November 12, 2015

InterCloud Systems Reports Third Quarter Results

- 3rd Quarter Gross Profit Increased 33% to $7.2 Million
- 3rd Quarter Revenue Grew 5% to $21.7 Million
- 9 months Revenue up 25% over 2014
- 9 months Adjusted EBITDA reaches $1.9 Million

SHREWSBURY, N.J., Nov. 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 third quarter of 2015.

3rd Quarter and 9 Months Financial Highlights:

- Gross Profit for Q3 jumps 33% year-over-year to $7.2 million
- Revenue for Q3 increased 5% year-over-year to $21.7 million
- Adjusted EBITDA of $697 thousand compared to a loss of $(1.5) million for the third quarter of 2014
- Gross Profit Margin of cloud segment was 82% for the quarter
- Gross Profit Margin at 33% for the 9 months compared to 29% in 2014

Mark Munro, Chairman and CEO of InterCloud, stated, “We are very pleased to report that year to date, InterCloud’s revenue has grown 25% over the same period in 2014. In addition to revenue growth, and equally important, we have increased our year to date gross profit margins to over 33% from 29% for the same period in 2014. Our goal is to continue to grow our business and focus on expanding our gross margins as we sell higher margin cloud services. InterCloud has some exciting new cloud products and services that will help us achieve those goals. Our near term and long term outlook is very positive and we look forward to ramping up our portfolio of recurring revenue. InterCloud is positioned competitively with a robust private cloud portfolio of services, an industry leading software development team, and an aggressive sales and engineering group that will ultimately help us achieve our goals and objectives of being a market leader in cloud networking orchestration and automation solutions to enterprise and service provider markets.”

Third Quarter of 2015 Financial Results:

Revenue for the third quarter ended September 30, 2015 increased by 5% to $21.7 million, compared to $20.5 million for the third quarter of 2014. This was the result of increased revenue from our managed services and recently acquired cloud services segment. These increases were offset by a decline in revenue from our professional services segment.

Gross profit margin was 33% during the third quarter of 2015, compared to 26% for the comparable period in 2014. Increases in the gross profit margin in our managed services and cloud segments were offset by a decrease in our professional services segment. The gross profit margin in the cloud segment was 82% in the third 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 $(2.7) million for the third quarter of 2015 compared to a net loss of $(8.7) million for the comparable period of 2014. The decrease in net loss during the third quarter of 2015 compared to the comparable period of 2014 resulted from an increase in gross profit of $1.8 million. This was offset by an increase in salaries and wages of $1.1 million. Salaries and wages expense includes non-cash stock compensation expense of $885 thousand for the third quarter of 2015 compared to $557 thousand for 2014. Also, the increase resulted from a decrease in goodwill and intangible asset impairment charges. During the third quarter of 2014, the Company recorded impairment charges of $3.8 million. The Company had net increases in gains on contingent consideration, conversion of debt and extinguishment of debt totaling $2.7 million. These increases were offset by changes in fair value of derivative instruments of $1.2 million.

Nine Months Ended September 30, 2015 Financial Results:

Revenue for the nine months ended September 30, 2015 increased by 23% to $64.9 million, compared to $52.6 million for 2014. This was the result of increased revenue from our cloud and managed services segments.

Gross profit increased to 33% for the nine months ended September 30, 2015, compared to 29% for the comparable period in 2014. The increase in gross profit margin was driven by operations in our cloud and managed services segments. The gross profit margin in the cloud segment was 83% in the first nine months of 2015. There was no cloud segment in the comparable period in 2014.

The Company had a net loss attributable to common stockholders of $(27.5) million for the nine months ended September 30, 2015 compared to a net loss of $(8.6) million for 2014. The increase in net loss during the nine months ended September 30, 2015 resulted from an increase in the change in fair value of derivatives of $24.2 million and an increase in salaries and wages expense of $6.6 million. This was offset by an increased gross profit of $6.1 million, a decrease in goodwill and intangible asset impairment charges totaling $3.8 million and a decrease in the loss on extinguishment of debt of $4.6 million. Salaries and wages expense includes non-cash stock compensation expense of $7.3 million for the nine months ended September 30, 2015 compared to $1.8 million for 2014.

Business Highlights for Third Quarter

- InterCloud signed its largest two contracts in history worth $19M
- InterCloud announces “Dpod Private Cloud offering with Juniper Contrail and Openstack”
- InterCloud launches new SAS offering for Virtual Network Function validation

- InterCloud announces over $31M in new contracts in 3rd quarter

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, gains and 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, gains and 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 leading provider of cloud networking orchestration and automation, for Software Defined Networking (SDN) and Network Function Virtualization (NFV) cloud environments to the communications service provider 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 3 months ended September 30,		For the 9 months ended September 30,	
	2015	2014	2015	2014
Revenues	$ 21,675	$ 20,548	$ 64,914	$ 52,461
Gross Profit	7,199	5,433	21,211	15,037
Operating Expenses	8,600	13,026	32,550	27,696
Loss from operations	(1,401)	(7,593)	(11,339)	(12,659)
Other (expense) income, net	(1,050)	(938)	(17,016)	1,217
Net loss before provision for (benefit from) income taxes	(2,451)	(8,531)	(28,355)	(11,442)
Provision for (Benefit from) income taxes	220	127	(1,004)	(3,239)
Net loss	(2,671)	(8,658)	(27,351)	(8,203)
Net loss attributable to InterCloud Systems, Inc.'s common stockholders	$ (2,654)	$ (8,642)	$ (27,485)	$ (8,259)
Basic net loss per share	$ (0.11)	$ (0.65)	$ (1.33)	$ (0.71)
Diluted loss per share	$ (0.11)	$ (0.65)	$ (1.33)	$ (1.41)

Basic weighted average common shares outstanding	23,431,871	13,313,973	20,529,686	11,554,715
Diluted weighted average common shares outstanding	23,431,871	13,376,539	20,529,686	13,653,693

Selected Balance Sheet Data
(Dollar amounts in thousands, except per share data)
(Unaudited)

	September 30, 2015	December 31, 2014
Cash	$ 3,857	$ 5,470
Accounts receivable, net	18,275	19,421
Total current assets	26,211	28,948
Goodwill and intangible assets	87,259	91,613
Total assets	116,046	122,917
Total current liabilities	48,346	41,966
Other liabilities, including long-term debt	37,506	44,711
Stockholders' equity	30,194	36,240

Reconciliation of Net Loss to Adjusted EBITDA
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	$ (2,654)	$ (8,642)	$ (27,485)	$ (8,259)
Non-GAAP Adjustments:				
Interest expense	2,560	2,755	8,631	9,388
(Benefit from) provision for income taxes	220	127	(1,004)	(3,239)
Depreciation and amortization	1,703	585	5,076	1,971
Stock-based compensation	885	557	7,298	1,816
Salaries for terminated employees	-	-	812	-
Goodwill impairment charges	-	1,369	-	1,369
Intangible asset impairment charges	-	2,392	-	2,392
Certain litigation costs	1,143	297	2,046	1,148
Change in fair value of contingent consideration	(1,633)	860	(2,003)	860
Change in fair value of derivative	(927)	(2,141)	(731)	(24,931)
Loss on settlement of contingent consideration	-	-	205	-
Loss on conversion of debt	35	587	1,148	2,266
Gain (loss) on extinguishment of debt	(636)	(78)	2,324	9,869

Loss on modification of related party debt	-	-	2,990	-
Loss on exchange of shares	-	-	2,331	2,385
Other (expense) income	18	(185)	118	(194)
Net (income) loss attributable to non-controlling interest	(17)	(16)	134	56
Adjusted EBITDA	$ 697	$ (1,533)	$ 1,890	$ (3,103)

Reconciliation of Net Loss to Non-GAAP Net Loss
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	$ (2,654)	$ (8,642)	$ (27,485)	$ (8,259)
Non-GAAP Adjustments:				
Taxes	220	127	(1,004)	(3,239)
Stock-based compensation	885	557	7,298	1,816
Salaries for terminated employees	-	-	812	-
Certain litigation costs	1,143	297	2,046	1,148
Goodwill impairment charges	-	1,369	-	1,369
Intangible asset impairment charges	-	2,392	-	2,392
Change in fair value of contingent consideration	(1,633)	860	(2,003)	860
Change in fair value of derivative	(927)	(2,141)	(731)	(24,931)
Loss on settlement of contingent consideration	-	-	205	-
Loss on conversion of debt	35	587	1,148	2,266
Gain (loss) on extinguishment of debt	(636)	(78)	2,324	9,869
Loss on modification of related party debt	-	-	2,990	-
Loss on exchange of shares	-	-	2,331	2,385
Other (expense) income	18	(185)	118	(194)
Net (income) loss attributable to non-controlling interest	(17)	(16)	134	56
Non-GAAP net loss	$ (3,566)	$ (4,873)	$ (11,817)	$ (14,462)
Non-GAAP net loss per share:				
Basic	$ (0.15)	$ (0.37)	$ (0.58)	$ (1.25)
Diluted	$ (0.15)	$ (0.36)	$ (0.58)	$ (1.06)
Weighted average common shares outstanding:				
Basic	23,431,871	13,313,973	20,529,686	11,554,715
Diluted	23,431,871	13,376,539	20,529,686	13,653,693

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Source: InterCloud Systems, Inc.