

# Interactive Intelligence Reports Fourth-Quarter and Full Year 2011 Financial Results

Interactive Intelligence Group Inc. (Nasdaq: ININ), a global provider of unified IP business communications solutions, has announced financial results for its fourth quarter and full year ended Dec. 31, 2011.

- 2011 recurring revenue increases 33 percent year-over-year and represents 44 percent of total revenue
- 4Q total orders grow 17 percent year-over-year; 2011 total orders grow 28 percent year-over-year - 4Q cloud-based orders grow 500 percent year-over-year; 2011 cloud-based orders grow 179 percent year-over-year

- Cloud-based orders grow to 23 percent of total orders in 2011, more than double the 11 percent of total orders in 2010

"Market demand was strong and we executed well during the fourth quarter, a combination that provided a strong finish to a year with record revenues," said Interactive Intelligence founder and CEO, Dr. Donald Brown. "In 2011, we firmly established Interactive Intelligence as a vendor-of-choice at the high end of the contact centre market. We continue to consistently grow faster than the overall market with our on-premise solutions and are emerging as a leader with our cloud-based offering.

"We show ever-increasing momentum among customer cloud deployments, which is the highest growth segment of our market. In 2012, we plan to capitalize on this momentum and step up investments to further enhance our brand recognition, extend our product capabilities and gain additional market share.

"Our order mix is expected to continue shifting toward the cloud, which combined with strategic investments in sales, marketing and development is expected to reduce our reported profitability from a near-term perspective. However, we're confident in the long-term viability of our business model, and our ability to generate shareholder value. We're addressing a multi-billion dollar market opportunity, and we're taking focused action to grow the business for long-term financial success driven by increasing recurring revenue," concluded Brown.

## Fourth-Quarter 2011 Financial Highlights:

- Orders: Total orders increased 17 percent year-over-year, with cloud-based orders up over 500 percent year-over-year. The company signed 101 new customers during the fourth quarter of 2011, up 29 percent from 78 new customers during the same period in 2010, including 12 new customers for its cloud-based offering during the fourth quarter of 2011, up from 8 during the same period in 2010.
- Revenue: Total revenues were \$57.7 million, with non-GAAP revenue of \$58.0 million, an increase of 14 percent on a year-over-year basis. Recurring revenues, which include both maintenance contracts and cloud-based subscriptions, increased 23 percent to \$24.4 million and accounted for 42 percent of total revenues. Cloud-based revenues increased 61 percent year-over-year to \$3.8 million. Product revenues were \$27.3 million and service revenues were \$6.0 million, up 9 percent and 4 percent, respectively, compared to the fourth quarter of last year.
- Operating Income: GAAP operating income for the fourth quarter was \$6.5 million, with an operating margin of 11.3 percent, compared to \$9.1 million and an operating margin of 18.0 percent for the fourth quarter 2010. Non-GAAP operating income was \$8.7 million with an operating margin of 15.0 percent, compared to \$10.5 million and an operating margin of 20.7 percent for the fourth quarter of 2010. The year-over-year decline in operating margin was primarily due to the shift toward cloud-based orders, which are recognised ratably over the life of the contract, and away from on-premise product orders, which are typically recognised as revenue on an upfront basis.
- Net Income: GAAP net income for the fourth quarter was \$4.6 million based on a 30.0 percent effective tax rate, and includes an adjustment of the full year effective tax rate down to 33.4 percent. This compares to GAAP net income of \$7.1 million based on a 22.3 percent effective tax rate for the same period last year. GAAP diluted earnings per share (EPS) for the fourth quarter was \$0.23 based on 19.9 million weighted average diluted shares outstanding, compared to \$0.37 based on 19.3 million shares outstanding for the same period last year. Non-GAAP net income for the fourth quarter was \$7.3 million based on a 16.6 percent effective tax rate, compared to \$10.4 million based on a 0.5 percent effective tax rate for the same period last year. Non-GAAP EPS for the fourth quarter was \$0.37, compared to \$0.54 for the same period last year.

Full Year 2011 Financial Highlights:

- Orders: Total orders increased 28 percent compared to 2010, with product orders up 11 percent and cloud-based orders up 179 percent year-over-year. The company signed 301 new customers in 2011, up 16 percent from 259 new customers during 2010, including 42 new cloud customers during 2011, up 91 percent from 22 new customers during 2010. Cloud-based orders were 23 percent of total orders in 2011, up from 11 percent of total orders in 2010.
- Revenue: Total revenues were \$209.5 million, with non-GAAP revenue of \$210.1 million, an increase of 26 percent on a year-over-year basis. Recurring revenues, which include both maintenance contracts and cloud-based subscriptions, increased 33 percent to \$91.4 million and accounted for 44 percent of total revenues. Cloud-based revenues increased 96 percent year-over-year to \$12.2 million. Product revenues were \$94.7 million and service revenues were \$23.4 million, up 19 percent and 32 percent, respectively, compared to 2010.
- Operating Income: GAAP operating income was \$21.6 million, with an operating margin of 10.3 percent, compared to \$23.4 million and an operating margin of 14.1 percent for 2010. Non-GAAP operating income was \$29.3 million, with an operating margin of 13.9 percent, compared to \$27.8 million and an operating margin of 16.7 percent for 2010.

The year-over-year decline in operating margin was primarily due to the shift toward cloud-based orders, which are recognized ratably over the life of the contract, and away from on-premise product orders, which are typically recognized as revenue on an upfront basis.

- Net Income: GAAP net income was \$14.8 million based on a 33.4 percent effective tax rate, compared to \$14.9 million based on a 34.0 percent effective tax rate for 2010. GAAP EPS was \$0.74 based on 19.9 million weighted average diluted shares outstanding, compared to \$0.79 based on 18.9 million shares outstanding for 2010. Non-GAAP net income was \$24.9 million based on a 16.7 percent effective tax rate, compared to \$26.5 million based on a 1.8 percent effective tax rate for 2010 and non-GAAP EPS was \$1.25, compared to \$1.40 for 2010.
- Deferred Revenue: Total deferred revenue was \$75.4 million as of Dec. 31, 2011, up 39 percent from \$54.1 million at the end of 2010. Unrecognized future cloud contracts were \$34.6 million as of Dec. 31, 2011, up 172 percent from \$12.6 million at the end of 2010.
- Cash and Cash Flow: As of Dec. 31, 2011, the company had cash and cash equivalents and investments of \$92.5 million, an increase compared to \$85.9 million at the end of 2010. During 2011, the company generated operating cash of \$21.4 million and used \$13.4 million for acquisitions and \$13.3 million for purchase of property and equipment, including significant fourth-quarter purchases to support facilities expansions and cloud operations.

A reconciliation of GAAP to non-GAAP financial measures has been provided in the financial statement tables. An explanation of these measures is also included below under the heading "Non-GAAP Measures."

Additional Fourth Quarter and Full Year 2011 Highlights:

- For the fourth quarter of 2011, the company had 6 orders over \$1.0 million and 31 additional orders over \$250,000, compared to 5 and 26, respectively, during the same period last year.
- For the full year 2011, the company had 17 orders over \$1.0 million and 96 additional orders over \$250,000, compared to 19 and 71, respectively, for 2010.
- The company launched Customer Interaction Center™ (CIC) version 4.0, a major new release of its flagship all-in-one IP communications software suite, which added real-time speech analytics, increased scalability, Web portal access, and a private cloud deployment model.
- The company launched Quick Spin, a cloud-based communications-as-a-service trial program, providing a risk-free introduction to sophisticated applications with set-up time in minutes.
- The company was named among the Top 500 Software and Service Providers by Software Magazine for the eleventh consecutive year.
- The company was positioned in the Leaders Quadrant in Gartner's Magic Quadrant for Contact Center Infrastructure, Worldwide report for the fourth consecutive year.
- The company was honored by Frost & Sullivan with its Company of the Year, Contact Center Systems North America award for the second

consecutive year.

- The company was ranked by Forbes Magazine among America's Best Small Companies for the second consecutive year.

#### About Interactive Intelligence

Interactive Intelligence Group Inc. (Nasdaq: ININ) is a global provider of unified business communications solutions for contact centre automation, enterprise IP telephony, and business process automation. The company's solutions, which can be deployed via an on-premise or hosted model, include vertical-specific applications for insurance and collections. Interactive Intelligence was founded in 1994 and has more than 4,000 customers worldwide. The company is among Forbes Magazine's 2011 Best Small Companies in America and Software Magazine's 2011 Top 500 Global Software and Services Suppliers. It employs approximately 1,000 people and is headquartered in Indianapolis, Indiana. The company has offices throughout North America, Latin America, Europe, Middle East, Africa and Asia Pacific. Interactive Intelligence can be reached at +61 2 8198 4800 or [info\\_aunz@inin.com](mailto:info_aunz@inin.com); on the Net: [www.inin.com/au-nz](http://www.inin.com/au-nz)

#### Non-GAAP Measures

The non-GAAP measures shown in this release include revenue which was not recognized on a GAAP basis due to purchase accounting adjustments and exclude non-cash stock-based compensation expense for stock options, the amortisation of certain intangible assets related to acquisitions by the company and non-cash income tax expense. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are included with the financial information included in this press release. These measures are not in accordance with, or an alternative for, GAAP and may be different from non-GAAP measures used by other companies. Stock-based compensation expense and amortisation of intangibles related to acquisitions are non-cash and certain amounts of income tax expense are non-cash. Management believes that the presentation of non-GAAP results, when shown in conjunction with corresponding GAAP measures, provides useful information to management and investors regarding financial and business trends related to the company's results of operations. Further, management believes that these non-GAAP measures improve management's and investors' ability to compare the company's financial performance with other companies in the technology industry. Because stock-based compensation expense, non-cash income tax expense amounts and amortisation of intangibles related to acquisitions can vary significantly between companies, it is useful to compare results excluding these amounts. Management also uses financial statements that exclude stock-based compensation expense related to stock options, non-cash income tax amounts and amortisation of intangibles related to acquisitions for its internal budgets.

All figures provided in this press release are in US dollars.