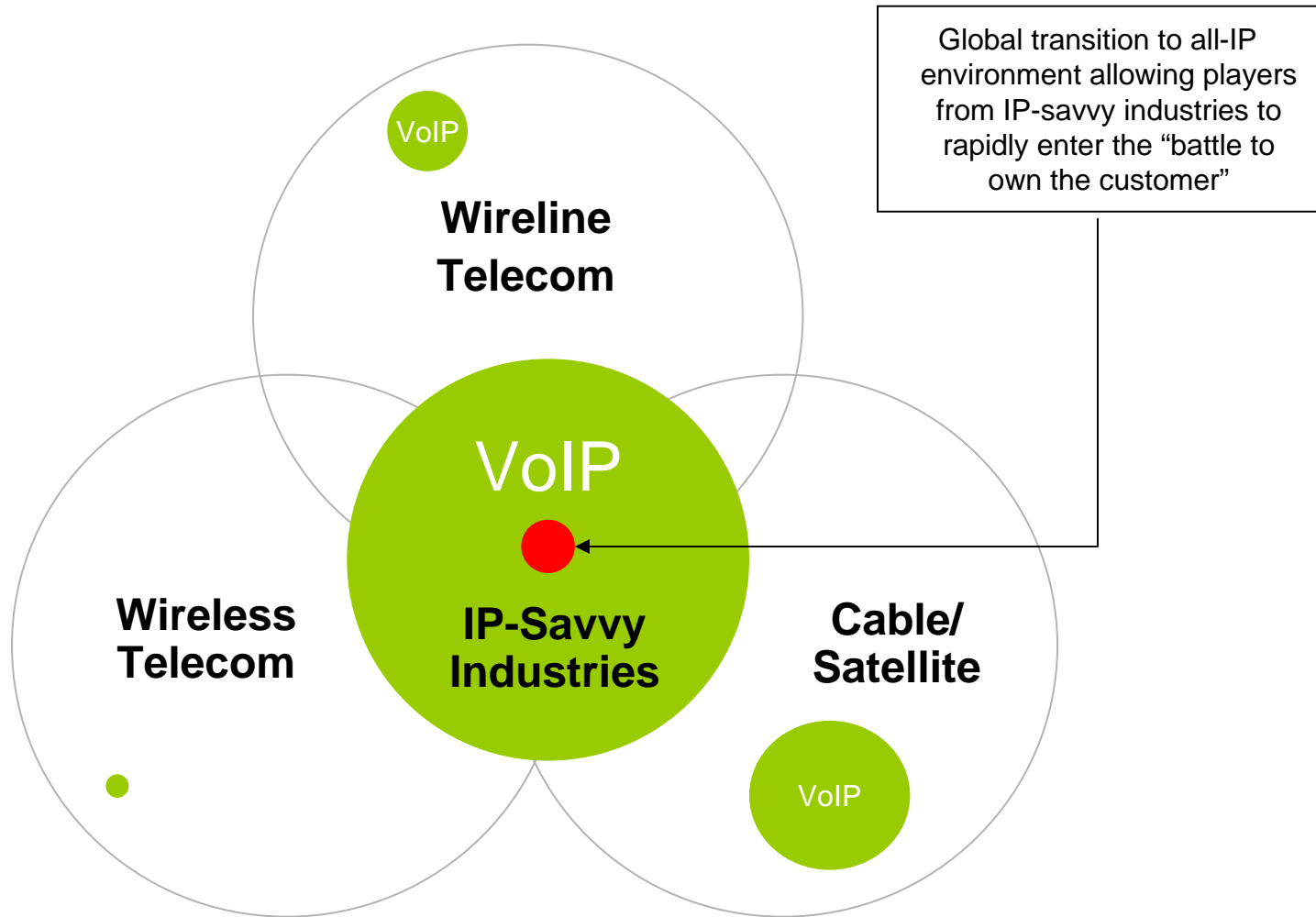


**Worldwide Telephony Lines - 2007 (% of total)**



Sources: iLocus 2007 Global VOIP Report, Frost & Sullivan 2006 VOIP Forecast, Deloitte & Touche Telecom Update 2006

# VoIP in Voice Provider Industries



Transition to VoIP occurring *to different degrees* and with *varying timing* in voice provider industry

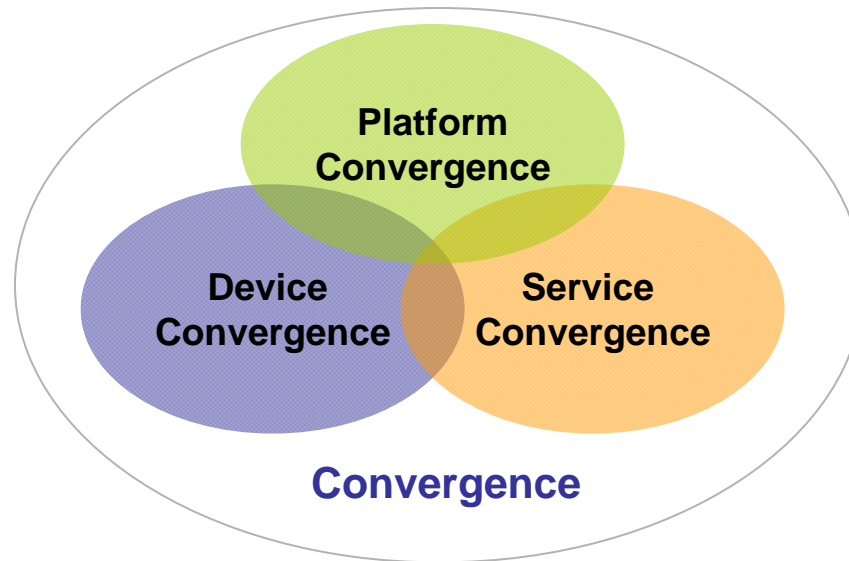
# Key Drivers for all-IP Environments

## Operator View

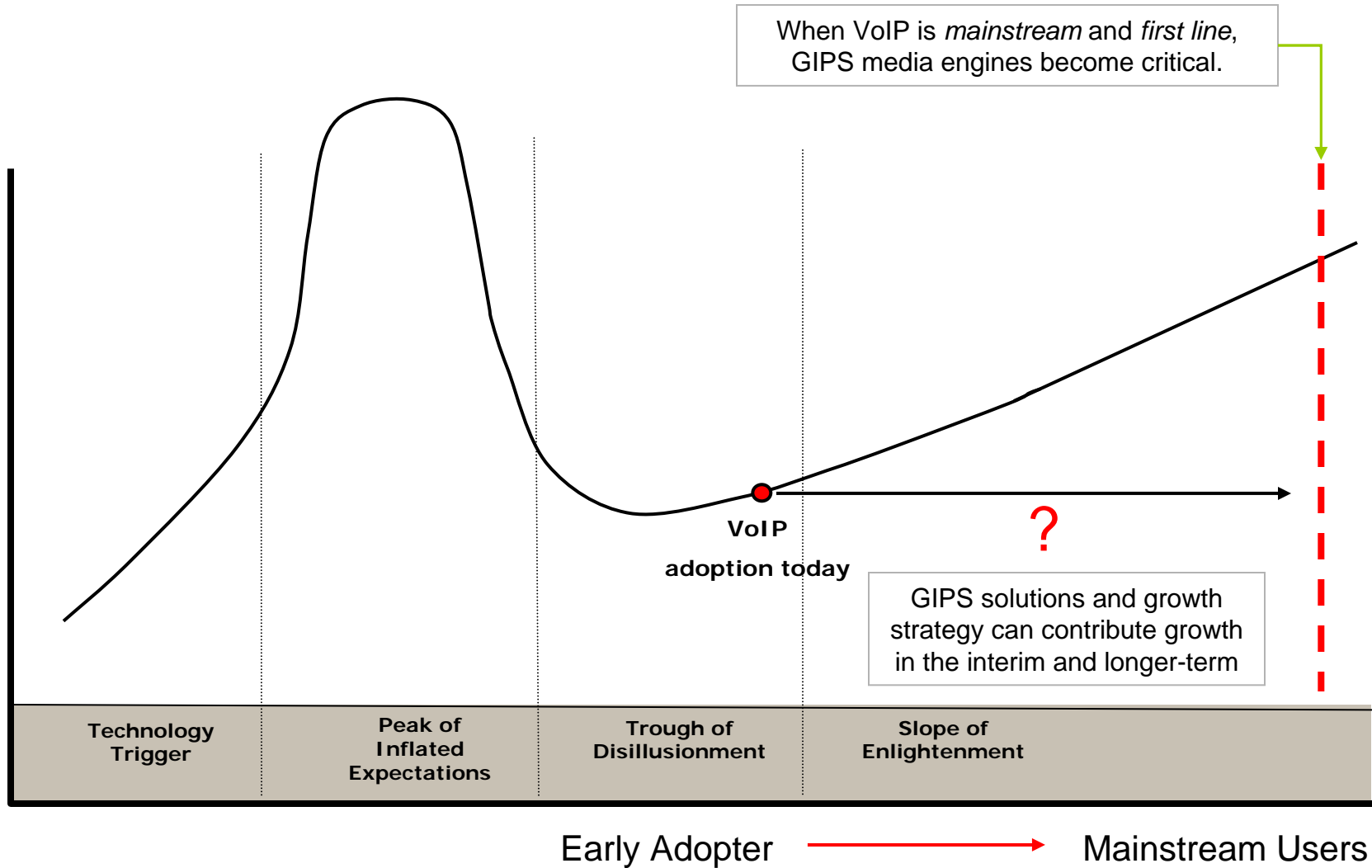
- **Common foundation for fixed, mobile and enterprise services**
  - Cost effective and quick introduction of new innovative services
- **Service interoperability**
  - Multi-vendor integration through standard architecture
  - Key for mass-market, person-to-person services
- **Keeps charging relation with user**
  - Adds flexible charging possibilities; offline and online, volume, time, per event, etc.

## User View

- **New unified services combining**
  - Voice, text, images, video, games, etc.
  - Presence information personalized by the users according her/his preferences and device availability
- **Services are Access and terminal agnostic**
  - Services presented to fit device, access situation and capabilities
- **Easy to use**
  - Keep the services simple and fun to use



# Where is GIPS Today?



# Current GIPS Markets

	Components	Engines	Embedded Applications	Targeted Applications
Technology	NetEQ Codecs VQE	VoiceEngine ConferenceEngine BorderInterface Engine	Click-to-talk FW/NAT 2 sided bandwidth mngt	Click-to-talk Remote Extension
Markets	Hardware	ISPs Application Developers	VARs	Enterprise
Customers	Cisco, Nortel, ADI, TI	Google, Yahoo!, AOL Earthlink, Oracle, IBM	Websites that need Real time comm	VARs, SIs, Cisco, 3Com Avaya Channel
TAM	\$100M	\$300M	\$100M	\$300M
	1999	2004	2007	2007

# GIPS Growth Objectives

- Continue to grow market share within existing embedded and targeted applications markets
- Expand our TAM – overcome limitations of current market (\$600M+). Initial markets should lead to high-growth next-generation opportunities
- Leverage what we have – new markets should be a logical extension of our current position and the Media Engines and Solutions businesses should help create competitive advantage
- Extend our successful business model – acquisitions/partnerships should enhance what makes our P&L attractive: high gross margins, solid revenue growth, modest CapEx, etc.

# Implications

- We are actively exploring various VoIP application segments via partnerships or acquisition
- We believe that this effort can deliver the following benefits:
  - Increase our TAM
  - Create a competitive advantage in a high-growth segment
  - Allow us to leverage a combined customer base
  - Accelerate our revenue growth
- Successful execution will improve our company positioning:
  - Create a compelling and multi-faceted growth story
  - Increase our “share of mind” in the industry and with customers
  - Provide critical mass that will enable other long-term options for the company



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# Conclusion

# Summary

- Q2 growth - however below expectations
- Company taking appropriate action and positioned for future growth
  - Future growth correlated to overall VoIP industry
  - Some implemented actions will take time to produce results
- Significant number of customers still to launch and produce royalties
- Investigating growth opportunities
  - Growth via current business execution
  - Growth via partnerships
  - Growth via new and continued technology development
  - Growth via new market expansions



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Q & A