



SECTOR SCOPE: The **Voice Technology** market is comprised of three major categories: (1) interactive voice response (IVR); (2) computer telephony integration (CTI); and (3) speech recognition. IVR is a hardware or software solution that accepts voice or touch-tone keypad inputs from a caller and provides appropriate responses in the form of voice, fax, callback, or e-mail. With CTI, IVR applications transfer the call to a call center where an agent can view data related to the caller. Speech recognition software listens to and recognizes spoken words in its preprogrammed vocabulary, acting upon commands to complete a customer query.

GROWTH OUTLOOK:

- ▶ In 2004, Voice Technology was estimated to represent a \$1.0 billion market. Looking forward, the market is expected to grow to \$1.3 billion by the end of 2005, and by 2009, it is projected to surpass \$3.0 billion, representing a 26.0% CAGR.
- ▶ Growth is expected to remain robust due to the continued prominence of the telephone as an interface with customers. Despite the growth of Internet-enabled customer service channels, an estimated 90.0% of all contact center traffic is still voice-related.
- ▶ The dominance of the telephone is not expected to wane in the near future; while contact centers handled 30.0 billion minutes of calls in 2005, this number is expected to surpass 35.0 billion in 2007.

Sources: Company Reports; Datamonitor, 2003.

DEMAND DRIVERS:

- ▶ **Replacement of Legacy Platforms Will Drive Sales** – The most significant near-term demand driver is expected to be the replacement of legacy systems rather than the sale of net new Voice Technology systems. As demands on legacy telephone systems increase, many older proprietary systems are found to be inadequate.
- ▶ **The Position of Voice Technology in the Enterprise Is Shifting** – As telephony becomes more integrated with IT systems, Voice Technology is increasingly viewed as an element of IT rather than a separate silo. IT managers have become the new decision makers and are focusing on hard metrics (e.g., ROI, TCO) in new purchases rather than just functionality. As a result, open standards-based solutions have begun to gain traction.
- ▶ **Emergence of VoiceXML as an Industry Standard** – The emergence of Voice Extensible Markup Language (VoiceXML), as an industry standard is an important catalyst in the market's evolution. Whereas an "end-to-end" offering was necessary when solutions were not easily integrated, standards-based applications have freed enterprises to look at alternatives to the proprietary solutions which previously dominated the market landscape.
- ▶ **New Telephony Applications to Increase Adoption** – In addition to conventional telephony applications (e.g., contact management centers, PBXes), new applications such as voice over IP (VoIP) and voice interfaces for web applications are expected to drive demand for more sophisticated and flexible voice solutions in the near future.

Sources: Company Reports; Datamonitor, 2003.

MARKET PERFORMANCE:

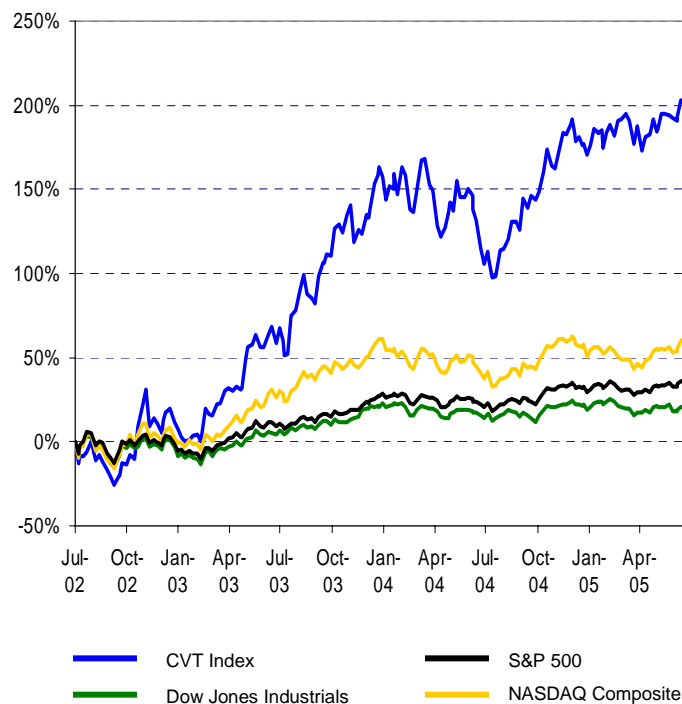
Public Equity Markets

Company Name	Ticker Symbol	Enterprise Value /		
		Revenue	EBITDA	EBIT
AltiGen Communications Inc.	ATGN	1.0x	N/A	N/A
Aspect Communications Corp.	ASPT	1.2x	5.1x	7.0x
Comverse Technology Inc.	CMVT	3.4x	25.6x	50.5x
Enghouse Systems Ltd.	ESL	1.8x	6.0x	8.4x
Fonix Corp.	FNIX	1.5x	N/A	N/A
Interactive Intelligence Inc.	ININ	1.2x	18.4x	68.7x
Intervoice Inc.	INTV	1.6x	9.1x	12.0x
Nice-Systems Ltd.	NICE	2.4x	17.1x	26.0x
Scansoft Inc.	SSFT	2.3x	26.4x	N/A
Witness Systems Inc.	WITS	2.8x	20.6x	46.9x

Average	1.9x	16.0x	31.4x
Median	1.7x	17.8x	26.0x
Harmonic Mean	1.7x	11.3x	15.9x

Enterprise Value = Market Capitalization + Debt – Cash.
Sources: Capital IQ; Company Reports.

Capstone Voice Technology Index



The Capstone Voice Technology Index is a market capitalization weighted index that includes the following companies: ATGN, ASPT, CMVT, ESL, FNIX, ININ, INTV, NICE, SSFT, WITS (July 2002 to July 2005).



Capstone Partners LLC is a leading national investment banking advisory firm dedicated to assisting middle market entrepreneurs through complex M&A and financing transactions.



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DEAL ACTIVITY:

M&A Transactions

Date	Target	Buyer	Description	Ent Value (\$mm)	Enterprise Value / Revenues	EBITDA
7/5/2005	Aspect Communications Corp.	Concerto Software, Inc.	Develops, markets, licenses, and supports integrated contact center software applications.	798.4	2.2x	9.0x
5/9/2005	Nuance Communications Inc.	Scansoft Inc.	Engages in the development, marketing, and support of voice automation solutions.	204.7	2.0x	N/A
4/20/2005	Trio AB	Netwise AB	Develops call handling systems for companies.	27.9	1.4x	N/A
4/11/2005	Dictaphone Corp., Communication Recording Systems (CRS) Business	Nice-Systems Ltd.	Provides recording systems for 9-1-1 centers and other mission-critical operations in the public safety, financial, and call center markets.	38.5	N/A	N/A
12/17/2004	Blue Pumpkin Software, Inc.	Witness Systems Inc.	Provides technology solutions to customer contact centers worldwide.	75.0	2.4x	N/A
11/15/2004	ART Advanced Recognition Technologies, Inc.	Scansoft Inc.	Provides voice interface solutions for mobile services.	26.5	N/A	N/A
9/8/2004	Rockwell Firstpoint Contact Corp.	Concerto Software, Inc.	Provides contact center software that offer voice, e-mail, Web, wireless, and VoIP solutions.	N/A	N/A	N/A
6/1/2004	Epos Corporation	Tier Technologies Inc.	Epos Corporation offers interactive voice response technologies for processing transactions.	19.0	1.3x	N/A
2/24/2004	Maxxar Corporation	Open Solutions	Develops and distributes CTI products.	6.5	1.3x	N/A
2/9/2004	Concerto Software, Inc.	Melita International Inc. (upon acquisition Melita changed its name to Concerto Software, Inc.)	Provides contact center solutions, enabling companies to manage customer interactions.	145.2	1.7x	20.4x
7/23/2003	PipeBeach AB	Hewlett-Packard Co.	Develops services for mobile Internet access using speech technology.	N/A	N/A	N/A
4/23/2003	SpeechWorks International, Inc.	Scansoft Inc.	Provides software products and professional services that enable companies to offer automated, speech-activated services over any telephone.	164.0	2.9x	N/A
11/6/2002	Sytellect Inc.	Enghouse Systems Ltd.	Engages in the design, development, and integration of voice and information processing software and application software worldwide.	10.2	0.2x	N/A
				Mean	1.7x	14.7x
				Median	1.7x	14.7x
				Harmonic Mean	0.9x	12.5x

Private Placement Transactions

Date	Company	Participants	Description	Deal Size (\$mm)
5/13/2005	Five9	Hummer Winblad Venture Partners, Mosaic Venture Partners, Partech International	Provides VoIP solutions for contact centers. The company offers a pure hosted Internet protocol based delivery system and call center functions over the public Internet.	12.0
4/18/2005	BeVocal, Inc.	Arrowpath Venture Capital, Mayfield Fund, Technology Crossover Ventures, U.S. Venture Partners	Provides managed voice application solutions to service providers and customer service call centers.	10.0
2/1/2005	Voxify, Inc.	El Dorado Ventures, Palomar Ventures, Sigma Partners	Designs and develops advanced speech recognition systems, which assist in automating customer support calls.	10.0
1/17/2005	Vocent Solutions Inc.	Menlo Ventures, Silicon Valley BancVentures, Inc.	Provides voiceprint authentication solutions to answer the problems of password reset, caller authentication, presence verification and physical access	6.4
11/15/2004	Telisma SA	3i Group plc (LSE:III), AGF Private Equity, France Telecom Technologies Investissements, Innovacom, Ventech	Designs, develops, and markets networked speech recognition solutions.	4.2
10/1/2004	TuVox Incorporated	Adobe Ventures, Foundation Capital, Granite Ventures	Provides enterprise software for speech applications, which automates any type of call, including natural language call routing, self-service transactions, information requests, and customer support.	15.0
9/28/2004	Applied Voice and Speech Technologies, Inc.	Dolphin Equity Partners, Ignition Partners	Designs and develops voice-user interface technology for communication, messaging, and content.	10.0
8/4/2004	Apptera	Alloy Ventures, Inc., Lightspeed Venture Partners, Walden International	Develops speech recognition solutions with VoiceXML based applications.	8.0
8/4/2004	Callminer, Inc.	In-Q-Tel, Inc., Inflexion Capital Management, L.L.C., Intersouth Partners	Designs and develops speech analytics software for contact centers.	2.0

Sources: Capital IQ; Company Reports; SEC Filings.

A Closer Look: Market Consolidation Forecast

- ▶ **Overinvestment and Unrealized Promises of IVR/CTI Set the Stage for Consolidation** – Since 1996, an estimated \$10.0 billion has been invested in Voice Technology companies. However, despite this extraordinary investment, proprietary IVR and CTI never delivered on the promise of ease of use and high return on investment. Although many legacy players have established significant customer bases, many more have failed to thrive. The result is a competitive landscape littered with companies possessing limited growth prospects and facing irrelevancy. Consequently, consolidation among these players, in some cases by next generation Voice Technology vendors seeking to quickly acquire a customer base, is expected to increase in the near term.
- ▶ **Evolution of Legacy Platform Players Will Drive Deal Making** – In order to keep pace with customer demands, market leaders with traditional platforms have been forced to embrace technology based on open standards. However, because many of these players have entered the open-standards market late, in order to spur growth these companies will either need to build or buy advanced VoiceXML capabilities. Capstone expects the latter to occur.
- ▶ **Consolidation of VoiceXML Landscape Necessary to Reduce Noise** – The market noise created by the relatively large number of small, private companies claiming to be the “#1” provider of VoiceXML solutions has negatively affected the credibility of open-standards based solutions and has hampered adoption among large enterprises. Capstone expects that consolidation among VoiceXML players is key to a “winner” which will help to accelerate widespread adoption throughout the enterprise market.

Sources: Capital IQ; Company Reports; Datamonitor; TechDealmaker.