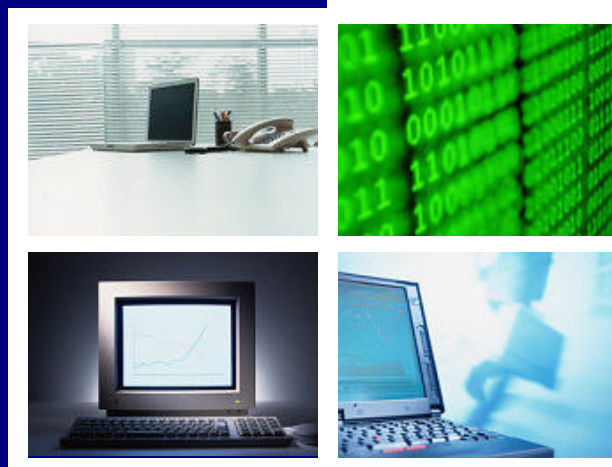


Business Process Management Software

Research Coverage Report

"Market Intelligence for Industry Players"

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Capstone Partners
Investment Banking Advisors

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Contents

| | |
|--|-----------|
| EXECUTIVE SUMMARY | 1 |
| MARKET PROFILE | 3 |
| Introduction | 3 |
| The BPM Universe | 4 |
| Pure-Play BPM Suites | 5 |
| Market Opportunity | 6 |
| Market Drivers | 7 |
| Industry Characteristics | 8 |
| Industry Trends | 11 |
| Competitive Environment | 13 |
| MARKET PERFORMANCE | 16 |
| Capstone BPM Index | 16 |
| Public Company Operating Data | 17 |
| BPM Company Trading Multiples | 17 |
| RECENT NOTABLE M&A TRANSACTIONS | 18 |
| PUBLIC COMPANY PROFILES | 23 |
| PRIVATE COMPANY LANDSCAPE | 31 |

EXECUTIVE SUMMARY

The pace and complexity of business has increased significantly over the last decade. Global competition, evolving information technology, and increased regulation have all created a more challenging management environment. To balance the effects of change on the enterprise, improve efficiency, and better control and monitor information flows, commercial and government organizations are increasingly turning to business process management (BPM) technology.

Global competition, evolving information technology, and increased regulation have led to increased demand for business process management technology.

BPM can be thought of, first and foremost, as a strategic concept; to more effectively design and manage process flows and enable more efficient execution and greater control. The concept of BPM has existed for many years and companies have sought to automate activities using a wide range of software applications, including EAI (enterprise application integration), process modeling, and document and workflow management. The current market for BPM solutions has evolved from this environment. As the demand for more complex process management has increased, the universe of BPM solutions has expanded to include not only these legacy applications, but also more comprehensive BPM systems that aggregate the functionality of individual components into end-to-end process management tools.

BPM software connects people and applications together and provides a platform through which to automate and execute repetitive activities within a defined process. The BPM software universe includes individual components that enable process management, such as EAI software, business rules engines, and tools for process design, simulation and modeling; and pure-play BPM software and suites. Pure-play BPM software facilitates end-to-end process management, integrating component functionality into one system. Pure-play products go beyond application integration or workflow management, enabling (i) process design; (ii) real-time actionable information flow; and (iii) human activity integration.

The BPM Software Market

Market Opportunity – Capstone Partners estimates that, in 2005, the total BPM software market generated between \$1.25 and \$1.50 billion in sales, and, of this, about \$600 to \$800 million was attributed to pure-play BPM software companies.

Market Growth – The BPM software market represents a significant growth opportunity, but is only in the early stages of development. Over the last two years, market growth has averaged over 20% annually and is expected to range between 15% to 20% per year over the next three to five years.

Vendor Universe – More than 100 competitors market products with BPM applications. The competitive landscape is relatively fragmented, and product capabilities and target customers vary significantly by competitor. The market has experienced only limited consolidation to date, but recent activity has increased.

Growth Drivers – Market demand drivers include 1) increased focus on compliance and regulatory issues; 2) continued drive for efficiency gains; 3) improved IT resource management and spending trends; and 4) increased globalization and M&A activity.

Increased Customer Adoption – Many current BPM software customers have limited their utilization of BPM to department-focused implementations. These successes are leading to broader, enterprise-wide roll-outs. The overall scale of implementations is beginning to increase.

Vendors Moving Down Market – Large companies and government organizations represent a majority of current BPM users. Some vendors are now beginning to target midsized and smaller companies. This segment of the market presents a significant future growth opportunity.

Increased Product Innovation – Vendors continue to evaluate new technology, including advanced process engines and analysis tools, to augment current functionality. Vendors also continue to develop new standard and industry-specific process templates that broaden overall BPM application potential.

Vertical and Horizontal Specialization – Increasingly, providers are incorporating additional industry and function-specific process capabilities and frameworks into system platforms. Capstone expects that the demand for specific process solutions will continue to drive BPM adoption and lead to broader enterprise-wide BPM usage.

Intensifying Competitive Landscape – The growth in BPM spending has drawn competitors from various submarkets, including major ERP and EAI vendors. To date, the market has supported a wide variety of BPM solutions, each addressing process management from a slightly different perspective. The convergence of related technologies around BPM is increasing competitive pressure. Capstone expects competition to continue to intensify as providers seek to differentiate their offerings more aggressively.

Accelerated Consolidation – Capstone expects consolidation activity to accelerate over the next 18 to 36 months (as illustrated by the recently announced acquisition of Fuego, Inc. by BEA Systems, Inc.). Competitive pressure is increasing and the emergence of pure-play BPM systems has helped better define technology requirements. As the competitive landscape solidifies, the quest for market share will drive consolidation among the market leaders. Capstone expects the market to consolidate around several large pure-play and enterprise software vendors.

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