

Billing & OSS Finance Newsletter

March 2006

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Volume VII, Issue 1

We're Back (Again)!

Our last 'quarterly' hard copy newsletter was published two years ago. Like many of our colleagues in Billing & OSS ("BOSS"), downtrending market conditions during 2001-2003 took a toll and our firm economized, dropping this newsletter out of regular production.

We never left the industry and continued to close significant Billing & OSS transactions every year. We also continued to provide coverage of the industry via weekly e-newsletters.

The industry stabilized and returned to growth in 2004. The players left standing are generally wiser, stronger and providing better service to their customers. We're proud to include ourselves in this list!

Industry Financial Health

Sokoloff & Co. completed its first two BOSS transactions in 1998. Our initial newsletter was in January 1999. The air was alive with excitement as BOSS

enjoyed the fallout from the Internet driven market. Values were in the stratosphere.

In January '99 our top ranked company was **LHS Group**, with a multi-billion dollar market cap which equated to almost 19x revenue!

As the markets went into high gear in the Spring of 1999, our second newsletter ranked newly minted **IPO Portal Software** at the top of the pack, trading at an unbelievable 127x trailing revenue! **Amdocs**, the industry revenue leader, was trading at a "measly" 11x revenue.

Throughout 1999, values held and other newly minted IPOs arrived, each one turning in incredible revenue multiples. **MetaSolv** at 38x, **Lightbridge** at 35x, **Daleen** at 28x.

There have been many stories written about the Bubble. But there were real business dynamics at work as well. Each quarter brought news of accelerating BOSS industry revenue growth. From 30% growth in Q1 of '99 to 50% growth by Q4, we crossed our fingers and hoped it would never end.

Of course it did. The telecom industry entered a nuclear winter as carriers worldwide slashed cap ex budgets. We thought that, because so much software drives cost efficiencies, somehow BOSS would not feel the pain. During 2000 and the first part of 2001 growth slowed. And by mid-2001, the industry began a long slide of contraction, which finally ended with a modest growth trend beginning in the second half of 2003.

Enterprise Value to Sales (EVS)

"A valuation measure that compares the enterprise value of a company (computed as the market capitalization plus debt and preferred shares less cash and cash equivalents) to the company's sales. EV/sales gives investors an idea of how much it costs to buy the company's sales. This measure is an expansion of the price-to-sales valuation, which uses market capitalization instead of enterprise value. EV/sales is seen as more accurate because market capitalization does not take into account the amount of debt a company has, which needs to be paid back at some point. Generally the lower the EV/sales the more attractive or undervalued the company is seen.

The EV/sales measure can be slightly deceiving: a high EV/Sales is not always a bad thing as it can be a sign that investors believe the future sales will greatly increase. And a lower EV/sales can signal that the future sales prospects are not very attractive. It is important to compare the measure to that of other companies in the industry, and look deeper into the company you are analyzing."

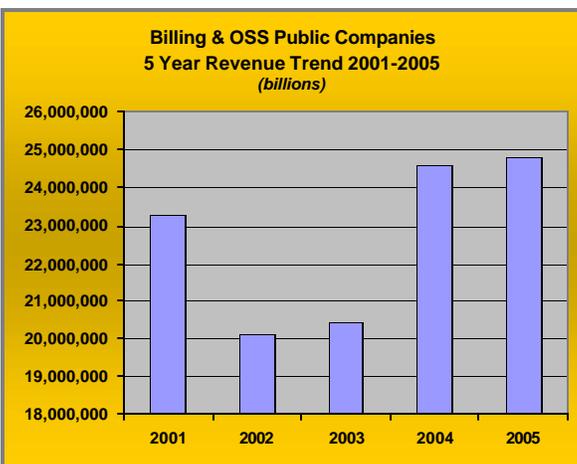
From: www.investopedia.com

2004 was a year of hope, with industry revenues rebounding by 20%. The gains made held in 2005. **Q4 2005 average growth (over Q4 2004) was a comfortable 11.5%.**

Sokoloff Rankings

Over the years, we publish a listing of public companies that participate in the BOSS industry. You can see a current list on the back page of this newsletter. We rank these companies based upon their "EVS" (Enterprise Value to Sales, see box). At its peak, just before the bubble burst in March 2000, the median revenue multiple for BOSS companies was 7.12.

(Continued on page 2)



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(Continued from page 1)

The high flyers pushed the average multiple up to 11.21.

In March 2006, the median is 1.73x and the average is 1.91x. In the top spot, is **Comverse Technology** (symbol, **CMVT**), with a multiple of 3.58. **CMVT** is the kind of company investors love...a large cap that has shown consistently strong growth for the last 8 quarters (Q4 growth was 21.8%). This represents a great recovery after seeing revenues crash by 50% during the awful time between 2001 and 2003.

Are BOSS companies currently undervalued? Perhaps. This past December, **IBM** agreed to acquire **Micromuse (MUSE)** for an EVS of 4.5x. This was a 38% premium over **MUSE**'s EVS of about 3.25x.

BOSS is a subset of the **Business Software and Services Sector**, which has an average P/E of 34.7. The average P/E for **BOSS** is 25.4. **BOSS** trades at a discount of 36% from the overall sector.

The Internet: Hero or Villain?

Recently, I served as a judge for a regional Lion's Club High School Speech Competition. The theme was: "Internet, Hero or Villain?". Three of the four student speakers spoke in glowing terms about freedom of expression, with only passing reference to a villainous downside. One student, however, made the case that lack of restrictions on the Internet contribute to considerable societal problems. Considering that today's high school students may well become the generation that has to confront regulating the Internet, I thought our readers might appreciate some insights provided by High School Senior, Angela Bilog. -Pete Sokoloff

By Angela Bilog

Imagine a place where everyone in the entire world could meet. Everything that wanted to be said could be heard and everything that others wanted to show could be seen. Despite any distance, everyone could communicate with each other in a matter of seconds.

It was not until the brink of the twenty first century that this place became a popular reality-

-the Internet. Its facets are endless. In approximately one hour, I can check my email, talk to my cousin in the Philippines through instant messaging, play a game of poker, shop online for my prom dress, see what's on the front page of the L.A. Times, and begin research for my senior thesis paper. I can only imagine how different my life would be if I were in high school just ten years ago without this time-saving and resourceful tool. In addition, the Internet is open to all ages. This offers every person the freedom to share with and receive from the world any information they desire.

Internet. **The Internet has also been responsible for cultivating a new breed of sexual assault and harassment: online predators.** Most importantly, children of all ages can be victims of these heinous crimes. Though the Internet has definitely proven itself to be one of the world's most efficient sources of information and means of communication, one must look at the other colors of this spectrum. Surely, something cannot be entirely heroic if it is equally as deleterious. **The Internet's culpability in breaking copyright laws, destroying others' property through viruses, instilling indolence in students, and outrageously portraying sexuality are all characteristic of one of the most powerful villains of the twenty first century.**

The first instance in which the Internet executes its role as a villain is through its function as a technological device. Any Internet user is familiar with the destructive effects of viruses. I vividly remember the new flat screen computer I received for my eighth grade graduation, completely destroyed a month later from simply opening an email-virus. I, and so many other millions of Americans, have had to pay hundreds of dollars for repairs or even new computers, all at the expense of criminals' enjoyment and entertainment. Along with the physical damage, the Internet also serves as an incriminating device. This is done through file sharing, or the illegal downloading of music files. Though it creates the illusion of easily obtaining free music, it is a violation of copyright laws and a robbery of music artists' money. Those who work for record label companies behind the scenes and who are not necessarily famous are harmed as well.

The Internet's villainous sting may take the form of the **Recording Industry of America's** hundreds of lawsuits against those who illegally download. Despite the Internet's quick and free way to obtain music, it has caused people of all ages to pay up to \$150,000 in fines--even targeting a twelve year old from New York who claimed, "I just wanted to listen to music." It seems quite obvious that the Internet has bypassed its role as a simple technological device. The Internet has turned innocent people into paying hundreds for unnecessary damages, removed wages from the music industry, and has coerced people of all ages into the controversy that is file sharing.

Along with the technical and harmful dimensions of the Internet is its effect on daily life. For example, teenagers like me have come to rely on the Internet for fast resources for

August 2005
This notice appears as a matter of record only.



BSG Billing Services Group

Has acquired the EDS subsidiary



EDS Interoperator Services GmbH

The undersigned advised Billing Services Group.



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However, with the popularity of the Internet comes its abuse. For most teenagers like myself, going "online" has become embedded in daily routines, perhaps more than it should be. I have wasted countless hours chatting online while I could be living a social life. My friends and I have turned into criminals by illegally downloading music and I have witnessed the exploitation of my own peers through scandalous pictures of them posted on the web.

Teenagers are not the only ones abusing the

"Many students grab at the chance to plagiarize work from the Internet and risk expulsion."

research papers and last minute study guides. Days before final exams, print-outs from **Sparknotes.com**, famous for their free chapter-by-chapter plot summaries, are popular to see around campus for last minute cramming. Many students grab at the chance to plagiarize work from the Internet and risk expulsion. Thus *the Internet has instigated and contributed to a sense of indolence and laziness in today's high school students*. I admit that I have come to rely on the Internet to do research rather than go to a library and spend time looking at books.

Has the Internet become an attempt to sabotage a teenager's ability to simply work hard? Such dependence has been transformed into dire forms of addiction. A perfect example of this was when I finally got the Internet at the age of thirteen. I was excited to communicate with my friends in such a novel, different, and continuous way. However, all I can remember was staying home all day, chatting away nonsense to my classmates, even rushing through meals so I could hop back on to the computer. My friends and I would even compete to see who could stay online the longest (our record was six hours straight).

The Internet is a breeding ground for various types of addiction. While of less concern than addiction, the Internet has also contributed to a malaise of laziness, inactivity and dependence on material things. It is for these reasons that the Internet continues its role as the villain by robbing many people of almost all humanity, leaving some as mindless bodies to stare listlessly at the computer screen all day.

The Internet has played its role as a deceiving technical culprit and as a lazy alternative for human interaction. Moreover, the Internet is even more villainous for teenagers due to the vast amount of body exploitation on the web. On the infamous networking website **Myspace.com**, it is not uncommon to see girls baring their midriffs for publicized comments or compliments from friends and even strangers. Another example of this highly popular online culture of Myspace is the necessity to add "friends" who are other Myspace members. This means adding strangers to increase the number of "friends."

Websites such as Myspace and online journals, also called "blogs," can be used constructively to keep in touch with friends and express individuality. A dark side of this is that there are many teenage girls who post provocative photos of themselves on the Internet, exposing a sense of insecurity with their own body image and popularity. Using the Internet to gain confidence and acceptance from others may even be a cause for disorders such as anorexia, bulimia and over-exercising or dieting.

The amount of body exploitation on the Internet goes hand in hand with the insurmountable amount of pornography, open for all ages to

"The Internet's original intent of connecting people all over the world has gone haywire. It has proven to be a device that allows teenage girls to advertise themselves as jail bait, displaying a crude imagery of sexuality for all to see, and breeding more criminals to harm others."

view. I vividly remember doing research on the white house in the eighth grade. A simple change from "whitehouse.gov" to "whitehouse.com" led me to a most distasteful porn website and pop-up advertisements. Keep in mind I was only thirteen, and with an accidental click of the mouse, in one second, I entered the gruesome world of pornography. If I was able to see this so easily, it is a shocking realization to know that younger children as well as adults are easily entrapped in the world of online pornography. The vast amount of pornography online only delineates the crude sense of humor and entertainment of today's society, also implicating a sense of less dignified morals. Most of my male friends admitted that downloading pornography on a daily basis was "something that guys just do," even putting it on iPods and watching it during class.

Responding to sexual exploitation on the Internet are hundreds of anonymous sexual predators. These predators look at websites such as Myspace or chat forums to find and talk to victims like young children. The harassment that occurs online through chatting can easily be transferred to real life. **Recently a freshman from Bravo High School in Los Angeles was raped and murdered by a man she agreed to meet from Myspace.**

The Internet's original intent of connecting people all over the world has gone haywire. It has proven to be a device that allows teenage girls to advertise themselves as jail bait, displaying a crude imagery of sexuality for all to see, and breeding more criminals to harm others. Surely, this is no heroic or saving act for our society, but a villainous and tragic downfall.

Hence, the Internet walks a very fine line between productive and destructive. Must a device that is meant to provide communication among all people also link everyone to harmful viruses and to the fad of illegal file sharing? Has the net become a fast and efficient resource tool or a shoddy alternative to getting work and studying done? Does the Internet serve as a harmless multipurpose entertainment device or one that is dangerously addicting? Finally, is the Internet a place where people can meet and learn about one another, or is it a forum infiltrated with distorted views of sexuality, stimulating sexual predators as its audience?

Surely, a hero would not deliver so much pain and risk in addition to the benefit.

So many others and I have fallen into the Internet's traps of addiction. New Year's resolutions every year of "less online time" become futile. The Internet, like any other possession in the world, must be used in a way that is not destructive to society. It is parents' and all citizens' responsibility to not let the Internet's flaws become the accepted norms.

Despite the mounting controversy surrounding the Internet, it continues to grow as people find even more convenient uses for it-- from grocery shopping to driving directions. **Ultimately it is individual actions that determine if the Internet is serving as a heroic development or a villainous instigator.** As a villain, its consequences are most severe. It attacks humans in subtle and awful ways. Beyond the worst of the news stories, it can demand obedience and time and rob one's dignity. From my perspective, the sad part of this truth is the fact that so many of us are addicted to the Internet - taken in by its notorious parts, with more victims being tallied every single day.

Angela Bilog was born in the Philippines and moved to the US at the age of one. She is currently a Senior at Holy Family Girls High School in Glendale, CA. She is on the Dean's List Gold (for 3.8 GPA or higher), Who's Who among American High School Students, and ranks number one in her class of 72. Her future goal is to attend NYU or USC and to major in Journalism with a minor in Spanish or Psychology.



For timely financial information, including an archive of M&A Transaction Case Histories, visit: www.sokoloffco.com

Contact Sokoloff & Co.

Please contact **Mark Schwartz**, Managing Director of New Business Development for a confidential consultation about your company's merger and acquisition needs, (818) 547-4500.

"Always do right. This will gratify some people and astonish the rest."

- Mark Twain (1901)

SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC BILLING & OSS COMPANIES Q4 2005 Numbers & Stock Prices as of March 7, 2006

Sokoloff & Company completes a quarterly review of selected public Billing & OSS companies (and companies that dedicate a portion of their business to Billing & OSS) and compares how each is valued by the public marketplace. Comparative values for each company are expressed as: **EVS**, which is Enterprise Value divided by Sales and **P/E**, which is Enterprise Value divided by Earnings. **EVM** is Enterprise Value Multiple; Enterprise Value is the sum of the company's market capitalization plus any debt or preferred stock and minus cash on hand. **EVM** is the Enterprise Value divided by EBITDA (Earnings Before Interest, Depreciation and Amortization). All multiples are based on trailing twelve months (TTM) numbers through the most recently reported quarter. **Note:** The quarterly revenue percentage column is the increase (or decrease) from the same quarter in the previous year. Where fiscal year has differed from calendar year, the most recently reported information is used. The 4th Q 05 percentage column is the increase from 4th Q 04. **Information provided strictly for informational purposes to industry senior executives. Sokoloff & Co. makes no representations as to its accuracy. Sokoloff & Co. does not advise public investors; this information should not be used for investing purposes.**

Current Rank	Company	Symbol	Stock Price 3/7/2006	52 Week Range	Market Cap 3/7/2006	2001 Revenue (000's)	2002 Revenue (000's)	2003 Revenue (000's)	2004 Revenue (000's)	2005 Revenue (000's)	4th Q 04 Revenue (000's)	4th Q 05 Revenue (000's)	4th Q 05 % Incr. (dcsct)	P/E	EVS	EVM
1	Comverse Technology	CMVT	28.54	21.33-29.64	5,765B	1,270,218	735,889	521,526	765,892	959,442	245,500	299,000	21.8%	52	3.58	25.55
2	Fair Isaac	FIC	42.85	32.26-48.47	2,787B	329,148	392,418	651,904	706,206	798,671	195,500	202,800	3.7%	22.01	3.57	11.89
3	Verisign	VRSN	23.27	19.01-33.36	5,964B	983,564	1,221,668	1,054,780	1,166,455	1,609,500	356,000	392,100	10.1%	15.11	3.17	12.29
4	Ultron	ULCM	10.54	8.15-14.43	456.2M	58,156	29,231	38,378	38,400	63,436	17,000	15,300	-10.0%	22.62	3.07	10.18
5	AMDOCS Ltd.	DOX	34.88	24.30-35.96	7,024B	1,613,500	1,483,327	1,570,000	1,773,732	2,038,621	469,500	587,000	25.0%	25.21	2.94	14.03
6	Intrado, Inc.	TRDO	25.85	10.62-25.86	461.3M	78,187	107,714	124,854	136,524	146,300	36,000	39,900	8.1%	NA	2.82	11.06
7	Agilent	A	36.56	20.11-36.74	15,675B	8,396,000	6,010,000	6,287,000	7,181,000	5,139,000	1,656,000	1,336,000	-19.4%	5.94	2.71	9.56
8	CSGS Systems	CSGS	22.59	15.74-24.76	1,098B	476,900	610,932	439,660	529,746	377,300	136,600	93,200	-31.8%	23.85	2.45	7.12
9	ADC Telecom	ADCT	24.22	12.88-27.90	2,836B	1,890,000	1,047,700	741,800	784,300	1,169,200	243,400	280,200	15.1%	49.41	2.38	19.07
10	ECTel	ECTX	5.09	3.11-5.50	92.5M	80,598	95,777	28,857	12,605	23,151	4,030	6,528	62.0%	NA	2.29	NA
11	Tektronix Inc.	TEK	30.44	20.97-31.89	2,484B	2,048,401	1,635,307	1,354,288	920,620	1,034,654	266,800	253,400	-5.0%	32.06	2.24	13.04
12	InfoVista SA	IVTA	7.64	2.85 - 9.22	137.1M	33,235	35,028	29,300	35,000	41,500	11,700	11,800	0.9%	NA	2.18	NA
13	Ace Comm	ACEC	2.78	1.98-3.70	48.6M	18,094	13,794	10,511	13,700	20,000	4,800	6,700	39.6%	NA	2.12	NA
14	Affiliated Comp. Services	ACS	63.08	45.81-63.66	7,879B	2,063,559	3,062,918	3,994,680	4,106,393	4,351,159	1,027,000	1,348,000	31.3%	19.04	1.75	9.26
15	Mind CTI	MNDO	3.1	2.50-5.35	66.5M	10,500	10,008	12,936	17,806	15,600	4,900	5,000	2.0%	16.81	1.73	7.05
16	Lightridge	LTBG	9.53	5.62-10.00	255.1M	176,600	133,438	119,978	133,055	108,300	32,500	27,300	-16.0%	14.15	1.63	9.23
17	Opnet	OPNT	10.23	6.94-9.97	205.5M	44,756	46,427	52,518	56,500	64,200	16,100	20,100	24.8%	NA	1.61	NA
18	Tekelec*	TKLC*	13.73	11.77-21.15	917.6M	312,451	260,341	263,700	397,072	516,470	106,600	148,100	38.9%	29.03	1.58	10.99
19	NetScout Systems, Inc.	NTCT	6.63	3.55 - 7.37	2.10M	108,000	82,300	71,700	71,500	85,200	22,000	24,900	13.2%	45.89	1.44	15.08
20	Evolving Systems Inc	EVOL	2.75	1.54-3.40	44.2M	33,895	22,963	27,973	26,342	26,342	5,700	9,600	68.4%	NA	1.43	14.64
21	EMER Telemgmt Soluitc	MTSL	3.43	2.85-4.23	19.7M	212,508	139,129	N/A	9,413	11,560	3,000	3,000	16.3%	NA	1.43	NA
22	StarTek, Inc.	SRT	19.22	11.32-21.12	293.2M	182,600	207,900	231,200	258,100	216,400	64,800	58,200	-10.2%	23.12	1.17	7.42
23	Management Network	TMNG	2.39	1.70-3.05	85.0M	54,800	34,595	23,476	23,700	30,400	6,200	6,200	0.0%	NA	1.14	NA
24	Convergys Corp.	CVG	17.36	12.57-18.67	2,430B	2,320,000	2,288,200	2,288,800	2,487,700	2,582,100	672,200	669,600	-0.4%	20.06	1.04	6.62
25	TTI Team Telecom	TTIL	4.13	1.89-4.26	57.3M	60,826	58,341	45,867	37,798	43,200	9,900	12,300	24.2%	NA	1.04	NA
26	CGI Group	GIB	7.51	5.34-8.53	3,234B	107,015	101,886	103,819	2,574,500	3,173,600	761,300	744,000	-2.3%	16.07	1.02	6.76
27	Postal Software Inc.*	PRSF.PK*	3.5	1.62-4.46	149.9M	154,790	121,090	127,492	126,753	NA	NA	NA	NA	NA	1.00	NA
28	MetaSolv Software	MSLV	2.93	1.75-3.50	146.6M	118,646	91,204	79,506	81,161	91,815	21,500	23,800	10.7%	NA	0.97	34.95
29	Boston Comm.	BCGI	1.99	.87-7.74	35.3M	66,283	70,860	103,191	107,928	103,900	26,000	26,300	1.2%	NA	-0.03	NA

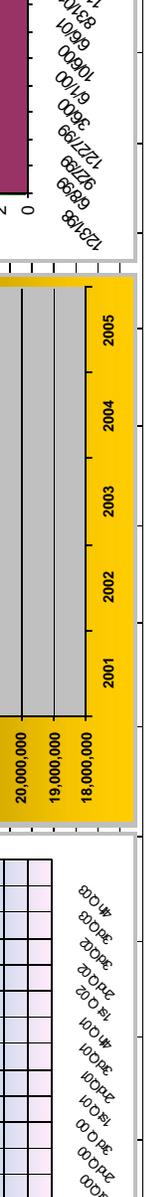
Sokoloff Index 466.76
Total: 23,303,430 20,148,385 20,399,494 24,579,901 24,814,679 6,451,810 6,649,328
Average: 11.51% 25.43
Median: 9.10% 22.62
1.91 12.79
1.73 11.03

Billing & OSS Public Companies 5 Year Revenue Trend 2001-2005 (billions)

Public Billing/OSS Companies Average Multiples of Revenue

Sokoloff Chart of Billing/OSS Industry Revenue Growth 1999-2003

*TKLC announced in February that they will be restating 2003, 2004 and 2005 financials. At the time of printing, PRSF was delinquent in filing FY 2006 financials. EVS for PRSF is estimated.



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