

Technology Company of the Year, Contact Centers North America, 2010

Frost & Sullivan's Global Research Platform

Frost & Sullivan is entering its 48th year in business with a global research organization of 1,800 analysts and consultants who monitor more than 300 industries and 250,000 companies. The Company's research philosophy originates with the CEO's 360 Degree Perspective,* which in turn serves as the foundation of its TEAM Research** methodology. This unique approach enables us to determine how best-in-class companies worldwide manage growth, innovation and leadership. Our research team is proud to present the 2010 North American Technology Company of the Year Award in Contact Centers to Interactive Intelligence.

Significance of the Technology Company of the Year Award Key Industry Challenges Addressed by Interactive Intelligence

The North American contact center applications market faced several challenges in 2009. The usual challenges being: the large contact center market segment is fully-penetrated; a general resistance to upgrade systems, particularly if just for IP support; concerns about some vendors' viability sending a chill throughout the market; growing interest in hosted contact center services as an alternative to CPE systems; the uncertain role of contact centers in the emerging unified communications movement; growing role of line-of-business managers in systems decision-making; partner channel continues to be as critical as offering the right solutions in the small and mid-size business segments; growing demand for application integration with other customer-related business applications; and the perennial enterprise challenge to do more with less and balance their contact centers' effectiveness and efficiency.

In addition to the usual contact center market challenges, in 2009 the economies of the United States of America and Canada were in a recession, which would deepen to become the worst economic condition since the Great Depression of the 1930's. The net result was to significantly reduce enterprise IT spending within several areas, including contact center system upgrades, application projects, and new system purchases.

Interactive Intelligence successfully addressed the 2009 market challenges in large part through its technology leadership. Examples of that leadership include: how the business value of Interactive's all-in-one contact center application design became clearer and more compelling as the economy worsened, how Interactive grew its large enterprise market share by scaling and deepening the functionality of its solutions, and how expanding into new application areas, such as business process automation, reset the competitive playing field.

Best Practice Award Analysis for Interactive Intelligence

The Decision Support Matrix, shown in Figure 1, illustrates the relative importance of each criterion for the Company of the Year Award and the ratings for each company under evaluation. To protect the interests of the award recipient's competitors, we have chosen to refer to them as Competitor 1 and Competitor 2.

Figure 1: Decision Support Matrix for Company of the Year Award

<i>Measurement of 1–10 (1 = lowest; 10 = highest)</i>	Award Criteria			
	Growth Strategy and Implementation	Degree of Innovation in Business Processes, Products and/or Technologies	Leadership in Customer Value and Market Penetration	Weighted Rating
Relative Weight (%)	40%	30%	30%	100%
Interactive Intelligence	8	10	8	8.6
Competitor 1	9	8	7	8.1
Competitor 2	8	7	8	7.7

Company Background

Founded in 1994, publicly-held Interactive Intelligence develops a line of unified IP business communications solutions for mid-size to large contact centers and enterprises. These solutions include contact center automation, enterprise IP telephony, and business process automation functions. Headquartered in Indianapolis, Indiana, Interactive Intelligence reported revenues of \$131.4 million in 2009, an 8.2 percent increase over 2008.

Interactive Intelligence sells directly and through its partner network of approximately 300 value-added resellers worldwide. Interactive Intelligence and its partners have additional focus on financial services (banks, credit unions, and insurance firms), outsourced services (teleservices, credit, and collections agencies), and institutions of higher education.

Criterion 1: Growth Strategy and Implementation

Interactive Intelligence's growth strategy is multi-faceted with key elements being:

- Continue to lead in its traditional target market segment of North American small and mid-size businesses, in which it has emerged as a market leader
- Continue to focus on its more recent target market segment of large enterprises, in which it has increasingly found success over the past couple of years
- Continue to expand target markets geographically to include more countries and regions, specifically focusing on the U.K., Japan and Brazil
- Continue to expand in industry-specific markets directly and through vertically-focused partners, specifically focusing on insurance, banks, credit unions, and credit/collection agencies
- Continue to expand its rapidly growing hosted contact center service through the re-architected Interactive Intelligence communications-as-a-service (CaaS) offering

In a very difficult year economically, Interactive Intelligence reported record revenue increases as well as increases in operating income, gross margins, and cash. These successes are noteworthy compared to most of its competitors whose 2009 results have been either flat or down.

Criterion 2: Degree of Innovation in Business Processes, Products and/or Technologies

Interactive Intelligence maintains a focus on both the effectiveness of its organization, including its partner channel, to meet its customer needs, but also on its efficiency. Interactive Intelligence is a fraction of the size of most of its competitors. It competes in part on the basis of its speed and agility to address market challenges and opportunities as well as to be highly responsive to its customers.

Interactive Intelligence has built and continues to refine its internal processes to maintain its speed and agility. For external-facing processes, it offers pre-packaged service engagements of fixed scope and price to reduce the up-front time and effort typically associated with service engagements, and to give customers easy-to-understand, lower risk options.

Interactive continues to broaden and deepen the functionality of CIC to provide loyalty-cementing customer value and to attract new and larger customers. Recent examples include the release of the following products and functions: Interaction Process Automation (IPA), Interaction SIP Station, Interaction Feedback, OCS integration, and enhanced clients (.NET, Outlook, Web, Mobile)

Worthy of special recognition is Interactive Intelligence's Interaction Process Automation (IPA) solution. In contrast to communications-enabled business process (CEBP) solutions that embed communications functions into applications, Interactive Intelligence has opted to

use its core communications platform as the basis of automation. This may seem like word play, but there are fundamental differences between these architectures. By using the communications platform as the foundation for automation, IPA gives customers the ability to automate and track both existing and entirely new business processes outside of communications -- from start to finish -- thus providing significant and measurable ROI.

Criterion 3: Leadership in Customer Value and Market Penetration

Interactive Intelligence's vision for easy-to-use, lower cost-to-operate contact center solutions has proven its value and found great success in its original target market for small and mid-size businesses. Not satisfied with that success and believing its all-in-one contact center application suite design could be equally valuable to larger enterprises, Interactive Intelligence has aggressively broadened and deepened CIC's functionality, as well as greatly increased its capability to support large numbers of contact center agents.

This strategy has been paying off handsomely over the past several years as Interactive Intelligence has made sale after sale to increasingly larger enterprises with larger contact center requirements. Interactive Intelligence devoted about 18 percent of revenues in 2009 to research and development; more as a percentage than its competitors, and as much or more in absolute terms with all but its largest competitors.

Many of the core value propositions of Interactive Intelligence's CIC are increasingly being valued by larger enterprises and contact centers, as they have been by smaller businesses. They are largely the result of the system's design, which includes:

- All-in-one, pre-integrated contact center application suite design
- Switch- and transport-agnostic
- Software-only
- Standards-based
- Easy-to-use, intuitive graphical interfaces
- Single-server architecture (or significantly fewer servers required than comparable competitors' systems)
- Configurable and customizable with open interfaces to support interoperability

While CIC's core values remain, Interactive Intelligence is growing into adjacent areas for its high-value software, including business process automation (Interaction Process Automation) and document management. These new capabilities will open new markets for Interactive Intelligence and fuel new growth.

About Interactive Intelligence

Interactive Intelligence Inc. (NASDAQ: ININ) is a global provider of unified business communications solutions for contact center automation, enterprise IP telephony, and

business process automation. The company has developed an all-in-one IP communications software suite which is scalable and standards-based, offering single-platform architecture with inherent multi-channel processing to deliver comprehensive applications. Founded in 1994 and backed by more than 3,500 customers worldwide, Interactive Intelligence is an experienced leader delivering a comprehensive solution-set comprised of premise-based and communications-as-a-service (CaaS) offerings, including software, hardware, consulting, support, education and implementation.

Interactive Intelligence customers represent a wide range of brand-name companies, including Abbott Labs, AIG, Amway, ASPCA, BMW, Bosch Group, Ceridian, Citrix Online Division, Computershare, Eli Lilly and Company, Finish Line, Harrah's Entertainment, Harvard University, Honda, Hydro-Québec, John Deere, Kohl's Department Stores, Microsoft, Motorola, Nautilus, Random House Group, Rolex, Sony, US Airways, Volvo, and Walgreens.

The company began licensing its products in 1997 and has grown in total revenues from \$1.6 million in 1997 to \$131.4 million in 2009. Interactive Intelligence sells its solutions through a global network of approximately 300 VARs, including Affiliated Computer Services, Agori, Arvato (a division of Bertelsmann), Atea, Computer Sciences Corp., Dimension Data, Hitachi, IBM, Iwatsu, MTS Allstream, Newtel Essence B.V. (a KPN Company), Ronco Communications & Electronics, Spanlink, and TietoEnator.

About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best in class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages almost 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from 31 offices on six continents. To join our Growth Partnership, please visit <http://www.frost.com>.