

LITTLE PLAYER, BIG MARKET

NetTalk.com is going against some big competitors in the emerging low-cost phone service marketplace — and contending with steep losses. But the founder and inventor of its key product has big plans for growing its niche position.

BY MIKE SEEMUTH
Special to The Miami Herald

NetTalk.com is a low-cost telephone service provider that faces much larger competitors with better known names. Rivals MagicJack and Vonage are among the most dominant companies using a technology called VoIP, or Voice over Internet Protocol, the same know-how that allows NetTalk.com to supply phone service for just pennies a day.

But little NetTalk.com, based in Miami Gardens, is gaining traction. Wal-Mart stores and other retail outlets are collecting about \$30 each for selling the company's VoIP devices, which provide telephone service that is renewable annually for about the same amount. If the public's adoption of VoIP phone service accelerates, NetTalk.com could become a success story with even a small share of the emerging market.

Just hanging on to customers is challenging in the absence of innovation, though. No one in the dynamic telecom industry can put product development on hold. So NetTalk.com is developing a suite of Internet services — television programming and home security monitoring, among others — to deliver more than just low-cost phone service.

"We're not a one-product company," said Anastasios Kyriakides, the founder, chairman and president of NetTalk.com. "A product can come and go. A product can become obsolete. We want to make sure we stay in the same field but have innovative products to grow this company."

Kyriakides is co-inventor of the company's main product, a device called the DUO, which is sold with cables and an electric adapter to access the NetTalk.com network. Customers use the cables to link the DUO to a landline telephone and to either a computer or a router with a high-speed Internet connection.

He may face long odds, but then again, Kyriakides has



BRAND NEW: Kyriakides holds the newest version of the NetTalk Duo with built-in WiFi.

plenty of business management experience. A native of Greece who moved to Florida in 1962, he attended Miami-Dade College and graduated Florida International University, then started his career as a community banker while working part-time as a tinkering inventor.

"I am an invention type of person," Kyriakides said in an interview inside his windowless, white-walled executive office. "I always like to see, if it can work this way, why can't it work that way?" That type of thought process led him and a technician to modify mathematical calculators and create what he calls the world's first electronic language translator, sold under the brand name Lexicon. "The first prototype was as big as a suitcase," he said. Kyriakides started another company in 1983 called Mylex, which developed an optical scanner-reader device. Mylex went public in 1984 at \$1 per investment unit, including one share of stock and a warrant to buy stock, and IBM acquired the company for \$12 per share in 1999.

Not all of his businesses have worked out that well. Kyriakides started Regency Cruise Lines in 1984 and took the company public in 1985. His daring investment in the cruise line began with his \$900,000 purchase of Regency's first ship, a scrapped vessel that was docked in his native Greece before he ren-

ovated it and returned it to service. The first time he saw the ship, Kyriakides recalled, "it was three decks underwater." The company sank, too, after about a decade of operation. Regency ceased its cruise operations and filed bankruptcy in 1995.

These days, his company provides local and long-distance calling in the United States and Canada for a flat annual fee of about \$30 for U.S. customers, or about \$40 in Canada, not including the cost of its similarly priced DUO device. Like most of its rivals, NetTalk.com charges customers extra for connect time in excess of 3,000 minutes per month. Extra charges apply to an international call outside United States and Canada unless both parties use a DUO device to connect.

NetTalk.com started operating in late 2008 with Kyriakides and two other employees in a one-room office, located in Miami Gardens near the busy Golden Glades interchange of Interstate 95, Florida's Turnpike and the Palmetto Expressway. NetTalk.com now owns a 25,000-square-foot building near its original location and has about 80 employees, many of them engineers, system analysts and software writers.

The bulk of NetTalk.com's capital has come from a New York-based investment firm called Vicis, the telephone service provider's principal



PHOTOS BY C.W. GRIFFIN/MIAMI HERALD STAFF

COMMAND CENTER: Anastasios Kyriakides, CEO of NetTalk, shows off the systems monitoring room where technicians ensure quality customer service. NetTalk offers consumer electronic products and VOIP phone services.

shareholder. "They have put close to \$25 million into this company," Kyriakides said. Vici's engineered two key transactions in September of 2008, the merger of NetTalk.com with a shell company and the combined company's immediate acquisition of a small VoIP business. The investment firm later arranged a public offering of stock by certain shareholders of the company.

NetTalk.com filed its initial stock registration statement with the Securities and Exchange Commission in February of 2009, and its stock price has been quoted on the OTC Bulletin Board, under ticker symbol NTLK, since September 2009.

The young company is still a money-loser, and its tiny stock price reflects the lack of profitability. Shares of NetTalk.com recently sold for 9 cents a share. The stock's peak price in the previous 12 months was 36 cents.

Heavy borrowing to cover cash needs has increased interest expense, impeding the company's effort to operate above the break-even point, and reduced advertising expenditures have done little to increase public awareness of NetTalk.com. Interest expense in the January-September period last year jumped to \$3.2 million from about \$944,000 during the same nine months in 2011. Advertising and marketing expenses in the nine month period dropped to about \$845,000 last year from \$1.78 million in 2011.

Revenues and net losses have headed in the right direction, though. NetTalk.com reported \$4.09 million of revenue in the nine months ended last September, up sharply from \$2.24 million in the same period in 2011. The company cut its net loss during the nine months almost in half to \$2.5 million from \$24.9 million in the same period in 2011.

MagicJack's and Vonage's revenues dwarf the top line at NetTalk.com. New Jersey-based Vonage Holdings

NetTalk.com

- Location: Miami Gardens
 - Founded: September 2008
 - Facility size: 25,000 square feet
 - Main products: Analog telephone adapters DUO and DUOWIFI for Internet-based phone service.
 - Work force: 80 employees
 - Annual revenue: \$5,389,903*
 - Annual net loss: \$15,994,122*
 - Common shares issued: 59,981,355**
 - Stock ticker symbol: NTLK
 - * In the 12 months ended Sept. 30, 2012
 - ** As of Sept. 30, 2012
- Source: Securities and Exchange Commission

Corp., listed under ticker symbol VG on the New York Stock Exchange, earned \$84 million of net income last year on \$849 million of revenue. Vonage is scheduled to report its first-quarter financial results May 1.

Publicly held MagicJack, listed on the NASDAQ stock exchange under ticker symbol CALL, earned \$55 million of net income on \$158 million of revenue last year, thanks largely to increased sales. MagicJack has corporate offices in Netanya, Israel, and West Palm Beach.

Both big rivals decisively outspent NetTalk.com last year on building brand awareness. MagicJack cut its advertising expenditures from \$32 million in 2011 to \$23 million last year, but that was still 27 times more than NetTalk.com spent. Vonage spent \$212 million on marketing last year, which was nine times more than MagicJack spent.

Heavy advertising by Vonage has "educated the market" by promoting VoIP calls as a cheap substitute for traditional telephone calls carried by such major network operators as AT&T and Verizon, said Nicholas Kyriakides, vice president of product and consumer operations at NetTalk.com and son of the company's founder.

NetTalk.com's rivalry with MagicJack is more heated. NetTalk.com and MagicJack are similar in that they charge annual fees for VoIP telephone service, while Vonage charges monthly. The Miami company and its

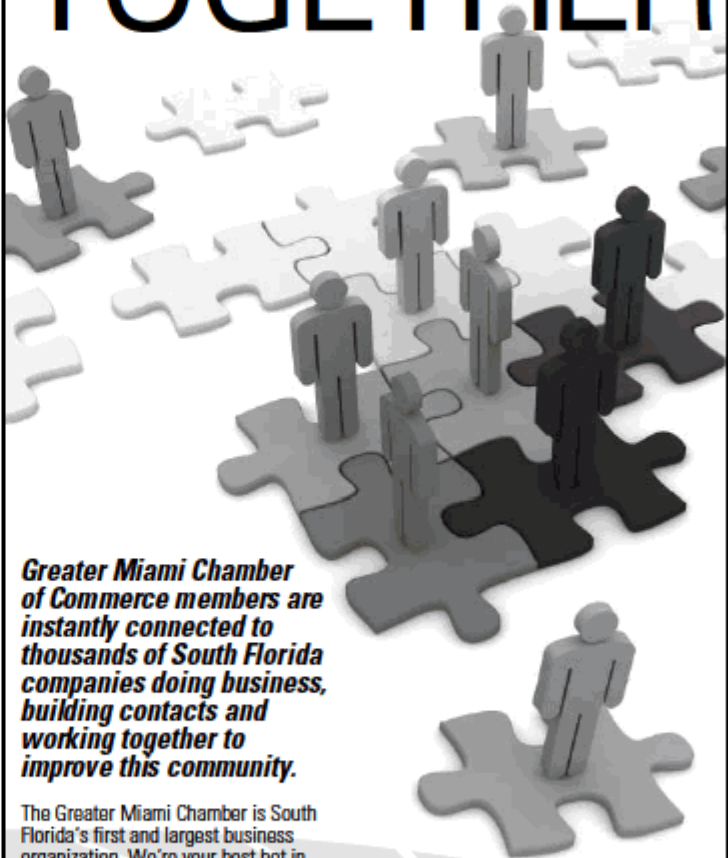
rival in West Palm Beach also have fought in court over patent infringement claims. Even the ring tone on Anastasio Kyriakides' cellphone, a rousing rendition of the song *Hit the Road, Jack*, underscores the intensity of his company's competition with MagicJack.

NetTalk.com appears to be on the right track by diversifying its consumer offering beyond cheap phone service. "We're finding more and more that consumers are looking for bundled service packages that not only do voice. You can get video, you can get branded data, that sort of thing," said Mike Jude, a Denver-based program manager with consulting firm Frost & Sullivan.

In techie terminology, NetTalk.com is one of many "over-the-top" providers of not just telephony but also video streaming and other digital services. "It just means you're providing a service over the top of somebody's broadband network. It can be any kind of service, really," Jude said. "Netflix, for example, is an over-the-top video provider. NetTalk is an over-the-top voice provider."

Voice bundled with video and other digital services is likely to prove competitively superior to basic phone service. "As long as over-the-top voice is a discrete service that people can subscribe to, it's not going to be a major factor in the market," Jude predicted. "It will continue to be a niche player, and it will continue to carve out a larger niche."

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