

Customer Value Enhancement Award, Unified Communications North America, 2011

Frost & Sullivan's Global Research Platform

Frost & Sullivan is in its 50th year in business with a global research organization of 1,800 analysts and consultants who monitor more than 300 industries and 250,000 companies. The company's research philosophy originates with the CEO's 360-Degree Perspective™, which serves as the foundation of its TEAM Research™ methodology. This unique approach enables us to determine how best-in-class companies worldwide manage growth, innovation and leadership. Based on the findings of this Best Practices research, Frost & Sullivan is proud to present the 2011 North American Customer Value Enhancement Award in SMB Unified Communications to Digium.

Significance of the Customer Value Enhancement Award

Key Industry Challenges

The enterprise communications market is undergoing a significant paradigm evolution. Today's companies need to deploy an increasingly advanced range of communications applications and features to help them drive business and operational efficiency. However, various voice, messaging, video, conferencing, and collaboration applications are often disparate, resulting in management, administration, and maintenance that increase cost and complexity. Customers, SMBs in particular, are looking for technologies and tools to help them consolidate their communications architectures, integrate applications, and reduce the cost and complexity of ownership. Vendors are responding by developing solutions that consolidate infrastructure components, simplify licensing and administration while at the same time provide end users with access to various advanced applications. Some of the most significant technology trends affecting the communications market today include mobility, consumerization, unified communications (UC), communications-enabled business processes (CEBP), virtualization, and cloud computing.

Frost & Sullivan's research has found that managing these technology trends and satisfying shifting business requirements is having a disruptive impact on SMB customers who often lack the necessary budgets and internal support expertise. Vendors are helping to address these challenges by adding more functionality to their unified communications platforms to include advanced conferencing and collaboration applications, mobility support, instant messaging, presence, video, UC clients, virtualized infrastructure components and integrations with other communications and business applications. This takes place while adhering to traditional SMB requirements for solutions that are cost-effective and easy to deploy, manage, and use. In the enterprise communications market where point products and functionality are commoditized, vendors need to find new means of differentiation. As such, vendors are seeking to improve their business models and reposition themselves for competition in a rapidly evolving value chain. Some specific vendor strategies include expanding their channel networks, bundling products and services for more complete and

cost-effective offerings, structuring a more compelling value proposition, and building ecosystems for joint product development and go-to-market initiatives.

Frost & Sullivan believes that the vendors who can deliver greater value to their customers by helping them cut infrastructure costs, integrate applications to enable advanced features, and more effectively support geographically dispersed and mobile employees are the most likely to gain a competitive advantage in the communications marketplace. As businesses tackle technology challenges in this unfavorable macro-economic environment, they are also seeking to collaborate with vendors that have a strong reputation for delivering reliable and cost-effective solutions, thus providing productivity benefits to end users and administrators. Frost & Sullivan feels that the vendors who successfully address these needs will enjoy higher growth rates, as well as greater customer satisfaction and loyalty.

Best Practice Award Analysis for Digium

The Frost & Sullivan Award for Customer Value Enhancement is presented each year to the company that has demonstrated excellence in implementing strategies that proactively create value for its customers with a focus on improving the return on the investment that customers make in its services or products. This Award recognizes the company's inordinate focus on enhancing the value that its customers receive, beyond simply good customer service, leading to improved customer retention and ultimately customer base expansion.

Digium's Performance in the SMB Unified Communications Market

Already well established as the leading open-source software developer of IP communications solutions, Digium is making its presence felt in the SMB Unified Communications (UC) market. While the UC market overall is extremely difficult to quantify, Frost & Sullivan believes that desktop unified client license shipments are a key performance indicator of UC market growth. Within the caste of SMB-focused UC vendors, Digium stands among the leaders with approximately 27 percent increase in licensed user activations of its Switchvox Switchboard UC client year-over-year. In fact, the revenues from Switchvox represent the fastest growing part of Digium's business; representing approximately 30 percent of the company's aggregate revenues.

Digium's success with Switchvox is commendable when considering intensifying pressures in the SMB UC marketplace. Larger, more resourceful, and better-established rivals now view this sector as a growth segment. Accordingly, they are devoting increased R&D and marketing resources to it. In this evolving sector, point products, such as all-in-one PBX systems have become commodities. Vendors are now seeking differentiation for their SMB PBXs by adding advanced capabilities, transforming them into UC platforms while still adhering to the price sensitivities and ease-of-use attributes required by their target audience. Against the backdrop of these mounting pressures and expanded customer choice, Digium's growth is a testament that UC solutions deliverables and value propositions

are resonating with SMB decision makers.

Key Performance Drivers for Digium

Factor 1: Competitive UC Feature Set

Digium's Switchvox is a turnkey unified communications platform for small and medium businesses. A true unified communications system, Switchvox integrates PBX, unified messaging, conference bridge, fax server, instant messaging, presence, video calling, mobility, call queues, recording and monitoring, as well as reporting and call logging software functions onto a single rack mount or desktop appliance. All of these applications can be accessed via the highly customizable Switchboard UC client who provides every user with a personalized view of their communications environment and tools. The system is also designed to support standards-based SIP phones to provide customers with a wide range of features, price points, and sources to purchase their end points.

Based on scalability, applications support, and applications integration, Switchvox is competitive with all similarly positioned products in its class.

Factor 2: Pricing

Switchvox comes at an extremely competitive price. A turnkey Switchvox 355 appliance for 400 users with all software and hardware redundancy lists for \$5,995. A single activation license provides users with access to all embedded applications and features, including the Switchboard UC interface. Additionally, the first 10 user licenses are free with every Switchvox platform. Price has always been a key criterion for SMBs, and Switchvox delivers in this regard, particularly compared to alternative solutions that charge for add-on applications that are native to Switchvox and the server hardware required to support it. Furthermore, subscription plans for software updates to receive new features and technical support start at a list price of just \$10 per user per year.

However, in today's fiercely competitive market, customers expect more value and vendors need to deliver that value to stand out. Accordingly, Digium does not charge for access to its APIs. In the system base pricing users will find plug-ins for Microsoft Outlook and Firefox, as well as pre-built Switchboard or dashboard panels for integration with Salesforce.Com and Sugar CRM, social media integration tools (i.e LinkedIn, Facebook, Twitter, etc.), and additional web mashups based on the open API (such as Google Maps; weather, financial, and traffic tickers). Additionally, customers and partners can develop CEBP integrations by downloading software development kits or accessing the Digium developer website and forums at no charge. With the majority of alternative SMB UC solutions, these capabilities are often billable (if appropriate APIs are in fact present) or require additional integration services. These inclusive capabilities provide cost-conscious SMBs with opportunities to customize and to innovate their communications solutions for a competitive edge.

Factor 3: Customer value

There is more to customer value than simply delivering a lot of functionality for a reasonable purchase price. Customer value also extends to total cost of ownership as well. Digium designs its solutions for sophisticated functionality without complex ownership responsibilities. Switchvox is designed to be cost-effective over the lifecycle of the system, including ongoing support and maintenance costs as well as upgrades. All applications are pre-integrated and installed on a single turnkey appliance, which reduces power, real estate, and hardware requirements when compared to multi-box alternatives with similar functionality. All applications are administered using a common utility, thereby reducing training and time needed to manage it. IP phones can be deployed with auto-provisioning features, decreasing time and complexity of initial setup as well as for ongoing moves, adds, and changes. This functionality allows customers to self-manage their UC solution, which may otherwise require outside services.

Furthermore, Digium positions the integrated Switchvox applications set as tools to drive business efficiency. Built-in personal presence and call routing enable users to be reached when, where, and by whom they need, while unified messaging facilitates organization and prioritization of multiple message types. The pre-built and freely available APIs and plug-ins integrate Switchvox with business applications and web services. This provides users with access to communications capabilities from within Microsoft Outlook and Office applications, from web pages and from CRM software. All of these options can save time and improve productivity. Most notably, Switchvox UC is positioned to connect people and information in a contextual way. Contextual communications capability is at the heart of unified communications.

Conclusion

Frost & Sullivan's research shows that Digium stands out as one of the leading SMB-focused UC vendors when it comes to UC client shipment growth year-over-year. Based on scalability, UC applications support, and applications integration, Digium's Switchvox system holds its own in a tightly contested marketplace. Customers today expect both cost effectiveness and added value; Digium positions Switchvox UC applications as tools to drive business efficiency with the capability to connect people and information in a contextual way. Based on Frost & Sullivan's independent analysis of the North American SMB Unified Communications market, Digium is being recognized with the 2011 Customer Value Enhancement Award.

The CEO 360-Degree Perspective™ - Visionary Platform for Growth Strategies

The CEO 360-Degree Perspective™ model provides a clear illustration of the complex business universe in which CEOs and their management teams live today. It represents the foundation of Frost & Sullivan's global research organization and provides the basis on

which companies can gain a visionary and strategic understanding of the market. The CEO 360-Degree Perspective™ is also a “must-have” requirement for the identification and analysis of best-practice performance by industry leaders.

The CEO 360-Degree Perspective™ model enables our clients to gain a comprehensive, action-oriented understanding of market evolution and its implications for their companies’ growth strategies. As illustrated in Chart 5 below, the following six-step process outlines how our researchers and consultants embed the CEO 360-Degree Perspective™ into their analyses and recommendations.

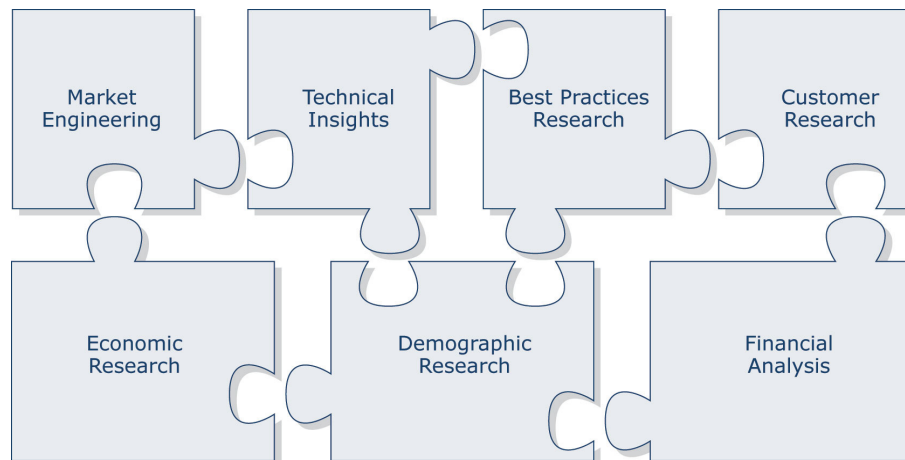
Chart 2: CEO's 360-Degree Perspective™ Model



Critical Importance of TEAM Research

Frost & Sullivan's TEAM Research methodology represents the analytical rigor of our research process. It offers a 360-Degree view of industry challenges, trends, and issues by integrating all seven of Frost & Sullivan's research methodologies. Our experience has shown over the years that companies too often make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Frost & Sullivan contends that successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. In that vein, the letters T, E, A and M reflect our core technical, economic, applied (financial and best practices) and market analyses. The integration of these research disciplines into the TEAM Research methodology provides an evaluation platform for benchmarking industry players and for creating high-potential growth strategies for our clients.

Chart 3: Benchmarking Performance with TEAM Research



About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best-in-class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best-practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from more than 40 offices on six continents. To join our Growth Partnership, please visit <http://www.frost.com>.