

TUCK SCHOOL OF BUSINESS AT DARTMOUTH



CENTER FOR
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Updated August 14, 2003

BeVocal, Inc. (B)

Having just closed a \$20M Series C round of financing, BeVocal was in a strong financial position relative to many other Silicon Valley startups, most of whom were facing difficult challenges securing funding. Yet despite this position, BeVocal was on the verge of facing some tough decisions.

With the economic environment rapidly deteriorating, visibility into additional customer activity, and thus revenues, was growing less and less clear. Just four months prior, BeVocal had presented to its Board of Directors a total end-of-year 2001 revenue forecast of \$7.4M. Having just closed its August books, it was becoming apparent that revenues would be significantly below forecast.

Year-to-date August revenues were \$1.7M and the company had definitive visibility into only an additional \$1.2M in revenues for the rest of the year. This shortfall was due to a number of factors, including a previously anticipated revenue ramp not transpiring from Qwest Wireless and Worldcom, its principal customers to date, which had lackluster marketing commitments. BeVocal's sales cycles were longer than anticipated, delaying the closing of new prospective customers including Telecorp, BellSouth and Cingular Wireless.

While its sales pipeline looked very promising (BeVocal was forecasting 2002 revenues to be \$15M+), BeVocal only had a definitive backlog as of August 2001 of approximately \$3.4M. The anticipated closing of contracts by year-end 2001 with Cingular and Telecorp would increase the backlog to \$6.7M, still far short of the 2002 revenue forecast. The company was optimistic of securing additional

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customer commitments, however visibility, and therefore book-able revenue events, was limited.

All the while, the company's expense structure remained high at a gross burn rate of approximately \$2.4M per month, despite a round of headcount reductions earlier in 2001. In April 2001, BeVocal did a reduction in force (RIF) of 25%, reducing headcount from 164 down to 122 (see Exhibit 1).

The largest components of its burn rate were employee payroll and benefits, a facility lease for its main office location at 1380 Bordeaux Dr. in Sunnyvale, CA (49,000 square feet at \$6/sq ft/month) and \$8M of capital leases for equipment for its hosting facility drawn down in 2000, burdening the company with approximately over \$270k/month in debt service payments (see Exhibit 2).

With this limited revenue visibility and high burn rate, the BeVocal management team knew that it would face tough questions from its Board in the upcoming September 2001 Board meeting, more specifically (thought questions):

1. What revenue plan should the company be forecasting as a base case for 2002?
2. Given this base case, what target burn rate can the company bear?
3. What could the management team do to adhere to this target burn rate?
4. How will this restructuring impact on new product development and customer facing activities?
5. How will this restructuring affect employee morale?
6. What metrics would the VCs likely use to measure financial performance? Would the proposed restructuring adhere to these metrics?

EXHIBIT 1: BEVOCAL HEADCOUNT SUMMARY¹

		Jul	Aug	Sep
		<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>
<u>EMPLOYEES BY CATEGORY</u>				
Network Operations	<i>a</i>	19	21	21
Engineering	<i>b</i>	52	53	53
Business Development	<i>c</i>	6	6	6
Marketing	<i>d</i>	12	12	12
Sales & Sales Support	<i>e</i>	13	14	14
CEO	<i>f</i>	3	3	3
Legal	<i>g</i>	5	5	5
Finance & Administration	<i>h</i>	8	8	8
Corporate Services	<i>i</i>	4	4	4
	Total	122	126	126

Notes

- a** Network Operations group responsible for maintenance of hosting facility and systems integration work for in-network software sales.
- b** Engineering team comprised of Platform Software Engineering team and Applications Development Team
- c** Business Development team responsible for the development and management of partnerships and alliances.
- d** Marketing team consists of Product and Corporate marketing functions.
- e** Sales & Sales Support team consists of account managers and customer solutions managers.
- f** Office of the CEO consists of CEO and admin support.
- g** Legal team consists of internal attorneys, paralegals and admin support.
- h** Finance & Administration team consists of finance and accounting personnel.
- I** Corporate Services team consists of facilities, reception and IT system administration personnel

¹ BeVocal, Inc. company information

EXHIBIT 2: BEVOCAL CASH FLOW SUMMARY²

		Jun '01	Jul '01	Aug '01	YTD '01	Total 2001
		Actual	Actual	Actual	Actual	Forecast
Revenue	a	\$ 420	\$ 275	\$ 312	\$ 1,650	\$ 2,926
Cash Sources:						
Customer Collections	a	288	171	490	1,630	3,140
Interest	b	29	12	175	556	722
Sale of Series C Preferred	c			19,850	19,850	19,850
Total Cash Sources		317	183	20,515	22,036	23,712
Cash Uses:						
Payroll & benefits	d	1,134	1,220	1,269	10,528	
Commissions & awards	e	22	13	18	184	
Recruiting & relocation	f	20	390	20	1,034	
Supplies & services	g	40	41	42	525	
Travel & entertainment	h	66	83	86	551	
Legal & audit fees	i	58	48	38	441	
Marketing services	j	74	62	44	588	
Development fees	k	12	12	12	103	
Facilities	l	292	292	292	3,345	
Hosting & content	m	183	182	182	1,644	
Lease payments	n	271	271	271	2,158	
Capex	o	188	213	109	1,082	
Gross Burn		2,359	2,826	2,382	22,184	
Net Burn		2,042	2,643	(18,133)	148	
Beginning Cash Balance		\$ 5,881	\$ 3,839	\$ 1,195	18,618	
Ending Cash Balance		\$ 3,839	\$ 1,195	\$ 19,328	19,328	

Notes

- a Revenue includes contractually committed payments from Qwest Wireless, Worldcom, and other customers secured up to that point in time. Discrepancies between revenues and customer collections due to timing differences and GAAP revenue recognition requirements.
- b Interest income on cash balances. Cash balances primarily invested in short-term CDs and cash equivalent vehicles.
- c Series C Preferred Stock round closed in August 2001.
- d Employee related payroll and benefits expenses. See Headcount Summary for employee detail.
- e Includes commissions for salespersons and special one-time cash awards to employees.
- f Includes normal staffing and recruiting charges for employee hires. July includes special one-time service fee paid to Christian & Timbers for recruitment of CEO candidate David Hood.
- g Includes employee related office G&A, such as office supplies, phone service, internet data service, etc.
- h Includes expenses related to employee travel, lodging, meals and entertainment.
- i Includes outsourced professional services fees to law and accounting firms.
- j Includes expenses related to marketing collateral and programs (conferences, promotions, analysts, etc.)
- k Includes expenses related to securing software and services necessary to sustain engineering and development.
- l Includes rent for 1380 Bordeaux site. Approximately 49k sq ft at \$6.00 per sq ft per month.
- m Includes expenses related to the maintenance of voice hosting facility. Also includes content charges for Total Voice Portal application suite.
- n Includes payments related to capital leases for equipment for voice hosting facility.
- o Includes various additional capital equipment purchased for engineering, hosting facility, or office needs.

² BeVocal, Inc. company information