

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

VillageEDOCS, Inc. (VEDO)



K. MASON CONNER, President, Chief Executive Officer and Director of VillageEDOCS, Inc., joined the company as Vice President of Sales in 1997 and has been President and a Board member since 1998. He was acting Vice President of Sales between 1998 and 2002, and has been Chief Executive Officer since 1999. Mr. Conner is also a Director and the President of Tailored Business Systems, Inc., which became a wholly owned subsidiary on February 17, 2004. He has 30 years of sales and business management experience, including 19 years of direct and channel sales experience in the voice and data communications products and services industry. In the early 1980s he was involved in the application of Internet Protocol technologies with the military. In the late 1980s and early 1990s, he was a principal strategist for an international initiative to transform K-12 education through the use of the Internet. He was a lead consultant for the

electronic vulnerability threat assessment of the Los Angeles Airport Department after the "UnaBomber" threat. He has held sales positions with Banyan Systems, Doelz Networks and Timeplex. Prior to joining the company, Mr. Conner was Director of Sales at Telecom Multimedia Systems from 1996 to 1997, Vice President of Sales at Lo Tiro-Sapere from 1995 to 1996, and Vice President of Sales at Digital Network Architectures from 1991 to 1995.

TWST: What is VillageEDOCS?

Mr. Conner: VillageEDOCS provides Software as a Service (SaaS) offerings, which include electronic document delivery services that business enterprises use to send and receive critical business information to and from their trading partners. We receive information from businesses and their customers over the Internet or telephone networks, shape it and deliver it in the preferred method and format. Gartner Group says we are in the Solution as a Service and Communication as a Service segment within the Software as a Service market. We provide services that range from document management, e-mail, faxing and unified messaging to physical printing and mailing. Our customers range from General Electric and Domino's Pizza to Bridgestone/Firestone. We move information like con-

tacts, invoices, orders, notices, marketing documents and proposals, among other business critical documents.

TWST: What are the roots of the company? What are some of the more recent developments?

Mr. Conner: VillageEDOCS began as an early entrant into the fax server market and expanded into providing a service focused on business critical information. Over the past four years, we have expanded our offerings and have added capabilities and entered into new markets through the acquisition of three companies. In an effort to reach breakeven and profitability on an overall corporate level, we have implemented a number of measures and over the past few quarters have retired more than a million dollars of debt, reduced our corporate overhead expenses, hired two operations-focused execu-

tives, and are making concrete progress in further integrating and creating cross-selling opportunities within each of our subsidiaries. We are focusing the company on driving stronger organic growth, and at the same time continuing our progress in completing acquisitions of profitable companies that fit within our solution vision.

TWST: What are some of the industry characteristics and demographics of the Software as a Service market in which VillageEDOCS operates? What is the size of the market opportunity and how fast is it growing?

Mr. Conner: Gartner Group characterizes the Software as a Service market into six segments, and places VillageEDOCS in the fastest growing segment of Content, Communication and Collaboration. This market segment has a 20% CAGR and is forecast to reach \$3.6 billion in sales by 2011. Within that segment, our offerings are described as Solution as a Service and Communications as a Service.

Our MessageVision (MVI) business unit is in the Fax Messaging market, which is growing at a CAGR of 16.8%, according to Davidson Consulting, and is expected to reach \$1.6 billion by 2010.

TWST: What is the agenda at this point? What are the priorities for the next 12 to 24 months? What would make that time frame a success?

Mr. Conner: We believe we have created a solid foundation and there is a lot of room for growth within our current stable of operating units. Our goal is to grow our revenue base of \$14 million and continue to invest in sales and marketing with a focus on strong internal growth. In addition, we intend to complete further acquisitions of profitable complementary companies to continue to broaden our SaaS offerings. Although each of our operating units is profitable and we first reported positive cash flow in 2004, because of SFAS 123R stock option expenses and other non-cash items, we have not shown positive net earnings for the company as a whole. A major measure of our success in the next 12-24 months will be to generate strong positive earnings for our investors and to create a share price that is reflective of our current and future enterprise value. We are also seeking to raise capital, restructure our capitalization and list our shares on a broader US exchange.

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Our Tailored Business Solutions (TBS) business unit, which engages in the local government and municipality marketplace, is in a multi-billion dollar industry with more than 21,000 cities and towns across the US. Gartner Dataquest research indicates that the state and local government IT spending will surpass \$57.7 billion in 2010, up from \$48.8 billion in 2007, and that the Administration and Finance segment of this market will spend some \$11.8 billion in 2010, up from \$9.8 billion in 2007. This market is being addressed by few national players and is mostly served by small niche players like our TBS business unit.

Our GoSolutions (GSI) business unit, provides enhanced voice and data delivery services, and fits into the Communication as a Service segment as defined by Gartner. Gartner suggests this market will reach \$1.3 billion by 2011, and is rapidly growing at a CAGR of 121%.

TWST: Who is your customer, your client? How has that typical client changed or evolved in the last year?

Mr. Conner: Let me provide you some illustration of how our typical customers use our services. One of our customers is an international lighting products manufacturer who used to mail their invoices after a shipment was picked up; their customer would then receive the invoice six days later and pay it 30 days later. Now, with our SaaS services, we immediately receive the invoice electronically just after the truck has left the dock. We then remote print it and deliver it either by fax or electronically to our client's end user customer, who then pays the invoice in 30-day's time. By providing this service, we have reduced the DSO collection period by six days. This is a strong financial benefit to our customer with a clear return on investment. We started with this application and moved throughout the customer in other areas and with new services. Primerica uses our

Communication as a Service Offerings to enable 40,000 of their sales group to receive, manage, and communicate with each other and their customers. We continue to provide new offerings and expand the usage of our offerings. Our municipality group provides a wide spectrum of services. One is, we create and send tax and utility bills for medium to small municipalities. The face value of the tax bills we deliver represent billions of dollars of tax revenue for communities.

TWST: What are the competitive dynamics? What is the differentiator?

Mr. Conner: Generally, we acquire a customer because they are in pain with their current in-house situation or other vendor they use. As long as we continue to provide predictable services, our customers do not leave us. This is evidenced by the fact that we have very little customer turn over. The examples of turn over that come to mind are the customer having business issues such as the mortgage industry which lost some big players like the BNC division of Lehman Brothers, or a new technical management leader at a customer will decide to bring the services back in house. Again, our history shows we do not have high customer turn over. Even though each one of our subsidiaries has competitors, those competitors are generally vendors of technology. The competition is the in-house staff who wants to invest in the other vendor's technology and operate the system themselves. Since technology is moving to a service model and not an in-house operation model, the market is moving in our favor. In addition, when companies buy technology it is generally cost prohibitive to also provide business continuance or disaster recovery solutions. This area alone is a common reason why customers use our services. Other reasons given for using our services are higher reliability, lower operational costs, more flexibility, no capital expenditures, no technology risks, and costs are aligned with economic conditions of the customer.

TWST: What's the financial snapshot of the company — balance sheet and P&L? What are the strengths? What items are you focused on for improvement?

Mr. Conner: In 2007, we reported a 32% increase in revenue to \$14 million, with 60% margins and 86% recurring revenue, and our business units delivered \$2.4 million in net income. And we reduced our debt by more than \$1 million to \$650,000. While each of our operating units is profitable on a net basis, we did report a net loss for the parent company primarily due to the cost of being a public company, expensing stock options under SFAS 123R, and a write-off of goodwill related to the sale of Resolutions. Our proven ability to generate positive operating cash flows demonstrates that our business model is highly profitable and our offerings provide a strong recurring revenue benefit. In 2008, we are focused on increasing our

organic growth, keeping our corporate overhead low and continuing toward our objective of achieving positive net income for the company. We are focusing on market awareness to improve our ability to raise capital to support the future acquisition of profitable companies and improve the disparity between our enterprise value and market value of our shares.

TWST: Introduce us to your top-level management team, two or three of your key individuals.

Mr. Conner: Jay Hill joined the Board of Directors nine years ago and joined our executive team four years ago as Executive Vice President of Corporate Development to lead our acquisition strategy and external financing efforts. Jay has more than 40 years' experience in the industry, starting with IBM, and then with Paradyne and Harris Corporation, and has been CEO of several turn-around situations. Mike Richard is our Chief Financial Officer with some 20 years' experience working with small public companies. Derek Wilson is our Senior Vice President of Sales and Marketing with 30 years experience in the industry. He has been with several notable companies but one that is particularly relevant to ours is Sterling. While at Sterling he led a sales group for the ASP offerings. Today you would characterize the ASP service he sold as Solution as a Service (SaaS) offering.

TWST: What historically has been the shareholder base with VillageEDOCS? Has that base undergone any recent changes or transitions?

Mr. Conner: The company has two long-term investors who have funded most of our growth and hold a large position in our stock. The company has hundreds of small investors and a group of moderately large shareholders who have purchased and built sizeable positions in our stock over the years. We also have a group of shareholders who received their stock as a result of our various acquisitions. A very large portion of our shareholder base is long-term supporters who share management's vision for the company and have not traded the stock. Investors who understand our market and our market opportunity believe there is a significant opportunity in the medium to long-term. We are out educating the market and will continue in the future.

TWST: In your discussions with the investment community, are there any recurring questions or misperceptions? Is the story understood?

Mr. Conner: As I mentioned earlier, there is a disconnect between our enterprise value and our market capitalization. However, the SaaS industry we are in is rapidly growing and beginning to attract a lot of attention on Wall Street, and it does help to have customers with big names like GE, GM, Dominos Pizza, and HIP USA who are using our services. We believe that as we continue to per-

form and move closer to our objectives and, at the same time persistently continue to create greater awareness of VillageEDOCS within the investment community, the value proposition we provide will become evident and will reflect in greater recognition for our shares. As long as we are a public company, we intend to create greater value for our stock and to use our shares as a corporate currency from which to finance the company and make acquisitions that are accretive. We are in a rapidly growing market and are in the process of educating Wall Street as to who we are.

TWST: As investors track and assess your performance, what are the key metrics or milestones they should be focused on? What matters to you? What should matter to the investor?

Mr. Conner: Several years ago we achieved positive cash flow. Each acquisition has been financially and business accretive. Investors will continue to see those metrics. We are focused on increasing our organic growth; they should look for results in that area. What matters to me is that all investors realize their investment goals with the company. What this means is we have to grow and achieve positive earnings per share and align our enterprise value and market price. We would like to think that our investors care that we currently employ 65 people who have families and provide a positive work experience. This does not mean that we all don't work very hard. It has taken a lot of work to get to this point and it will take a lot of work to stay ahead and achieve our financial goals. We intend to build a \$100 million dollar company over the next 3 – 5 years through organic growth and acquisition. Investors who understand what we do should be excited to own our stock and watch our progress.

TWST: What today compels investors to include VillageEDOCS as part of their current portfolios and part of their longer-term investment strategies?

Mr. Conner: Long-term stability of the company, in a strong SaaS market that will be growing over many years, recurring

revenue, strong margins, seasoned management team, proven ability to acquire and operate companies, and rapid growth through acquisitions and organic growth. I believe if an investor is looking for a solid company with undervalued stock and the events on the horizon that will cause the market price and enterprise value to align, we are the company they are seeking.

TWST: Is there anything you would like to add?

Mr. Conner: I believe that we have demonstrated over the years that we are a stable, growing company. The markets we are in are huge and don't have any dominant leaders. Therefore, our ability to grow the company is a matter of execution, not that the market has to be found or grow big enough to support us. If you look at different slices of the market, Gartner Group says \$6 billion dollars are spent on preprinted forms and \$360 billion is spent on the capture of data from documents. We help companies reduce these costs.

TWST: Thank you.

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