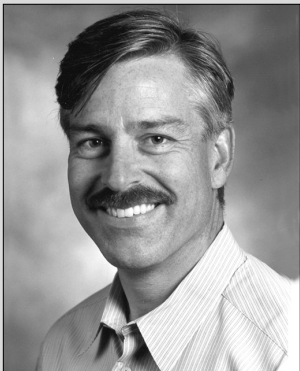


THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Workscape, Inc.



TIMOTHY T. CLIFFORD is President, Chief Executive Officer, and a co-Founder of Workscape, Inc., Mr. Clifford has been instrumental in setting the strategic vision and direction for the company from its inception in 1998. Under his leadership, Workscape has risen to a renowned position in its industry, differentiated by its commitment to exemplary client service and continuing innovation in the HR self-service category. Today, more than 180 major corporations around the globe deploy Workscape's benefits and workforce management solutions. Mr. Clifford's background includes extensive experience in accelerating growth for early-stage companies, and he is a known innovator in the field of employee benefits. As President and COO of HealthPlan Services Inc.'s small group business unit — the most profitable division of this NYSE company — he was responsible for the distribution, administration and risk

management of benefit plans for small employers and individuals (serving more than a million members). During his tenure at HPS, from 1996 to 1997, Mr. Clifford created and managed the merger plan for its acquisition of Consolidated Group, resulting in facilities and systems consolidation, multiple distribution channels and enhanced strategic alliances. Prior to joining HPS, he was with Consolidated Group from 1985 to 1997. As President and CEO from 1991 to 1997, he compounded the growth of this national leader of outsourcing services into the insurance and managed care industries through more than 10 acquisitions. Mr. Clifford's earlier career experience includes four years with Prudential Insurance Company, where he rose to regional group manager. He holds a Bachelor's degree from Northeastern University. In 1979, he was United States National Rowing Champion and a member of the US National Rowing Team, which took fifth place in the World Championships in Yugoslavia.

TWST: Could we begin with a brief historical sketch of Workscape and a picture of things as they are now?

Mr. Clifford: Workscape is a software and business process outsourcing company, focused on the human resources market. We typically provide our solutions to companies that have 5,000 and more employees, so we operate very much in the large enterprise space. Clients such as General Motors, IBM, Cigna and the like. Our solutions are available to just about 8 million employees today in more than 180 companies and we count 56 members of the Fortune 500 as clients, which indicates the large nature of our target market. And what we do is help customers drive higher workforce performance by

transforming the way that human resource services are created and, more important, delivered and adopted by the workforce. The company started in 1999 and immediately acquired three companies that had built Web-based HR applications, each of which was designed to expose to employees many of the content and transaction capabilities that for years had been bound up in human resource departments.

With the combination of these three businesses, Workscape soon became the leader in what was then called the HR self-service market. So through Web technology, we are able to expose a lot of these capabilities to employees and managers so they could get their services from HR or they could handle transactions,

whether it was around enrolling for their benefit plans or whether it was a manager trying to allocate pay raises to the workforce, an employee trying to sign up for a training program or to view their pay slips online. We helped to revolutionize how HR delivers those services by exposing them through Web technology and letting people get access, whether they are at home or on the road or in the office. A lot of what we do today, again, is based on the same principle of transforming the way that HR services are created, delivered and adopted. So we built on that early foundation, and have since added a number of new features and functionality over the years, not the least of which is very powerful workflow engines to allow HR to manage these business process online. Importantly, we configure our software to allow these transactions and content to flow throughout the company in a way that is familiar to employees and maps to their existing business process, while allowing the necessary changes and adjustments as the company's business needs change.

Today, our applications fall into three core solution categories. We have a total benefits outsourcing solution, which allows HR to get out of the middle of the benefits administration business and for employees to manage all of their benefits elections online or through our call center. We also have a whole suite of employee self-service capabilities, which includes employee portal technology and a lot of applications around payroll, personal information and the like. And the third category, which is something that we

And there is a whole suite of applications in the workforce management product line. I won't go into all of them, but the acquisition that we just made several weeks ago is a company called Performaworks, focused on the employee performance management arena. We have a strong market presence and very deep penetration in the whole compensation management area, and we were interested in extending that into the performance management arena to enable companies to effectively link employee pay with both individual and business performance, a process which is becoming more and more critical for large enterprise HR departments and strategically something that is very important to the CEO, the CFO and the Board of Directors in companies today. So Performaworks had a suite of industry-leading products which focus on the ability to cascade goals throughout the organization, link objectives for individuals to those company objectives, and also to evaluate and execute performance management against those objectives for each individual — all tied to the compensation that is awarded against employee achievement. So now we can truly allow companies to pay for performance.

TWST: What is the breakdown of these three components of the business in terms of revenue?

Mr. Clifford: If you look at rough splits, the workforce management area is probably about 40% of our revenue. The benefits area is probably about another 40%-45% and self-service is about 15% or so.

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have been very keen on and actually an area in which we just made an acquisition several weeks ago, is our workforce management product line. Workforce management applications are really targeted at line managers in the organization, so then you switch from an employee being able to handle their own personal transactions to enabling managers throughout the workforce to get access to automated solutions, for example, compensation management. The annual allocation of merit raises, lump sum bonuses, stock option plans and the like, all of the compensation that gets administered to the workforce. We provide the automation of that process, including both the one-time events, as well as the ongoing events that take place such as job transfers, promotions or status changes.

TWST: Do you have any statistics regarding the approximate cost of human resource administration per employee and how much one can save by outsourcing all those services?

Mr. Clifford: We have an awful lot of statistics on that. It depends on which particular function, but Web technology is just so much cheaper for employees to conduct the transaction directly rather than calling a call center and talking to employees on the phone. You can take the cost of a transaction as simple as changing your address; let us say you've moved, you need to change your address in the company's systems. It can cost roughly \$20 to do that by phone and it costs about \$0.05 to do that online via employee self-service.

TWST: Are there any particular verticals that have a tendency to outsource human resources or are they pretty even across all the industries?

Mr. Clifford: Yes, it's really pretty even across all industries. We've actually been studying that as we've continued to grow and seen some of the dynamics that have played out in the outsourcing segment. We traditionally, in the first few years of the company, were doing a significant amount of our business around the outsourcing of applications and application management. We have since added business process components surrounding the technology in the last year and a half. But what we have seen is that we have retail companies that outsource, we have financial services companies that outsource, we have manufacturing and we have biotech companies. It really is not necessarily industry-related, it's really more, I think, philosophically related and in some instances, cost related. Outsourcing should be cheaper for the company and it should generate better performance and so as we have seen in the last few years, as there has been significantly more pressure on expense lines for companies, more companies have turned to outsourcing as a way to guarantee a reduction in cost to delivering these services, while at the same time improving the service delivery. That's really not bound by industry.

basis versus having a terrible experience and never coming back and then calling the call center at a much higher cost to the employer. We had a study that was done last year by an outside party and they measured the adoption rates of our applications — for instance, our compensation planning product — versus the ERPS, and we found that 88% of the managers surveyed used the automated tool. That is versus enterprises using ERP applications, which reported Web adoption rates of only 49%. So the significant difference in adoption by the managers, as an example, on compensation planning, turns into real dollars for the enterprise because to the extent that you have managers who are calling call centers or handling spread sheets, which are not integrated into the system, it creates a tremendous amount of manual work for the enterprise. In addition, the company is just not getting the business performance that they are looking for. They are not getting people using the tool, which drives the kind of compensation and performance strategy that's important to the company. So a big differentiator versus Workspace and the large applications companies is that we are very deep and specific in the HR area and the solutions that we have are very rich in functionality and are very easily adopted.

The other major differentiator against the big applications companies is that we tapped into a nerve, I guess, several years ago

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TWST: Can you describe the competitive landscape that you are in and tell us what sets you apart from your competition?

Mr. Clifford: Really, there are two sources of competition for us. One would be large applications companies like PeopleSoft, SAP and Oracle. The other would be large outsourcing firms like Fidelity or Hewitt. On the application side, we are very different in that we provide much richer functionality in the areas that we compete. So we will have much deeper functionality and we will have a more intuitive application for the end user. We are focused only on HR and we were really born on the Web, so to speak. We are not a company that was originally built with client/server technology and just a Web front-end, trying to expose a large database, which doesn't really work the way individuals want to work. We have invested heavily in trying to make sure that when you expose all these transactions within the HR Department, it's intuitive for people to use and that they use them on a repeat

when we identified that many users were fatigued by the cost and the effort of re-engineering their business practice around a software application. So we have created software which is very configurable such that we can adapt the software to the way they want their business to run. This has been a big hit for us because clients can configure the applications or configure our business services to run the way that they would like them to run rather than re-engineering their business to match the software application. Against the outsourcers, you will really find those two things even though it's a different source of competition versus a big outsourcing company. Again, the core of our business is technology. We use technology to drive the highest rates of adoption by the user community, the lowest cost for the enterprise, and the best information and the best experience for employees and managers, and we find that we are able to demonstrate the adoption rates and usability on our solutions pretty easily. In addition, many of the large

outsourcers have more of a “this is the way we do it” approach and the company needs to adapt to the way that a large outsourcer wants to run the business process. Our approach is different in that we have a model which is flexible and we can adapt to the way the company wants to run the business.

TWST: What are the most significant trends, developments or changes you anticipate in your markets over the next several years?

Mr. Clifford: I think one of the significant things that is underway and will continue over the next few years is this continuing push for outsourcing. Companies, especially in the HR area, are now much more willing to outsource many more functions than they were in the past. So we will continue to add software and technology as well as complementary business process components that wrap around the technology so that we can support our clients’ need to move more of the business process outside their organization. In addition, I think we will continue to see, especially given that the US labor force is predicted to shrink by 4% by the year 2010, that there is going to be significantly more pressure on how companies get higher and higher productivity from their existing workforce. This means that strategic talent management, the idea that you first hire the right people, ensure they are working on the right business tasks and then reward and incentivize them appropriately for the greatest performance, is going to continue to be an ever pressing need on organizations.

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In addition, the concept of linking pay to performance, trying to drive the appropriate performance from the workforce is going to be absolutely critical. Linking employees’ performance management to business performance management, in other words linking the goals of every individual in the company and making sure that they cascade up to the strategic direction and the operational goals of the enterprise, is going to be very, very key and the ability to identify the right talent and skill sets in the organization, make sure you keep them on the team, but also be able to move the workforce around more adeptly, creating teams and breaking down teams more quickly and moving the right skill sets on to the right tasks at the right time.

These are the kinds of things that are going to drive competitive advantage for companies over the next 10 years and these are the kinds of things that we are investing in so we can support those initiatives.

TWST: What would you describe as the greatest opportunities for Workspace over the next several years? Is there a chain of events that can lead the company to substantially exceed expectations in the future?

Mr. Clifford: I think the issues that I just pointed out are those trends that will drive significant growth for our company and I think those are significant dynamics in the marketplace that we are looking to take advantage of.

TWST: What are the major concerns or risks that you are facing, now or in the future?

Mr. Clifford: I think one is probably being able to handle the growth, quite frankly. As most companies in the technology sector, we have had to be mindful of our expense structure as we continue to grow and this is something, I think, that’s not just in the tech industry, but all industries; it is how quickly do you add staff ahead of the anticipated growth. We have been growing quite nicely. We grew about 24% last year, 2003 over 2002, which is a very healthy growth rate in the tech sector, and we are very pleased with that. But I think managing the growth is one of the things that we are focused on daily here in terms of making sure that we have the resources to meet our clients’ needs, but at the same time being able to protect our financials.

I think staying on top of industry consolidation is also a significant issue. We have a track record of taking advantage of the M&A marketplace to grow the company on top of the organic growth rate that we enjoy. We did that in the first year of the company’s existence. We bought three companies, as I said. We took a few years off from M&A while we grew our business, particularly since valuations were just out of reach. Last year, we got back in and continue to be active in this area. We think great opportunities are out there. So our challenge is in evaluating all of the opportunities that are in front of us and selecting the right ones for the company. So it’s not only the strategy of where the company is going

and what components fit well with our strategy, but it's a significant task in terms of evaluating multiple M&A opportunities, evaluating cultures, making sure we are getting the right mix and being effective in integrating M&A work. A lot of people think that you hoist the flag and march the parade down the street the day you close the deal, but that is when all the real work really starts and success isn't determined in M&A for 18 months to two years after the deal is done. So I think that a challenge for the company is continuing to do that well.

TWST: As the company continues to grow, make acquisitions, build alliances, do you have the management team in place to accommodate this rapid growth?

Mr. Clifford: Yes, we do. Actually I feel at this point in time that we have the best team we've had in the company's history. To give you an introduction to some of these folks, Phil Douglas is the CFO. Phil is an experienced CFO who has actually worked in several Warburg Pincus portfolio companies. Phil has been on board here for almost four years now and has just been doing a terrific job. Mike Gioja runs our product and service delivery operations including engineering and R&D. Mike has a background from SAP, PeopleSoft, IBM and, again, a very senior, very seasoned executive from a product development perspective as well as service delivery operations. Betsy Zikakis is running our marketing operations and, as Senior VP of Marketing, she is a very experienced software marketing executive. She has a degree in computer science from NC State and an MBA from UVA. She is a very, very bright person who has been in several very successful software companies and we are lucky to have her on board. She joined us almost two years ago. Andrew Hosker runs our sales operations. Andrew is a Hewlett-Packard trained sales leader who has been with the company about three and a half years now. Ed Hurley-Wales is our HR guy who is, again, a very seasoned hand, with experience at companies like Gillette and Digital Equipment Corp.

TWST: As a company that provides HR solutions to major corporations, is there anything distinctive about Workscope's corporate culture?

Mr. Clifford: There is. We know we need to talk the talk and walk the walk. So, we drink much of our own water here. We don't say champagne, we say water because water is essential for life and we feel that these solutions are essential to work-life and the success of the company. So just as we manage the enterprise portal for General Motors, one of the largest employee portals in the world, we have an employee portal here that is just as robust and just as intricate in the daily lives of our workforce from a communications perspective, as well as getting work done. We have many of the solutions that we offer our clients running internally in

the company. So I think, frankly, it's unusual because we are a company with only about 400 employees and there is probably not another company in the world that has these kinds of solutions running inside of a 400-person company. It's an important cultural distinction as it gives us experience utilizing the products that we supply to our customers.

TWST: Are there any weaknesses in the company at this time that need to be addressed? Are you set for cash these days?

Mr. Clifford: We're set for cash. Our last venture round was in October 2001, so that's the last fundraising the company has had to do and we have been cash flow positive for six consecutive quarters now. We generated about \$2 million of positive operating cash last year. So we have no plans to go back and raise any funds at this point, unless it was associated with an acquisition or some other kind of transaction.

TWST: Are there any current targets in mind that you can comment on?

Mr. Clifford: Can't comment on it but there is a pretty good-sized radar screen. We are in some conversations right now, but it's fairly early on; it's really a prime market for M&A right now.

TWST: What are your specific goals for Workscope over the next two to three years?

Mr. Clifford: First is to make sure that we deliver value to our clients above and beyond their expectations. So we are, first, in a mission to be the company that helps transform the delivery of HR and the adoption of HR services, and that is first and foremost in what we do. We feel if we focus on our clients to make them successful in their business and drive a higher performing workforce, then all of the other things that we hope for will stem from that. Second behind that, next big milestone for the company is breaking the \$100 million in revenue barrier. We were successful in passing the \$50 million mark and are now focused on breaking the \$100 million mark.

TWST: Is there an IPO in your future?

Mr. Clifford: It's one of the things that we are considering right now. We — the Board of Directors, the investors and management team — have never run the company for an IPO. We have always viewed it as a financing option along the way to building a great business. We feel we are building a great business and it happens that at this time, with the markets being receptive to companies like ours, it is something that we are considering. I think there is a possibility for us in the next year or we could decide that given what we are doing in the business, that it's more advantageous for us to stay private.

TWST: Are you a potential acquisition target at this time?

Mr. Clifford: Any good company is always a target. So I would guess that we are potentially a target and that would be flat-

tering if somebody approached us although we think this is a pretty big business that we are building here. So we would like to make it a lot bigger before we entertain any conversations like that. But if you are doing the right job and you are building a great business, then you are just de facto going to be a target.

TWST: If you were to sit down with a few investment bankers, what two or three reasons would you give them to take the company public?

Mr. Clifford: I think one would be to have the currency and cash to participate in the M&A market. We have been doing acquisitions as a private company, and it's a bit more difficult to do it with private-to-private deals. Second would be for further investment in the business. Again, we think this is a very big opportunity that we are chasing and potentially the cash that we get in an IPO could be invested in some new initiatives to build infrastructure and/or build new markets to accelerate the growth rate of the company. And naturally an IPO as a branding event can have tremendous value; I described our competitors, they are billion dollar enterprises. Our clients can look in *The Wall Street Journal* and see how they are doing and they can't do that with us. It doesn't seem to be that much of a problem today, but I think the branding value of an IPO event certainly lends some level of credibility and staying power to a company that would be helpful. Certainly not required and not necessary, but helpful.

are dealing with large companies, they will not experiment that much. They are going to look to see your credibility and that's why we are in 56 of the Fortune 500. We have the credibility that we have done this before and we do it well and we are reliable. Much of our business involves the hosting of enterprise applications, which handle a lot of very sensitive information, personal information. So it's an expensive company to build, to create the infrastructure that will pass the test for large enterprises in trusting you with that kind of information, and also with HR executives who understand that if they outsource something and it doesn't work well, there are significant consequences to the company, to their careers. So I think the barriers to entry really are capital, track record and the deep domain expertise, which allows us to understand our clients' problems and anticipate them, but also know how to fix them the right way and bring solutions to the market that really address their problems.

TWST: So you get a good reception when you show up?

Mr. Clifford: We do. When our sales people go in and we are probably about three or four slides into it and once you show the logos of the client list, if people have not heard about us before, their eyes widen and you have immediate credibility. And for those who have heard about us before, they are usually surprised at how many clients we serve that are very large enterprises.

TWST: When you do sit down with a potential client, is the primary concern today cost reduction?

“We have seen in the last few years, as there has been significantly more pressure on expense lines for companies, more companies have turned to outsourcing as a way to guarantee a reduction in cost to delivering these services, while at the same time improving the service delivery.”

TWST: Do you have any thoughts about barriers to entry? What are your thoughts regarding another player entering this space and challenging Workspace?

Mr. Clifford: This is an expensive business to build and it requires a tremendous amount of domain expertise. A lot of people pick around the term domain expertise pretty lightly, but this is an area in which you truly need to understand your clients' problems and know how to solve them. Our solutions are exposed to every single employee in the company. If you make a mistake or have a problem, every employee in the company knows about it and they look to HR and say, what's up? And that includes the CEO and the CFO and the Senior VP of HR. So this is an area that, especially because we

Mr. Clifford: There are really two challenges for HR today at a very high level. One is cost reduction, how do I reduce the cost of delivering HR services to the enterprise? The other is, how do I drive higher workforce performance? So on the one hand, in terms of lowering cost, it's not necessarily a strategic initiative, it's just, how do we do this at fewer dollars? And, again that pushes a lot of people toward the outsourcing solution. But on the other hand, HR is saying “okay, we've got to get transactions out here, we've got to lower cost. But on the other hand we have to be more strategic, we have to help the company understand how to drive higher performance, how to keep the best people in the organization, how to identify the right talent, how to link pay to performance, all of

which is designed to create competitive advantage.” So the challenges on HR shoulders today are very much two sides of a coin: reducing cost and becoming more strategic. And so we are trying to respond to that two-sided coin for them through some segments of work we do like the benefits business, which is designed to reduce cost and empower employees to handle their own information. And on the other side workforce management around compensation, performance, goals management, which is really designed to drive higher performance in the organization.

TWST: Thank you.

TIMOTHY T. CLIFFORD
Co-Founder, President & CEO
Workscape, Inc.
500 Old Connecticut Path
Building A
Framingham, MA 01701
(508) 861-5500
(888) 605-9620 - Toll Free
(508) 861-6200 - Fax
www.workscape.com
e-mail: info@workscape.com