

# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

## Teksouth Corporation



STEVE WILSHER is Founder and CEO of Teksouth Corporation, a 22-year-old, privately held firm with headquarters in Birmingham, Alabama, and strategically located program offices in the US and around the world. The company has grown from sale of print and network services, into a leading provider of data warehousing and decision support systems. Its primary high technology services include data warehouse development, implementation, and support; standalone/Web-based decision support systems tailored to customer requirements; and high speed, secure data transfer management. It has successfully developed and implemented terabyte-size data warehousing, supporting more than 19,000 users Air Force-wide, including the Office of the Secretary of the Air Force and all major USAF commands.

**(ABR605) TWST: Please tell us about your firm and what it does.**

**Mr. Wilsher:** Teksouth is a 22-year-old firm that I founded in December 1982. We're a small company that's poised to do some big things. In fact, we are doing some big things now.

We are heavily focused on the future and how our products will help us grow over the next few years. We were a very small, very profitable company for about 17 years. About five years ago, we made a conscious decision to accelerate our growth. It's paid off; we have doubled in size, and we are on a path where we anticipate that we will double in size about every four years.

Our past efforts have been almost exclusively focused on the Department of Defense. Now, we've expanded that focus; while we continue our work with the federal government, we're working on a technology transfer, on bringing those capabilities that we have developed for the Department of Defense into the commercial environment. So we want to leverage the successes that we've had in DoD in the commercial world. These serve as, I would say, the foundation for our company.

We have some very strong, very reliable products. We have a focus on customer service, excellent employees and solid management, as well as a very strong focus on ethical behavior. We've been highly conservative financially, so that we have good underlying financials, we have no long-term debt and very little short-term debt,

which allows us to be fiscally poised to bring our products into the broader commercial market.

**TWST: Let's talk about the products and what you are doing for the DoD.**

**Mr. Wilsher:** We have two products that we have developed in the DoD market that we think have broad commercial application. The first is a managed file transfer product that we believe can effectively spell the end of traditional FTP. Our product is called IQ Swift, and it's used when an individual or an organization needs to securely and reliably move large volumes of data from one point to another, from one point to many or from many points to one on a local area network or across the Internet. With all of the rules and regulations these days, like Sarbanes-Oxley and HIPAA, they need to move it fast, they need to move it securely and they need an audit trail with guaranteed delivery on the other end. IQ Swift does all of that.

Swift, which is actually an acronym that means "Secure, Web Interface, File Transfer," was initially developed at the specific request of the Defense Department. They needed to move large amounts of data across the world, securely, and they didn't see anything available that would meet their needs. The Air Force had a very, very high failure rate using FTP for file transfers. The delivery of information from point-to-point was just highly unreliable. And in addition to that, they had security concerns using standard FTP.

They came to us, and asked us to develop a better way of doing things. Which we did; DoD's been using Swift for more than two years, and it has moved numerous terabytes of data point-to-point around the world, and it's never had a failure of delivery. It's repeatedly transferred data quickly, reliably and securely; which is far more than you can say for most managed file transfer tools on the market today.

We've recently had a conversation with Frank Kenney of Gartner Group. He's a noted industry analyst who covers the managed file transfer space, as well other emerging technologies. He told us that even though he covers a lot of "sexy" topics, that fully half of all the queries that come to him deal with secure managed file transfer; companies are seeking better solutions, given the heightened security requirements. There is a very large demand in the market for good products in this space.

Well, we think that both our DoD Swift as well as our commercial version, IQ Swift, are very strong managed file transfer tools.

The second product that is going to fuel our growth and our future is a powerful decision support capability system for the mid-tier market. We're aiming at smaller-to-midrange companies that, until now, have not been able to afford the strong decision support and business intelligence Web tools that they need to query their databases and uncover information that would give them an advantage over their competitors. Big companies have had this capability for years; we're focused on bringing it to the mid-tier. So, these are the two products that are the basis, we believe, of our future growth and prospects for the future.

**TWST: Let's talk about what you've done with the DoD. How successful have these products been in that environment?**

**Mr. Wilsher:** As I mentioned earlier, Swift has worked impeccably for the Defense Department. Moving forward, it's an important product for us because virtually every market sector moves large files around of some sort.

For instance, we've begun tests with a number of firms in the oil and gas business. They are moving massive quantities of seismic data, and right now, there is no good method other than cutting tapes and mailing them. There is no good method for moving high volumes of data point-to-point. And of course, they are highly interested in security and in making sure that their data is analyzed and understood only by their organization; they don't want their competitors seeing it.

To a large degree, we're seeing the same challenges in the healthcare industry. There is a tremendous need to move large files, like MRI images, from an imaging company to a doctor's office and on to a hospital and back and forth, maybe even to include an insurance company. And the new HIPAA regulations are very strict on how you can move these files and who can access to them, how they must be secured and so on and so forth.

Until IQ Swift, there have not been any good strong managed file transfer tools to address the healthcare industry's needs. And the legal industry has the same problem, but it's case files and

it's mortgage documents and so forth, very voluminous records that need to be moved from one point to another. And so our product is designed to allow that to occur, but because of its design, it also works in a very secure environment. For instance, in a DoD classified environment, it will work just as well because of the types of encryption that we put on the information.

So now, translate all of this to the commercial market. Let's say you want to send digital photographs from your vacation to your daughter. You live in New Jersey, she lives in California, and the pictures take up about 150 megabytes or more. Well, you could put them on a CD and mail them to her.

But you both have broadband Internet access. Your first instinct is to simply e-mail her your photos. But e-mail servers are not meant to handle files of that size. Get enough of these e-mails going back and forth, and you can easily choke the server and shut it down.

So you have a rapidly growing consumer market for high-volume files, movies and music and photographs, images of all kind, as well as business records that small business people need to move point-to-point. IQ Swift is a simple and elegant solution.

IQ Swift is a tool with a very large market potential and it truly fits the model of leveraging the success that we've had at DoD, and focusing on this kind of a technology transfer into the commercial world.

**TWST: What is the advantage of Swift versus FTP?**

**Mr. Wilsher:** Let me expand on what I referenced earlier. There are three advantages specifically. One, is its ability to transfer files much faster while allowing a user to maximize bandwidth. Secondly, it's reliable. Swift provides guaranteed delivery with serious audit trails. If a node or a server or any component of the communications process dies, the system automatically continues attempting delivery until its delivery can be accomplished at the other end, and it restarts a transmission at a point of failure, so that it does not require you to begin all over again — maybe you had 75% completed earlier. Lastly, it brings DoD-level security to the movement, the transfer of that file. Mom and Dad may think that's not important when they want to see their daughter's vacation photos, but it is very significant in the business market with government regulations like HIPAA, Sarbanes-Oxley, DoD security, DoD classification, and there are numerous other regulations that different industries are having to address now. IQ Swift is designed to solve all of those challenges.

**TWST: What goals have you set for the company for the next two or three years?**

**Mr. Wilsher:** We believe that in the next couple of years, we are going to double in size. We believe that IQ Swift is going to drive a lot of that growth. We think that FTP's days are numbered, and our effort is to make this product understood with the various approaches that we are taking to its commercialization. We like that Gartner called IQ Swift "one of the cool new technologies of the year." Now, we've just got to do our marketing effort to introduce it to the world.

**TWST: What's going to be the strategy to get it into the commercial marketplace?**

**Mr. Wilsher:** We have several approaches in selected market segments. We are using channel marketing to target market verticals with large demand for managed file transfer.

We do not intend to build an internal large marketing team to commercialize this product. We think we have assembled an excellent channel team with success in complementary products. We believe this will be a good strategic addition to their arsenal of tools to carry to the marketplace.

**TWST: So you don't have to do it yourself?**

**Mr. Wilsher:** Correct.

**TWST: Do you have the team in place that you need to support what you want to do?**

**Mr. Wilsher:** We're growing. I would say that we are largely in place. We have some gaps that we are filling and we will continue to fill those gaps, but I think strategically, we have got a very sound team doing the market planning.

success into the commercial environment by bringing Teksouth's DSS capabilities to the mid-tier commercial environment.

**TWST: Can you tell us more about the value that you see your system providing to those mid-tier firms?**

**Mr. Wilsher:** Most mid-range companies simply can't implement a decision support system due to the cost. And it's more than just the cost of the hardware and software; they have to hire an integrator or do the integration themselves, then they have to buy individual components, and they have to put the whole system together. I liken it to going to the auto parts store and buying a new car out of their parts. You are not really sure if you are capable of putting it together, and if you are, you are not really sure what it is going to look like when you end.

We have built several environments for DoD, featuring our end-to-end decision support capability, and we have put them together in such a way so that they are easily prototyped and tested. They have a very low cost entry point, they're very easily maintained and they work with any kind of underlying data source, whether it is an old legacy system or a new state-of-the-art tool.

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We have an excellent team doing design and development work. We have an excellent testing environment and we are ramping up our customer support team at the present time. But of course, IQ Swift is just one of our products, and we think it is going to be an excellent one for the next several years.

But, as strong as IQ Swift's potential is, I believe we have an even stronger story to tell over in the decision support environment. We have built decision support systems for both the Air Force and the Army in multiple locations. In each case, they had good underlying legacy systems — the community calls them transactional systems — that had been operating for a number of years. They were doing a reasonably good job, but they really couldn't take the legacy information from their data warehouses and quickly assimilate it and integrate it with new data, and get it to senior executives, so that they could make informed decisions. Using a phrase that we use in the industry, they really couldn't turn the data into actionable information.

In the past, the information they received from their systems was too old, too dated, too unreliable or was missing key data. And so we built several decision support systems for the Air Force and Army, all of them are still operating and we are leveraging our

They are exceedingly fast to implement, and it allows mid-range companies to gain a level of decision support that they've not been previously able to afford.

We have developed some techniques that are very powerful and very simple to use that senior leaders of the Department of Defense rely on, every day, to manage large budgets. In fact, one of our systems manages the entire O&M budget for the Air Force. It is about a \$40 billion program, and we manage every transaction and provide insight where they can compare every transaction against past months, past fiscal years, project the future, tremendous insight into this particular type of budget within the Air Force.

I looked earlier today at the growth numbers. Our largest system in the Air Force has 13,000 daily users. In fiscal 2004, the user community doubled, the number of queries grew by 150%, and the response time for each user decreased by an average of 25%. Well, that is really unheard of; in fact, we refer to it internally as "the perfect storm."

And we're doing it at a cost per query of less than \$0.50. Well, that is one of the lowest cost solutions in the decision support world that you will find. So we have built some exceedingly power-

ful tools taking in mind organizational security, federal security, and we can bring these out now for other federal agencies as well as commercial organizations in a very short period of time.

**TWST: Do you have the financial resources to support all this?**

**Mr. Wilsher:** Yes, We have effectively no debt, a sound marketing strategy and superior products, and I believe we are poised — we own all of our products outright. I believe we are very well poised to support these. The issue is largely not an issue of financial resources, it's a marketing approach.

We're trying to be very prudent in how we approach the market. For instance, the markets for these two products are very different from one another. The market for managed file transfer ranges from individual consumers to the world's largest organizations; everyone needs to move information.

By contrast, our decision support tool is purely a commercial tool, but we are not going to be aiming at the Fortune 1000 size company, because the fact is, they're already spending millions and millions of dollars building their own decision support systems. We are going to be focusing on mid-range organizations that can't afford those high costs, but need the solid results that we can deliver.

**TWST: Who do you view as your competition in this space?**

**Mr. Wilsher:** In the decision support space, our competition is clearly the marketers of the various tools that are bolted together. Certainly, Oracle is very strong in that space and Teradata. Now, we have a good support relationship with Teradata, but in one sense, we would think of them as a competitor, but they are at the very large end of the market. Also, the companies that produce reporting tools, Cognos and Business Objects and a few others might be considered competitors although most do not offer a complete end-to-end solution.

Of course, we are at a completely different end of the market, and we are building relationships with both of those firms at the present time because we think it will benefit them and benefit us for the future. And so, from a competition perspective, we don't see any of these vendors really focusing on the mid-market. That doesn't mean we won't have competition; we obviously will, but the competition that is out there has been focusing on DoD accounts, federal government accounts, state government accounts and very large commercial businesses.

**TWST: So, you've got a bit of a first-mover advantage?**

**Mr. Wilsher:** I think so, yes.

**TWST: It sounds like we caught up with you at a good time to talk about what's going on.**

**Mr. Wilsher:** I think we have an exciting future ahead of us. We have some excellent products. We've got a great management staff. We've got a very stable labor force. We're a company of about 130 to 140 individuals, we have very little turnover. For a technology firm to have individuals on board who have been with us more than 20 years is very unusual. And I think we have a good story to tell. We have been conservative in the past, but we have added members to our management team who are bringing great vision and insight in the market; they're doing great strategic planning and I think that we are poised. I am going to be very surprised if in just a very, very few years we haven't tripled in size, and in fact, that is our plan.

**TWST: Given that plan, can you do it staying private or would you have to either become a public entity or be part of somebody bigger?**

**Mr. Wilsher:** Of course, that's a discussion for another time. We've certainly thought about other opportunities, and so far we've turned down all of those that have come along. We'll just have to see what the future holds.

**TWST: Thank you.**

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