August 12, 2015

InterCloud Systems Reports Second Quarter Results

- 2nd Quarter Revenue Grew 25% to $22.2 Million
- 2nd Quarter Gross Profit Increased 17% to $6.6 Million

SHREWSBURY, N.J., Aug. 12, 2015 (GLOBE NEWSWIRE) -- InterCloud Systems, Inc. (the "Company" or "InterCloud") (Nasdaq:ICLD), a leading provider of cloud networking orchestration and automation solutions and services, today reported financial results for the second quarter 2015.

2nd Quarter and 6 Months Financial Highlights:

- Revenue increased 25% year-over-year to $22.2 million
- Gross Profit increased 17% year-over-year to $6.6 million
- Adjusted EBITDA of $361 thousand compared to $50 thousand in the second quarter of 2014
- Overall Gross Profit Margin increased to 32% for the first 6 months of 2015 compared to 30% for the first 6 months of 2014
- Gross Profit Margin of the cloud business segment was 83% for the quarter

Mark Munro, Chairman and CEO of InterCloud, stated, "We are extremely pleased to report that in the second quarter, InterCloud increased revenue 25% year-over-year. In addition to the rapid revenue growth, InterCloud increased gross profit margin for the six months ended June 30, 2015 to 32%, up from 30% over the comparable period in 2014. InterCloud remains focused on all of these important indicators of business success, and our goals are to continue to build upon this positive momentum as we move through the rest of 2015.

InterCloud remains focused on building industry leading automated cloud solutions. We grew headcount in our software development team in the second quarter to build out our leading edge cloud SDN proof of concepts (POCs) for our partners and customers. We believe we have a competitive advantage with NFV Grid, our unified cloud orchestration product. Simplifying how enterprises utilize software defined networking, network functions virtualization and cloud to cloud mobility is the cornerstone of our automated cloud services platform. The continued development of our unique automated solutions will lower our customers' costs, speed up time to market and create flexibility previously unattainable in legacy hardware-based IT environments."

Second Quarter of 2015 Financial Results:

Revenue for the second quarter ended June 30, 2015 increased by 25% to $22.2 million, compared to $17.8 million for the second quarter of 2014. This was the result of increased revenue from all of our operating segments.

Gross profit margin was 30% during the second quarter of 2015, compared to 32% for the comparable period in 2014. Decreases in the gross profit margin in our managed services and application and infrastructure segments were offset by an increase in our cloud segment. The gross profit margin in the cloud segment was 83% in the second quarter of 2015. There was no cloud segment in the comparable period in 2014.

The Company had a net loss attributable to common stockholders of $(14.5) million for the second quarter of 2015 compared to a net loss of $(10.0) million for the comparable period of 2014. The increase in net loss during the second quarter of 2015 compared to the comparable period of 2014 resulted from an increase in salaries and wages of $4.8 million, a change in the fair value of derivative instruments of $3.0 million and a loss on the exchange of shares totaling $2.3 million. This increase was offset by an increase in gross profit of $1.0 million, a decrease in the loss on extinguishment of debt of $2.8 million and an increase of $1.6 million in the benefit from income taxes. Salaries and wages expense includes non-cash stock compensation expense of $5.2 million for the second quarter of 2015 compared to $1.1 million for the second quarter of 2014.

Six Months Ended June 30, 2015 Financial Results:

Revenue for the six months ended June 30, 2015 increased by 35% to $43.2 million, compared to $31.9 million for 2014. This was the result of increased revenue from all of our business segments. Fifty two percent of revenue growth was organic and forty eight percent was through acquisitions.

Gross profit increased to 32% for the six months ended June 30, 2015, compared to 30% for the comparable period in 2014. The increase in gross profit margin was driven by operations in our cloud segment. The gross profit margin in the cloud segment was 83% in the first half of 2015. There was no cloud segment in the comparable period in 2014.

The Company had a net loss attributable to common stockholders of $(24.8) million for the six months ended June 30, 2015 compared to net income of $0.4 million for 2014. The increase in net loss during the six months ended June 30, 2015 resulted from an increase in the change in fair market of derivatives of $23.0 million, an increase in salaries and wages expense of $6.9 million, an increase in the loss from exchange of shares of $2.3 million and an increase in the benefit from income taxes of $2.1 million. This increase was offset by an increase in gross profit of $4.4 million and a decrease in the loss on extinguishment of debt of $7.0 million. Salaries and wages expense includes non-cash stock compensation expense of $6.5 million for the six months ended June 30, 2015 compared to $1.3 million for 2014.

Business Highlights for Second Quarter

- InterCloud to present at Liolios Group Gateway Conference in San Francisco on September 9th-10th, 2015
- InterCloud announces "Airwaves as a service" proof of concept (POC) transitioned into five year service contract
- InterCloud launches new data analytics platform for NFV Grid orchestration platform

- InterCloud announces cloudarc™ longterm archive storage product
- InterCloud extinguishes remaining balance of 12% convertible debentures
- InterCloud announces "SDN-network as a service" and proof of concept as a service POCaas

Term Loans and Related Party Notes as of June 30, 2015 (in millions)

Unsecured:		
Related Parties	$ 17.7	(1)
Private Equity Firms - Former Owners of VaultLogix	15.6	(2)
Other Unsecured	1.1	
Secured:		
White Oak Term Loan	11.9	(3)
Senior Secured	5.9	(4)
Total Term Loans and Related Party Payables	$ 52.3*	

(1) The Company does not pay cash interest. Blended interest rate of 5.4%. Maturing between May 2016 and January 2018. $12.5 million is convertible into common shares.

(2) The Company does not pay cash interest. Interest rate of 8.0%. Maturing in October 2017. Convertible at $6.36 per share.

(3) Secured by the assets of VaultLogix. VaultLogix is currently servicing this term loan out of free cash flow, which includes a quarterly principal payment of $500,000 and cash interest at 12%.

(4) Secured by the assets of the Company (excluding VaultLogix). Cash interest rate at 12%.

*This balance is net of debt discounts $5.7 million.

Use of Non-GAAP Financial Measures

This earnings release includes the following Non-GAAP financial measures; Adjusted EBITDA, Non-GAAP net income (loss) and Non-GAAP net income (loss) per share. We define adjusted EBITDA as net loss adjusted to exclude interest income, interest expense, income taxes, depreciation and amortization, stock based compensation, transaction costs from acquisitions, certain legal expenses, salaries for terminated employees, change in the fair value of derivative instruments, non-controlling interests, losses from conversion of debt, modification of debt, extinguishment of debt, contingent consideration, and exchange of shares.

We define Non-GAAP net income (loss) as net loss adjusted to exclude interest income, income taxes, stock based compensation, transaction costs from acquisitions, certain legal expenses, salaries for terminated employees, change in the fair value of derivative instruments, non-controlling interests, losses from conversion of debt, modification of debt, extinguishment of debt, contingent consideration, and exchange of shares.

We have provided below a reconciliation of each of Adjusted EBITDA and Non-GAAP net income (loss) to net loss, the most directly comparable GAAP financial measure. Neither Adjusted EBITDA nor Non-GAAP net income (loss) should be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP.

We believe that Adjusted EBITDA and Non-GAAP net income (loss) are useful because they facilitate operating performance comparisons on a period-to-period basis as they exclude variations primarily caused by changes in the excluded items noted above. In addition, we believe that Adjusted EBITDA, Non-GAAP net income (loss) and similar measures are widely used by investors, securities analysts, rating agencies and other parties in evaluating companies as measures of financial performance.

Our use of each of Adjusted EBITDA and Non-GAAP net income (loss) has limitations as an analytical tool, and you should not consider either in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect the payment or receipt of interest or the payment of income taxes;
- Neither Adjusted EBITDA nor Non-GAAP net income (loss) reflects changes in, or cash requirements for, our working capital needs;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditures requirements for such replacements or for new capital expenditures or any other contractual commitments;
- Nether Adjusted EBITDA nor Non-GAAP net income (loss) consider the potentially dilutive impact of shares issued or to be issued in connection with share-based compensation or warrant issuances; and
- Other companies, including companies in our own industry, may calculate Adjusted EBITDA and Non-GAAP net income (loss) differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, you should consider Adjusted EBITDA and Non-GAAP net income (loss) alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results. In addition, in evaluating Adjusted EBITDA and Non-GAAP net income (loss), you should be aware that in the future we will incur expenses such as those that are the subject of adjustments in deriving Adjusted EBITDA and Non-GAAP net income (loss) and you should not infer from our presentation of Adjusted EBITDA and Non-GAAP net income (loss) that our future results will not be affected by these expenses or any unusual or non-recurring items.

About InterCloud Systems, Inc.

InterCloud Systems, Inc. is a cloud computing company which provides end-to-end information technology (IT) and next-generation network solutions including Software Defined Networking (SDN) and Network Function Virtualization (NFV) orchestration to the telecommunications service provider (carrier) and corporate enterprise markets through cloud solutions and professional services. Additional information regarding InterCloud may be found on InterCloud's website at www.intercloudsys.com.

Forward Looking Statements

Statements in this press release regarding InterCloud that are not historical facts are forward- looking statements and are subject to risks and uncertainties that could cause actual future events or results to differ materially from such statements. Any such forward-looking statements, including, but not limited to, financial guidance, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not directly or exclusively relate to historical facts. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "forecasts," "predicts," "potential," or the negative of those terms, and similar expressions and comparable terminology. These include, but are not limited to, statements relating to future events or our future financial and operating results, plans, objectives, expectations and intentions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these expectations may not be achieved. Forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to known and unknown risks, uncertainties and other factors outside of our control that could cause our actual results, performance or achievement to differ materially from those expressed or implied by these forward-looking statements. In addition to the risks described above, these risks and uncertainties include: our ability to successfully execute our business strategies, including integration of the recent acquisitions of AW Solutions, Inc., Integration Partners-NY Corporation, RentVM, Inc. and VaultLogix, LLC and the future acquisition of other businesses to grow our company; customers' cancellation on short notice of master service agreements from which we derive a significant portion of our revenue or our failure to renew such master service agreements on favorable terms or at all; our ability to attract and retain key personnel and skilled labor to meet the requirements of our labor-intensive business or labor difficulties which could have an effect on our ability to bid for and successfully complete contracts; our failure to compete effectively in our highly competitive industry could reduce the number of new contracts awarded to us or adversely affect our market share and harm our financial performance; our ability to adopt and master new technologies and adjust certain fixed costs and expenses to adapt to our industry's and customers' evolving demands; our history of losses, deficiency in working capital and a stockholders' deficit and our ability to achieve sustained profitability; material weaknesses in our internal control over financial reporting and our ability to maintain effective controls over financial reporting in the future; our substantial indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations; the impact of new or changed laws, regulations or other industry standards that could adversely affect our ability to conduct our business; and changes in general market, economic and political conditions in the United States and global economies or financial markets, including those resulting from natural or man-made disasters.

These forward-looking statements represent our estimates and assumptions only as of the date of this release and, except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this release. Given these uncertainties, you should not place undue reliance on these forward-looking statements and should consider various factors, including the risks described, among other places, in our most recent Annual Report on Form 10-K and in our Quarterly Reports on Form 10-Q, as well as any amendments thereto, filed with the SEC.

Consolidated Statement of Operations

(Dollar amounts in thousands, except per share data)

(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Revenues	$ 22,246	$ 17,838	$ 43,239	$ 31,913
Gross Profit	6,637	5,670	14,012	9,604
Operating Expenses	13,479	8,003	23,950	14,668
Loss from operations	(6,842)	(2,333)	(9,938)	(5,064)
Other (expense) income, net	(9,038)	(7,422)	(15,966)	2,154
Net loss before provision for (benefit from) income taxes	(15,880)	(9,755)	(25,904)	(2,910)
(Benefit from) provision for income taxes	(1,367)	190	(1,224)	(3,366)
Net (loss) income	(14,513)	(9,945)	(24,680)	456
Net (loss) income attributable to InterCloud Systems, Inc.'s common stockholders	$ (14,476)	$ (9,965)	$ (24,830)	$ 383
Basic net (loss) income per share	$ (0.69)	$ (0.82)	$ (1.30)	$ 0.04
Diluted loss per share	$ (0.69)	$ (0.96)	$ (1.30)	$ (1.91)
Basic weighted average common shares outstanding	20,883,458	12,199,393	19,056,275	10,832,103
Diluted weighted average common shares outstanding	20,883,458	12,265,746	19,056,275	11,754,340

Selected Balance Sheet Data

(Dollar amounts in thousands, except per share data)

(unaudited)

	June 30, 2015	December 31, 2014
Cash	$ 5,274	$ 5,470
Accounts receivable, net	17,200	19,421
Total current assets	24,632	28,948
Goodwill and intangible assets	88,709	91,613
Total assets	116,029	122,917
Total current liabilities	37,324	41,966
Other liabilities, including long-term		

debt	46,431	44,711
Stockholders' equity	32,274	36,240

Reconciliation of Net (Loss) Income to Adjusted EBITDA

(Unaudited)

(Dollar amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net (loss) income	$ (14,476)	$ (9,945)	$ (24,830)	$ 456
Non-GAAP Adjustments:				
Interest expense	2,411	3,358	6,071	6,634
(Benefit from) provision for income taxes	(1,367)	190	(1,224)	(3,366)
Depreciation and amortization	1,623	868	3,373	1,386
Stock-based compensation	5,160	1,076	6,483	1,259
Salaries for terminated employees	117	--	812	--
Acquisition costs	--	--	--	225
Certain litigation costs	303	419	668	689
Change in fair value of contingent consideration	--	--	(370)	--
Change in fair value of derivative	1,221	(1,813)	196	(22,791)
Loss on settlement of contingent consideration	152	--	205	--
Loss on conversion of debt	1,096	1,373	1,113	1,679
Loss on extinguishment of debt	1,753	4,513	2,960	9,948
Loss on modification of debt	--	--	2,991	2,385
Loss on exchange of shares	2,331	--	2,331	--
Other expense	74	(9)	99	(9)
Net (income) loss attributable to non-controlling interest	(37)	20	150	73
Adjusted EBITDA	$ 361	$ 50	$ 1,028	$ (1,432)

Reconciliation of Net (Loss) Income to Non-GAAP Net Loss

(Unaudited)

(Dollar amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net (loss) income	$ (14,513)	$ (9,945)	$ (24,680)	$ 456
Non-GAAP Adjustments:				
Taxes	(1,367)	190	(1,224)	(3,366)
Stock-based compensation	5,160	1,076	6,483	1,259

Salaries for terminated employees	117	--	812	--
Acquisition costs	--	--	--	225
Certain litigation costs	303	419	668	689
Change in fair value of contingent consideration	--	--	(370)	--
Change in fair value of derivative	1,221	(1,813)	196	(22,791)
Loss on settlement of contingent consideration	152	--	205	--
Loss on conversion of debt	1,096	1,373	1,113	1,679
Loss on extinguishment of debt	1,753	4,513	2,960	9,948
Loss on modification of debt	--	--	2,991	2,385
Loss on exchange of shares	2,331	--	2,331	--
Other	74	(9)	99	(9)
Net loss attributable to non-controlling interest	(37)	20	150	73
Non-GAAP net loss	$ (3,710)	$ (4,176)	$ (8,266)	$ (9,452)
Non-GAAP net loss per share:				
Basic	$ (0.18)	$ (0.34)	$ (0.43)	$ (0.87)
Diluted	$ (0.18)	$ (0.34)	$ (0.43)	$ (0.80)
Weighted average common shares outstanding:				
Basic	20,883,458	12,199,393	19,056,275	10,832,103
Diluted	20,883,458	12,265,746	19,056,275	11,754,340

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Source: InterCloud Systems, Inc.