

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

THE FOLLOWING REPORT IS EXCERPTED FROM
THE WALL STREET TRANSCRIPT

COMPANY INTERVIEW

TIMOTHY T. CLIFFORD
Workscape, Inc.

NOTICE

The Wall Street Transcript does not in any way endorse or guarantee the accuracy or reliability of any of the information, statements or opinions expressed in the reports or comments of other firms or individuals. We take due care to report or transcribe accurately what has been written or said by others but because of the possibility of human or mechanical error, we cannot assume any liability for the correctness of the transcription. We point out further that, of course, all opinions expressed are subject to change without notice. Neither the information or any opinion which may be expressed constitutes a solicitation for the purchase or sale of any securities referred to herein. For further information, contact the individual or investment organization concerned.

CHIEF EXECUTIVE OFFICER FORUMS/INTERVIEWS

Important Note: Wall Street Transcript forums and interviews with Chief Executive Officers are published verbatim as editorial content and include "forward-looking statements" (as such term is defined in the United States Private Securities Litigation Reform Act of 1995). These "forward-looking statements" may be subject to and be made pursuant to the "safe-harbor" provisions of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Since these statements are based on factors that

involve risks and uncertainties, actual results may differ materially from those expressed or implied by such "forward-looking statements". Such factors are often included in the company's filings of reports with the United States Securities and Exchange Commission, including Forms 10-K, 10-Q, 8-K and Proxy Statements; the company's annual and interim reports to shareholders and similar documents. In carrying out our responsibilities to our readers and to the Chief Executive Officers selected for forums or interviews, we are required to offer, and we offer, each Chief Executive Officer an opportunity to back-up the interview and provide our readers and potential investors with specific financial data, including earnings statements, balance sheet statements and other material business and financial data, through the sponsored publication of such reports or highlights therefrom, with meaningful information.

Founded 1963
Published by Wall Street Transcript Corporation
67 Wall Street, New York, NY 10005
Copyright 2001 Wall Street Transcript Corporation
All Rights Reserved

Workscapе, Inc.



TIMOTHY T. CLIFFORD is President and CEO of Workscapе. Mr. Clifford and Jim Carlson co-founded Workscapе and set the strategic vision and direction for the company. Mr. Clifford oversees sales, marketing, products and operations for Workscapе. He also manages all financial activities, including the company's business development and merger and acquisition efforts. He has extensive experience in accelerating growth for early stage companies and has been an innovator in the field of employee benefits. As

President and COO of the small group business unit for Health Plan Services Inc., he was responsible for the distribution, administration and risk management of benefit plans. Prior to that, he held senior positions at Consolidated Group, a leading outsourcer for marketing and administration of insurance plans, and Prudential.

SECTOR – INTERNET SERVICES

(PAY213) TWST: Can we start out with a quick overview of Workscapе?

Mr. Clifford: Workscapе is a leading provider of human resources and information technology products and services. The company's products are primarily used by large employers to maximize productivity of their employees and managers, and to strengthen communications and relationships within the enterprise. Our target market represents the largest firms in the United States, defined as those employing more than 5,000 employees, which represents a market of about 40 million employees. Today, Workscapе has approximately 160 active clients themselves representing more than 5 million employees.

Our solutions are generally referred to as "self service" solutions and these are software applications that enable employees to manage their own information and transactions, and for managers to conduct their own supervisory work online, without having to stand in line at HR or wait on hold over the

phone. We deliver the solutions by either installing them directly at our client's site in a typical software deployment methodology, or we will host the applications on their behalf. The hosted application model has been a very popular option with our customers over the past several years, largely based on the cost and operational benefits of outsourcing that we can provide. Today this hosted model represents more than 70% of our revenue base.

Our clients are in all industry sectors. It's really a horizontal play. We have not had to package or market our products differently by vertical or write code to configure the product differently for different industries. Today, we have automotive clients such as General Motors and DaimlerChrysler, financial services clients such as Citigroup and Fleet, health-care clients such as Lilly and CIGNA, and technology clients such as Analog Devices, Sun and 3Com.

TWST: So it isn't industry specific.

Mr. Clifford: It's not industry specific. Everybody is an employee. Many folks are managers. Every enterprise has a human resources op-

eration that is looking for ways to get its work done faster, cheaper and more efficiently.

TWST: Why come to you? What can you do better, faster or cheaper than the company can do itself?

Mr. Clifford: That's a great question. Let me talk about our products a bit, which will give you some insight into that answer. Workspace pioneered the practice of HR self-service applications, and we've built the most comprehensive Web-based HR suite to expose these transactions to employees and managers. A comparable analogy is the way in which ATMs have revolutionized personal banking. Now, rather than waiting in line at the bank, we can conduct all our transactions at the ATM at the time and location that is most convenient and time-efficient for our needs.

Our self-service products fall into several categories. First, there is an Employee Self-Service suite, with functions such as looking at your pay information online, changing your W4 deductions, registering for direct deposit or enrolling in benefits. With our Web-based applications, employees can do this anywhere, anytime, whether it's at home, on the road or at work. The value here is cost reduction; faster, more accurate information; and improved employee satisfaction, as well as distinct productivity benefits for the corporate human resources staff who previously handled these transactions with a barrage of paper systems.

With regard to cost reduction, if you were to call the HR department call center, for example, and ask them to change your address, that would cost your employer about \$20 to handle that transaction all the way through the system. To handle that same transaction on a self-service Web application such as we deploy costs just \$0.05. So there is significant value in the cost reduction benefit of

these solutions. On the manager side, I can also give you an example. Workspace's Manager Self-Service applications help managers work more effectively and ensure that all workforce transactions are being conducted within the approved guidelines and policies of their particular organization. The functionality of the manager applications enables them to hire, promote, give raises and allocate stock grants and training plans for employees. Again, we can do this through easy-to-use Web applications available online anytime, anywhere.

One of the value propositions here is that typically, the HR department produces huge manuals of policy and procedures that nobody ever reads. As an example, in the compensation planning exercise that all managers go through, each company establishes guidelines for activity such as annual raises, but most managers don't read the manual to sufficiently learn about these guidelines. Once a year they go to the spreadsheets and independently say, "What do I want to give this fellow?" or "What should I give Sally this year because she is one of my best performers?" They don't follow any of the policies and procedures that the human resources team spent the last year trying to create. So these applications are able to take a manager through the process in an intuitive way, supported by all the relevant data they need, without lengthy manuals or training. HR gets their job done in terms of the administration and compensation according to their philosophy, managers save a tremendous amount of time and effort by using these tools and the cost and productivity benefits are realized throughout the organization.

If you have a 50,000-person company, which would be a typical client for us, we can make this faster by condensing the whole merit

compensation cycle or allocation of raises from about 14 weeks on average, down to about four to six weeks. In terms of better, the applications allow for better administration and allocation of that merit pool by ensuring that companies can recognize the right people with the right skills for optimum performance. In terms of cheaper, that 50,000-person company typically has about a \$5 billion payroll spend. If the company identifies 3% for the merit pool, you are talking about a total allocation of \$150 million. If Workscope's application can save just 1% of that, that's \$1.5 million, which is within the cost of the applications. So in the first year it's not unusual to recoup the investment of the solution and provide for better allocation of your compensation dollars as well as better administration of your compensation policies across the enterprise.

The third product Workscope offers is the employee portal. This has been a very popular solution for Workscope over the last year. One of the places where this is operational today is at General Motors. The Employee Portal starts with a user interface configured with a specific company's look and feel. Content and applications are organized by channels that are familiar and easy for any employee to understand, and allow for the integration of many, many different sites, whether they are different applications or different sources or content throughout the enterprise. Our interface allows employees to go to a centralized online location to check communications, view compensation and benefits and get the latest work-related news. This is all available to any employee with access to a browser at work, at home or on the road. It saves time, it saves money and it's a very powerful tool. General Motors is now able to speak with one voice to all of its United States employees using this solution. As a matter of fact, Richard Wagoner,

the President and CEO of General Motors, on the announcement of this deployment, said that this was the most important communications advance in the company's history.

TWST: Who are you competing with in this space?

Mr. Clifford: A couple of years ago, back when we started in 1999, there were a fair amount of companies that were looking at the opportunity and a fair number of investments that were made. Many companies were launched in the late 1990s and 2000, and unfortunately, many have come back to earth with a thud. We remain in business and, in fact, are prospering as really the only broad-based solution set for HR self-service. There are many point solutions addressing one application or one constituency, but one of our strategic advantages is that we offer a broad-based set of tools that addresses multiple constituencies within the enterprise and can integrate with any number of existing back-end data systems. We really view ourselves as a best of breed provider that leverages the existing technology investments already made by the enterprise in their ERP, payroll, or HRMS systems, and we can work seamlessly with all of them.

TWST: How big is this market?

Mr. Clifford: We think it's pretty big but various firms have taken differing approaches about how to size this market. We estimate that our current target, which are those companies with more than 5,000 employees, is about 40 million employees today. Cedar, one of the large HR consulting organizations, does an annual market study and they estimate that the self-service market is about \$2.5 billion in size. You can also look at a different study, say by the IT research firm META Group, which looks at workforce management solutions. They have a

different definition of the marketplace and they estimate it at about \$4 billion by next year. Some other studies get bigger from there, but we will keep to the modest numbers.

TWST: What has been the impact of the general economic slowdown on this market?

Mr. Clifford: That's a great question. We know there has been an impact. We know, for example, that it takes a bit longer in the sales cycle to get deals closed. Our clients are obviously under a tremendous amount of pressure with their own cost structures. Having said that, we are still making great headway in the marketplace. Certainly our revenue would probably be a bit higher if we didn't have this kind of environment, but we have been pretty pleased with our growth rate. We are up 35% on the revenue line this year over last year.

We continue to win new clients and much of that is because we have a very clear ROI benefit. As you know, the CFO today has a very tight control on spending, and if you can't demonstrate a great return on investment, you are just not going to sell to the enterprise today. So we have been very beneficial in that our solutions do offer significant cost reduction and improved productivity.

TWST: What are the benchmarks that you should be judged on over the next two years?

Mr. Clifford: I think that our ability to add new clients should be an important benchmark. For instance, this year we have been able to add clients such as Ahold USA, Sun Microsystems, PepsiAmericas, Union Bank of California, and Schneider Electric's Square D. (Square D is the US division of Schneider Electric.) We think this is a clear indication of our health and of the overall demand for our products in the marketplace.

I think we should also be measured on our ability to demonstrate organic revenue growth by continuing to add value to our current client base. Recent examples would be Fleet Bank, FedEx Ground, General Motors and a variety of others. In looking at our past revenue performance, our sales typically fall into a 60-40 split, where approximately 60% of our sales come from new clients and 40% from existing clients. I know that's a metric that's very important to us internally and is probably one that is a good indicator for external observers as well.

TWST: Do you have the management team in place you need to support the kind of growth that you are talking about?

Mr. Clifford: I believe we do. We have a very confident team that we developed when we started the company in 1999. James Carlson and I started the company together as partners and one of the things that we were interested in doing was putting together a seasoned management team in the midst of a pretty interesting set of business dynamics. Our current management team has, on average, about 22 years of business experience from a variety of backgrounds, including pure product and software companies, to top national accounting firms. Phil Douglas, our CFO, was previously with Coopers & Lybrand. Susanne Bowen, our VP of Sales, comes out of ENTEX, a technology outsourcing company. Our VP of Engineering Myra Killeen, has a background from Art Technology Group as well as Lotus, and Betsy Zikakis, with experience at Open Market and Engage Software, runs marketing for us.

We made a commitment to having a mature team of folks who are capable of leading a much, much larger company, because we always knew that we had a very big opportunity. Our largest investor, Warburg Pincus, was always convinced that

we had a very large opportunity. So we have always pressed ourselves to think on a pretty large scale, and certainly that all starts with having the right people on the team so that you can build the capabilities in the company. I am very confident the team that we have here is the best team I have ever worked with.

TWST: Has the growth that you are talking about been internal or have acquisitions played a role there?

Mr. Clifford: We are a company that was started through M&A. We bought four companies in 1999 when we started the business and put them together to really create something that wasn't there before. Specifically, we brought four different point solution providers together. So the strategy was to create a broad-based solution set. We have not purchased other companies since then for a variety of reasons. One key reason was that valuations got out of hand soon after we started. So we chose to focus on building a best-of-breed solution set with the primary growth drivers coming from internal customer acquisition rather than external M&A. That said, we do have expertise in M&A work and we've proven that we can successfully integrate complementary assets. As in most industries right now, the combination "music" has started to play again. That's not to say that we are going to pursue an M&A strategy immediately by any means. But it's interesting to see what conversations are starting to take place in the marketplace.

TWST: Are you missing some part that you need?

Mr. Clifford: We are looking to continue to add quality, functionality and good solid products to our offering. So it's possible that we could make a decision at some point that rather than build a particular module, it would be cheaper or

faster to acquire it. So that's a possibility. Our growth rates are fine right now. As we have indicated, we're at 35% this year in a very difficult market to sell to the enterprise.

We are very confident in our future growth rates because of the recurring revenue model that we have built. As I said earlier, we sign long-term contracts, typically three to five years, with our clients and that has given us tremendous visibility into our future revenue stream. We know already as we sit here in October, for instance, that we've already acquired roughly 80% of next year's expected revenue. So we are not in a position where we have to run around buying companies to try to keep the growth rate going. We think it would probably be more of a product component play, if we were to pursue it. I am not suggesting we are, but if we did, that could be our approach.

TWST: Do you have the financial resources you need?

Mr. Clifford: We do. We have been very fortunate to have had backing from the first moment from Warburg Pincus. They have been an extraordinary supporter. The second investor behind Warburg Pincus was ABS Capital. They have been an extraordinary supporter as well, and we have a variety of other financial and strategic investors. I am very happy to say that the company is reaching cash flow breakeven right now, so we have no need to raise further operating capital to run the business. We are certainly pleased to be at that point in our life cycle.

TWST: What's the risk here? What can go wrong?

Mr. Clifford: I would say that the number one concern for us right now continues to be the economy. We have made great headway over the past year or year and a half, despite the larger market challenges, but who knows where we go from

here? Certainly that is out of our control. It's one of those things that, especially over the last two or three months, has given me more concern as we just don't know where this economy is going to head in the ensuing three to four quarters.

TWST: If you were sitting down with some potential long-term investors today, what are the two or three reasons you would give them to take a look at Workspace?

Mr. Clifford: First, we still have a very big market opportunity ahead of us. As an example, there was a Towers Perrin study last year in which they polled their HR executive clients and more than 70% of those polled said they were planning to make investments in employee and manager self-service solutions in the near future. The population is definitely going to invest so it remains a very big opportunity.

Second, our client list and our demonstrated track record of performance for these clients, speaks volumes about our ability to take this business to the next level. We are currently serving some of the world's leading brands and year after year we continue to add value to their business and their human resources function as we innovate and expand our products. As I mentioned earlier, roughly 40% of our annual revenue comes from new or expanded services sold to our existing client base, which for us is a key indicator that our business and partnership approach is working. Our commitment to customer service and satisfaction has been unwavering and will continue to be so as we grow and expand this company. Simply put, selling to and servicing very large enterprise clients is a very difficult thing to do and we have proven that we can do it.

I think that another important component is the visibility on the revenue stream and the stability of the business model that we have created.

Because our model is a successful blend of both traditional licensed software and hosted ASP, we have the ability to see and forecast our revenue and cash flow into the coming quarters. That kind of educated visibility is a rare characteristic for most technology companies, particularly in such a turbulent market, yet it's one ability that is increasingly important to investors.

Finally, there is an important blend of industry expertise that gets wrapped around everything we do, which is for us a winning combination of human resources domain expertise and superior technology innovation. We try to continue to add folks who come from the HR space. They understand the challenges that our customer is facing and they can talk to those customers and prospects in a way that ensures we can meet their needs. When you take that domain expertise and combine it with great technology and engineering we really can deliver for these clients and continue to build that sustainable revenue stream.

TWST: It seems that stability is particularly important in this environment.

Mr. Clifford: Yes, I think that's an underlying concern of a lot of investors as they evaluate different investment opportunities. Typically, they can see what a company has done over the last four quarters, but how can they know what it's going to do over the next two to three quarters, particularly in a market such as the one we're in today. We have a very strong story and a very good window into future performance for our investors.

TWST: How would you succinctly describe the long-term strategy of the company as you move forward?

Mr. Clifford: We have several important strategic goals as we look forward. First, we must

maintain leadership in products and services which create a work environment for employees and managers that simultaneously provides for lower costs, higher productivity, a unifying experience across the enterprise and can be personalized and customized for the needs of each employee and manager. Second, we will continue to expand our suite of employee and manager applications while extending workflow out into the larger organization. Third, we will look to expand our distribution and channel partnerships for incremental growth, and finally, we hope to branch beyond the US with new global operations in the next 24 to 36 months.

TWST: Thank you. (TM)

TIMOTHY T. CLIFFORD

President & CEO

Workscope, Inc.

500 Old Connecticut Path

Building A

Framingham, MA 01701

(508) 861-5500

(508) 861-6200

www.workscope.com

e-mail: info@workscope.com

Each Executive who is the featured subject of a TWST Interview is offered the opportunity to include a Corporate Profile or other highlight material to be provided and sponsored by and for the company.