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## Update on Zultys for Channel Partners

Zultys launched its first product in January 2003 and subsequently spent three years:

- developing a broad portfolio of products,
- building a global distribution channel
- nurturing a supply chain that can handle the growth

The products comprise:

- Media Exchanges (MXs) that include an IP PBX, presence server, instant message server, fax origination and termination, call center with call recording, and data communications gateways and servers
- Phones that include nine wired phones and two wireless phones
- Peripherals that include power over Ethernet switches, gateways, and battery units

The products support over 25 languages and are certified for sale in each market. The products are sold to distributors who sell to value added resellers (VARs) who sell to end users. This provides a strong foundation on which to expand sales. The company today has 42 distributors selling and servicing products in 115 countries. Zultys selected premium distributors in each region that include CTD and Windstream in the US, Equip in the UK, IT Way in Western Europe, Monis (Iskratel) in Eastern Europe, Anixter in Australia, Shun Shing IT in India and SAARC, and Digital China in China.

The products have unique selling points and differentiation from competitor's products. Zultys has many key customers who rely on its products for their core operations. These include: Accenture, Amazon.com, American Express, Cambridge University (UK), GMO, KKR, Mitsubishi, Potlatch, Sharp, Sinopec, Square Trade, Thai Airlines, and Unipart. Amazon.com has approximately 4000 users on Zultys systems in 40 locations worldwide.

Zultys had very ambitious plans to become a major player in the market. The company invested heavily in engineering and has the world's best products to show for it. Of the total 232 people employed worldwide in the middle of July 2006, 141 were associated with engineering.

This led to a high "burn rate" of capital conflicting with the cash requirement of manufacturing to meet accelerating sales demands. In 4Q05 and 1Q06, the company had more orders than it was capable of sup-





plying. Zultys was a victim of its own success in that the high burn rate and rapid growth had left the company starved of cash.

At the end of July, Zultys terminated most of its employees in the US. During the month of August, Zultys had discussions with several entities about a possible investment. However, as the state of the finances grew worse, the company was left with no alternative than to seek protection of the company's assets under Chapter 11 of the bankruptcy laws of the United States for the purpose of reorganizing its affairs. On 8 September 2006 the company filed its petition in San Jose Federal Court.

The Chapter 11 filing protects the company's assets from creditors and potential lawsuits. Several large well known US companies like United Airlines and Delta Airlines are still trading and flying people all around the world during a similar process. The company is able to continue its business unfettered by outside claims. The entire Chapter 11 process is geared towards putting productive assets back to work, employing people, maintaining a healthy economy, and building long term value.

With the automatic stay of all actions, suits, and claims afforded by Chapter 11, management can continue building the company and enabling its people to continue to create great products and assist its customers worldwide. The company has increased its staff in the US and now has people employed around the world in R&D, manufacturing, sales, service, and support.

Support is being performed around the globe. In the US, we have appointed Ahmad Haghshenas to be in charge of technical support. He has been with Zultys for over seven months. Previously, he was the director of technical operations at Larscom where he was responsible for support, training, and installation services. Ahmad has been in support roles for 15 years. Helping to manage the support team is Runi Ngim who is our technical lead in Sunnyvale and who has been with Zultys for 2½ years.

Our branch offices continue to provide support for Zultys products around the globe. This allows us to respond to e-mails sent to [support@zultys.com](mailto:support@zultys.com) around the clock as we have done for years.

Here is a quote from last week from one of our good resellers, Xiologix in Oregon USA:

“ ... we are still really impressed with what your support group has been able to get accomplished. It speaks volumes to us as a reseller and to our end users!”

We are starting again to fix software bugs and add new features. There will be a new release of software announced for the WIP2 in the next week.

The Chapter 11 process will result in a sale of the assets that is expected to take place mid-October 2006. Any party may bid for the assets. There have been several companies that are already in the PBX space who are interested in acquiring Zultys. Each of these is interested in keeping the company and its products alive.

Zultys management is in the process of securing financing and preparing to present for court approval a sale of the company in which the lead bid is from a group headed by current management (effectively a management buy out, or MBO). The business assets would then go forward with a new vehicle, free of the debts that led to the bankruptcy filing.

If successful with the MBO, working capital will be used largely to build product to meet demand. This will ensure there is adequate supply for the channel within two months of the MBO. Today, there is suffi-





cient hardware in inventory or in the process of being built to be able to supply demand for the intervening two to three months.

However the sale proceeds, I believe that the Zultys product line will continue to be developed, sold, supported, and remain the most advanced family on the market for some time to come.

There are some competitors of ours who will sure tell you that Zultys is in trouble. It is true we have hit a bump in the road, but those same competitors will have a hard time convincing you they have a superior product! Zultys has developed an integrated product which remains 18 months to two years ahead of our nearest rivals. As such the demand for the products exists and Zultys believes that with confidence restored in the channel that sales will grow rapidly in this booming market.

The ZIP 4x4L is available in limited supply, with another shipment expected from our manufacturer in China this week. The BTC will become available in November. We expect that most other Zultys products will be available for the remainder of 2006. Software licenses are available at any time.

Zultys hopes that you view our restructuring plans as positively as we do and that the rest of 2006 is profitable for all of us. We apologize for the inconvenience, but we are grateful for your business, loyalty, support, and patience. If you have any queries about any of these matters, please contact me.

Sincerely,

Iain Milnes

President

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PS. If you would like to participate in the funding for the MBO by taking an equity or debt position, please let the company's management know. We believe this could be a marvellous opportunity to participate in our company with the possibility of a high rate of return. Modest amounts from each of our business partners will ensure our success. Similarly, if you know anyone who may be interested, please put them in touch with Zultys.

