

Leader in IP Business Phone Systems

Backgrounder

Vertical Communications, Inc.



Vertical Communications is a leader in IP business phone systems. The Company is focused on the small-to-medium business (SMB) marketplace while also servicing a number of high-profile national product and service retailers. Vertical's solutions redefine the role that telephony plays in business by delivering voice communications systems with easy-to-use integrated applications that dramatically increase customer productivity and efficiency while reducing costs. Vertical Wave, the company's next-generation telephony platform, uses a revolutionary architecture that makes it easy for customers to quickly deploy powerful, pre-loaded applications on demand, resulting in considerable cost savings and improved customer service. Vertical's solutions deliver enterprise-class functionality and competitive advantage while enabling cost-effective migration from yesterday's key systems and PBXs to today's next-generation IP business phone systems and applications.

OVERVIEW

With a current installed base of over 200,000 customers and approximately \$100 million in annual revenue,¹ Vertical is one of the largest telephony vendors in North America. The Company's InstantOffice®, TeleVantage®, Comdial® and Vodavi® brand products have won numerous awards and have been consistently cited for delivering measurable value to customers.

Vertical has evolved from the combination of four leading technology and phone system vendors and the creation of one of the industry's leading IP telephony research and development teams. Vertical's journey

began in 2004 with the entrance of Vertical's current management team and group of investors. The team combined the Artisoft and Vertical Networks businesses and completed a related financing transaction in September 2004. With new investors and a large infusion of capital, the management team set out to build a world-class IP telephony company and distribution channel.

A year later, Vertical completed the acquisition of Comdial Corporation and thereby introduced a new family of products to a much expanded Vertical channel. In December 2006, Vertical took the next significant step in its growth by acquiring

¹ Pro Forma

² Based on line shipments, as reported by Gartner for calendar year 2005

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Vodavi Technologies, Inc. and forming a strategic relationship with LG-Nortel Co., Ltd. (LGN), including LGN's ownership of 11 percent of Vertical's shares outstanding. The combination of these efforts has led to Vertical's ranking as a top-five telephony vendor serving the SMB market in North America.²

Today, Vertical develops and sells a comprehensive range of next-generation IP telephony solutions through over 1,800 distributors and resellers worldwide, representing one of the largest telephony distribution channels in the marketplace. With over 300 employees guided by an experienced management team, the company has the strong support of a group of prominent investors with a proven track record of success. Vertical is well on its way to fulfilling its objective to create a telephony innovation and distribution powerhouse that meets the needs of SMB customers while supporting a targeted group of national accounts in key vertical markets.

DYNAMIC MARKET

An ongoing, fundamental shift in the PBX/telephone system marketplace is creating unprecedented opportunities for next-generation IP phone system companies like Vertical. According to Infonetics Research, an international market research and consulting firm covering the data networking and telecommunications industries, the worldwide IP PBX segment, which includes hybrid and pure IP PBX, continues to post strong growth, with worldwide sales up 8% to \$1.9 billion in the third quarter, led by the pure IP segment. Infonetics also forecasts IP PBX double-digit sales to continue through at least 2009, when worldwide sales are expected reach \$11.1 billion.³ As the largest new entrant, Vertical is an exciting new company in an expanding market.

To maintain leadership, Vertical invests significantly in research and development. The company operates product development centers staffed by a total of more than 120 dedicated technology development professionals in Cambridge Massachusetts, Santa Clara California,

Charlottesville Virginia, Phoenix Arizona, and Hyderabad India. As part of the Vodavi acquisition, Vertical also has gained a strategic business and product development relationship with LGN, a worldwide leader in telecommunications technology with hundreds of engineers and world-class manufacturing capabilities in Asia.

PUTTING THE VALUE IN IP

Many telephony vendors are building their business strategies around the enormous opportunity of IP-based telephony solutions. Unlike the competition, Vertical realizes that the value of IP is in increasing manageability, lowering costs, improving productivity and enhancing business process through the delivery of robust communications applications that are tightly integrated with the phone system. Regardless of what type of telephony application is in use — knowledge-worker applications, vertical industry-specific applications, interactive voice response, or contact center — Vertical is the only telephony solutions provider that unlocks the value of IP-based telephony by offering an immense portfolio of integrated applications. This approach makes it easy for Vertical's customers to take advantage of IP capabilities now, or on their own timetable, while keeping hardware, software and management costs in line.

VALUE THROUGH FOCUS

Vertical brings additional value by delivering telephony solutions and applications that are flexible enough to adapt to meet the needs of each and every customer. The Company is focused on serving the needs of specific industries such as legal, real estate, healthcare, education and local government, as well as national account customers in specific vertical segments where Vertical has developed and deployed industry-specific applications. As the name implies, Vertical understands the communications requirements of key vertical industry segments and develops specific applications as needed, and offers integration between Vertical-developed solutions

³ "Enterprise Telephony," November 2006.

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and a range of third-party applications. By supporting open standards, which facilitates the integration of Vertical's systems and applications with third-party software, the Company creates significant, long-term value for its customers.

PROVEN PRODUCTS

The unique strengths of the organization and its partnerships enable Vertical to offer a complete range of high-value, industry-leading business communications solutions. Implicit in the total offering is a well-defined migration path that allows customers to cost-effectively adapt and expand their communications infrastructure as they grow.

Vertical InstantOffice

Vertical InstantOffice consolidates distributed IP telephony and applications capabilities into a single solution designed for large single- and multi-site organizations, such as retailers. Its ability to access and integrate stored enterprise data in real time allows businesses to create powerful applications that maximize the value of "the forgotten sales channel" in the retail industry — the voice of the customer.

In the retail segment, where Vertical has deployed over 10,000 systems, the explosion of e-commerce and recent advances in communications applications and standards have identified the telephone as a potent customer interaction channel for large, multi-site retail enterprises. A number of leading retailers have deployed InstantOffice to increase customer-contact efficiency and create new revenue opportunities while enjoying far lower management costs.

InstantOffice sets a new standard of automated call-handling with applications that integrate enterprise data in real time in response to caller queries. The resulting voice-enabled, customer-driven transactions enable retailers to deliver convenient, personalized self-service experiences to customers, while providing branding consistency across all locations and a rich source of business intelligence.

Examples include intelligent call routing, automatic prescription refill and return-to-stock applications that integrate with centralized databases.

Vertical is continually expanding its suite of best-in-class applications. By building them on the basis of business intelligence and deep domain experience in vertical market segments, the Company's products enhance the customer experience and can add substantively to the bottom line.

Vertical TeleVantage

Vertical TeleVantage empowers professionals in SMB organizations to work more productively by providing telephone communications tools at the desktop. Vertical's award-winning ViewPoint application is a robust graphical user interface client that displays all call control features on the PC for easy drag-and-drop call handling and feature customization. Its telephone user interface provides access to all features from any desk, mobile or home phone. Call logging and recording are automatic, and TeleVantage also works with leading time billing software packages.

For contact center applications, TeleVantage includes a host of advanced call handling features that maximize the value of every customer call, as well as a series of powerful, optional add-in modules including TeleVantage Enterprise Manager, which connects distributed multi-site locations into a single, unified telephone system, and TeleVantage Conference Manager, which hosts conference calls completely on the TeleVantage system.

The Vertical Customer Assurance Program (VCAP) provides automatic software upgrades to subscribers to future-proof TeleVantage against obsolescence.

Vertical Comdial

Vertical Comdial products are high-value business communications systems engineered for SMB organizations.

The DX-120 key system is designed for smaller organizations and provides sophisticated telecommunications features in an affordable, easy to use and scalable solution. It delivers enterprise-grade



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performance without the complexity or cost of larger systems.

The FX II and MP5000 systems address the needs of medium-size organizations that require highly scalable, enterprise-grade telecommunications. The FX II system was designed for single-site and multi-site enterprises that depend heavily on both voice and data communications. It supports both VoIP and digital voice communications and includes a suite of flexible messaging and call control applications. The MP5000 platform adds SIP connectivity, increased capacity, peer-to-peer video calling and other features to the capabilities of the FX II system to meet the requirements of larger, multi-site businesses with remote offices and teleworkers. These robust systems grow with their users. An FX II chassis can be upgraded to MP5000 specifications with the addition of a single blade.

Vertical Vodavi

Vertical Vodavi products offer affordable solutions to SMB organizations facing increasingly mobile communications requirements.

The StarPlus STS™ product family is a market leader in digital telephony solutions for small businesses. Its 50-station capacity, wired, wireless, console and unique door phone speakerphone endpoints and range of voice mail options make STS a proven value leader.

Xcelerator IP™, available in early 2007, answers the demand for a complete IP network solution for smaller organizations. It is an all-in-one wired/wireless data and voice access point with integrated router, advanced voice features, auto attendant, voicemail and firewall. Xcelerator IP can enhance a current network or can become the network itself by connecting office data and voice hardware.

SMB organizations not yet ready to move to pure IP technology can opt for the the XTS IP™ converged telephony system, which supports both traditional digital and VoIP communications. XTS IP enables these enterprises to preserve capital investment as they grow and migrate to VoIP

applications at a pace that is appropriate to their needs.

Telenium IP™ is designed for medium to large organizations needing to network multiple offices and teleworkers together. Telenium IP allows enterprises to reliably integrate voice and data on a 100% IP network with the convenience of Web-based system administration and maintenance.

The Nomad family of wireless IP mobility endpoints raises mobility to a new level. Nomad soft phone and video phone solutions enable voice and video communications on a laptop PC and can upgrade a Personal Digital Assistant (PDA) to become an IP phone extension. The revolutionary wireless Nomad IP™ Wi-Fi® handset can send and receive calls and messages while roaming a campus or at a Wi-Fi hotspot.

Vertical Wave

Vertical Wave, available in early 2007, changes the game for next-generation business communications. Wave is a highly modular IP business communications solution that establishes a new standard of business value for both productivity and affordability.

Every aspect of Wave software and hardware is designed for investment protection by enabling growing organizations to conveniently keep up with business growth and the pace of change. High-value Wave features include the award-winning ViewPoint graphical user interface, extensive recording capacity and a complete, embedded suite of powerful, next-generation voice applications that can be dynamically launched and customized as needed. Unique hardware innovations include an advanced, integrated blade architecture that eliminates the need for a stand-alone server, a patented dual-backplane design for ease of deployment and migration, and stackable chassis for ease of expansion.

TRAINING AND SERVICE

Vertical University, a powerful e-learning delivery and management platform, along with the Company's dedicated support team, ensure maximum value for every



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product purchased. Vertical prepares and qualifies business partners with certified training courses. Instructional and support teams are staffed by highly experienced experts who are also gifted communicators and mentors.

Vertical University

Vertical University provides business partners with a certified curriculum of training programs on all Vertical products. The curriculum is accessible both on-site and via the Web. Seasoned instructors offer a wide range of core, advanced and refresher courses on Vertical products, telecommunications principles and developments, IP networking, and practical seminars on marketing, sales and management issues.

Customer Support

Vertical provides 24/7 telephone support for business partners who sell, install and service its products. InstantOffice is sold and supported through a dedicated partner channel that focuses exclusively on the unique needs of large enterprise customers in vertical market segments, such as retail.

STRATEGIC PARTNERS

A number of strategic relationships with world-class technology, consulting and business partners help ensure that the Company's products, applications and deployments deliver the best possible value to customers.

With the Vodavi acquisition, Vertical gained an important strategic partner in LGN, a world leader in advanced telecommunications equipment. The Company is working closely with LGN to develop new products.

Vertical also delivers value and assurance through strong collaborative relationships with large systems integrator business and consulting partners such as AT&T, Fujitsu and IBM, who sell, install, support and maintain Vertical products as part of their best-in-class systems and service. The Company's close relationship with AT&T assures that InstantOffice supports all AT&T network architecture standards. Similarly Vertical's close relationship with IBM has led to several integrated solutions

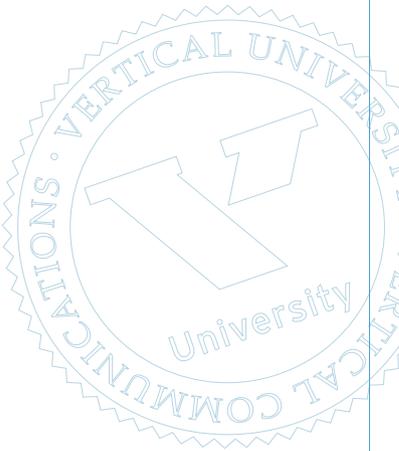
enabling next-generation communications applications in retail that are deployed and serviced by IBM's world-class service organization. Close coordination with Fujitsu has resulted in the integration of the Vertical InstantOffice Retail Suite with Fujitsu point-of-sale systems that provide voice application solutions tailored to the unique requirements of retailers.

THE VERTICAL OUTLOOK

Vertical is growing and expanding because of its success in demonstrating the value of its innovative products and services to business partners and end-users in simple terms that make compelling sense. The Company's success is reflected by the reputations of its customers, who include a mix of emergent, evolving and prominent entities.

Vertical deployments are hard at work in world-class organizations such as CVS/pharmacy® with over 6,000 sites nationwide, at Brinker International and Applebee's International — the top two restaurant chains in the U.S. — and at Apria Healthcare, a leading provider of integrated home healthcare products and services. Vertical products are in use at other leading national and international companies including GMAC and Staples, at regional giants, including Century 21 Sunbelt Realty, Heartland Bank, Schnucks Markets, Inc., Shaw's Supermarkets, Inc. and also in governmental organizations, including the Government of Puerto Rico.

As time passes, the continued growth of Vertical's customers will increasingly depend on their ability to cost-effectively enhance communications across their enterprises. And like its customers, Vertical has learned that looking ahead and planning wisely is a winning strategy in an increasingly competitive marketplace. It's the Vertical way.



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"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995. Statements regarding the future growth and potential opportunity of the IP-PBX telephony market and future market demand for our products and services, our prospectus for future expansion of our international presence, our ability to provide our customers with products, services and customer support they consider beneficial and cost-effective, our revenue growth as a result of responding to the market opportunity presented, our ability to expand our position as an industry leader, as well as other statements that are not historical facts are "forward-looking statements." These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements. These include, but are not limited to, uncertainties surrounding whether the IP-PBX telephony market will grow as projected and present opportunities in the future; whether market opportunity will present itself in the United States and Europe and whether we will be able to capitalize upon such opportunity; whether we will be able to successfully execute our business strategies; whether our customers will perceive our products, services and customer support as valuable and beneficial; volatility in our stock price as a result of the matters discussed above; the volatility of gross margins, to reduce operating expenses, and to manage cash flows (and the timing and degree of any such improvements in gross margins, reductions in operating expenses and management of cash flows); failure to integrate in an efficient and timely manner acquired companies; failure to retain and attract key employees; or difficulties and other factors detailed in the Company's filings with the Securities and Exchange Commission, including the most recent filing of Form 10-Q.

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