

# Billing & OSS Finance Newsletter

June 2007

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Volume VIII, Issue 2

## SOKOLOFF RANKINGS

The first quarter of the year has been especially good to both **IBM** (NYSE:IBM) and **ADC Telecom** (NasdaqGS:ADCT). **IBM** moved from 16 to 11 and **ADCT** moved from 17 to 12 in the **Sokoloff & Company Rankings**.\*

For some time various analysts have written that they believed **IBM**'s stock was undervalued. The stock's P/E was lower than many of its competitors despite higher relative profitability. The price of **IBM** shares has hovered for almost five years in the seventy to ninety dollar range, expected to break \$100 and then inevitably stalling. **Finally on January 16<sup>th</sup>, IBM broke through to a record new high, hitting \$100.13.** It could not sustain the rally and dropped below \$100 the next day. On April 25<sup>th</sup> it punched through again and has remained above the century mark all through May and into early June. As of May 18<sup>th</sup> it traded at \$107.99, the highest since January 18, 2002 when it hit \$108.44.

**IBM** has been a study of a large corporation doing a lot of things right. **The recent acquisitions of Internet Security Systems and MRO Software in October 2006;** a **Forrester** research report in January naming **IBM** the leader in overall SOA EMEA offerings; the announcement of two new development centers in China and India, and numerous new contract wins, all helped to push the stock to the hundred dollar mark.

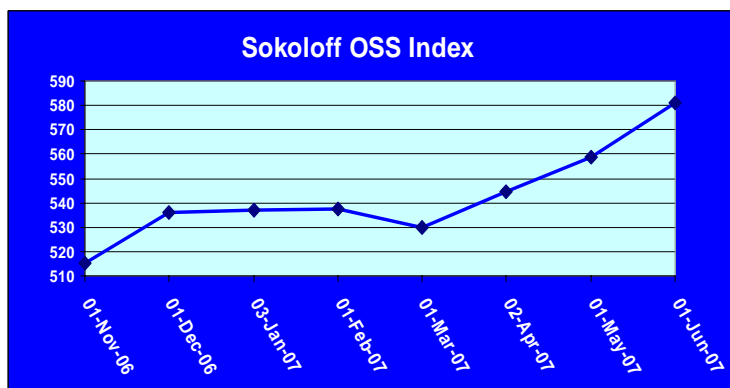
**The announcement on April 24<sup>th</sup> that IBM boosted its dividend payout by 33% and authorized an aggressive stock buyback program gave the stock a \$2.96 surge on the 25<sup>th</sup> of April.** In a shareholder meeting **IBM's** treasurer **Jess J. Green Jr.** said the company would still have more than enough room to continue to invest in the business and make

acquisitions which have been instrumental in **IBM's** growth.

In mid May, **CFO Mark Loughridge also met with analysts and announced that IBM would double its annual earnings per share by 2010.** He said that by cutting costs, buying back shares, making acquisitions and doubling sales in emerging markets they would be able to add \$5 to its earnings per share. Software sales are expected to account for half of **IBM's** revenue by 2010, up 40% from last year. **CEO, Sam Palmisano** has steadily positioned

they came out with what they claim to be the world's fastest microprocessor, the Power6 which has the ability to keep the server cool and save users \$100,000 per year in electricity.

Though initially the news of the Power6 was met with lackluster excitement, there is belief that this is one of the many new ways for the company to drive growth and keep the stock appreciating. **The Power6's unprecedented speed and environmentally friendly spin is expected to give IBM the edge in the server market, garnering one point of market share every year between now and 2010.**



**ADC Telecom**, a vendor for wireline, wireless, cable, broadcast, and enterprise networks, was featured in our last newsletter and has continued its ascent from the third quarter 2006 ranking of 20, all the way up to 12 this quarter. **ADCT is still benefiting from the unloading of two of their divisions in the month of January; that of its**

**professional services business in France and relinquishing of their interest in BigBand Networks.** It hit a high on April 19<sup>th</sup> of \$19.02, the highest since May of 2006. April continued to show an **ADCT** on the move, with the stock edging up a bit almost every day. **ADCT** introduced a new Gigabit Ethernet Patch Panel on April 12<sup>th</sup> and on April 24<sup>th</sup> the company appointed a new **CFO, James G. Mathews** replacing **Gokul V. Hemmady**, who accepted a position with **NII Holdings** (Nasdaq:NIHD).

\*Determination of rankings is based on the Enterprise Value to Sales Multiple (EVS). This is market cap plus debt and any preferred stock, less cash, divided by trailing twelve month sales. EVS is an indicator of the relative value of the company compared to others in the same market.

the company to concentrate on highly lucrative high-margin software by gradually steering them away from their reliance on the less profitable area of hardware sales. Other positive moves for **IBM** included a partnership with **Red Hat, Inc.** to develop and sell software to mainframe computers, **and the favorable settling of IBM's patent suit with Amazon.**

**Lastly, it should be noted that IBM has had a sleek makeover.** Being an old standard, it has been plagued with being a little un-hip. This has changed with its dedication to the fashionable growing green movement. **IBM has come on board the environmental bandwagon and has even pledged 1 billion dollars in an effort to make corporate data centers more energy efficient.** Moreover,

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**Late Breaking Announcement:**  
 On June 6th, Ericsson announced they are buying LHS for EUR 310 million (about US \$414.5 million). The price is about 3X revenue and 16X EBITDA.

**THE FOREIGN OSS MARKET**

This newsletter, **Sokoloff & Company** decided to pull together and talk about some of the top public OSS companies trading on exchanges outside of the U.S. How does the OSS industry fare in the financial markets in the rest of the world, compared to companies traded on the American exchanges, which are featured on the Back Page of every newsletter? The thirteen businesses we highlight are traded on a number of exchanges: **Berlin-Bremen (BE), Euronext Paris (PA), London (LSE), National Stock Exchange Mumbai, India (NSE) and Toronto (CDNX)**. As a primer, we have broken down each of the exchanges with a little background.

**BERLIN-BREMEN STOCK EXCHANGE**

The Berlin Stock Exchange is extremely old having its start in 1685 and introducing its first shares in 1772 by the Royal Merchant Marine. Over 300 years later, the BE has grown to be one of the top exchanges in the country trading 145 of the most important and largest investment companies in Germany. In 2003 the Berlin and Bremen Stock Exchanges merged to create the **Berlin-Bremen Stock Exchange (BE)**. It is separated into three market segments: the Official, Regulated, and Unofficial Regulated.

It is on the Unofficial Regulated Market where all NASDAQ companies are traded and 14,840 companies from all over the world are admitted as secondary listings.

**Highlighted companies traded on the BE:**

**Comptel Corporation (CKP)** provides telecom software solutions that offer mediation, charging and fulfillment capabilities.

**LHS Telekom GmbH & Co. KG (LHS)** delivers telecom billing and customer care systems across the wireless, wireline, and IP

telecom markets.

**SysOpen Digia Plc (S2Y)** is a software company that provides ICT products, services and technologies.

**EURONEXT PARIS EXCHANGE**

**The Paris Bourse merged in 2000 with the Brussels and**

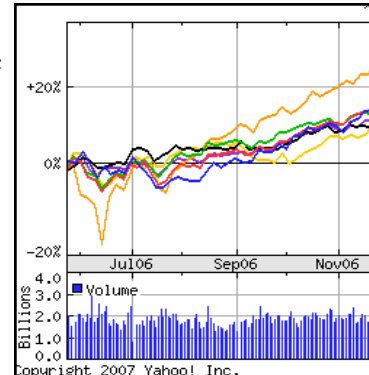
**Amsterdam stock exchanges to form Euronext. The Paris market was renamed Euronext Paris (PA). As of January 31, 2006 markets run by Euronext had a market capitalization of 2.9 trillion, making it the largest exchange in the world.** All companies traded on the Euronext are listed on their home markets, but their shares are traded on a single platform that spans all participating countries. Euronext further went on to merge with NYSE Group to form NYSE Euronext, the first global exchange. **Euronext currently has over 1400 listed companies.**

**Highlighted companies traded on the PA:**

**Capgemini (CAP)** is a provider of consulting, technology, outsourcing and local professional services.


**Sopra Group (SOP)** delivers

**CHARTING THE GROWTH IN**




\*GDAXI is the German Index DAX, Sensex, N100 is the Euronext Exchange, Canadian Index S&P/TSX Composite, NASDAQ, FTSE is the UK Index FTSE

*This notice appears as a matter of record only.*




Solutions Limited

**Has merged with**



**SUBEX** Systems

*The undersigned advised Subex Systems Limited.*



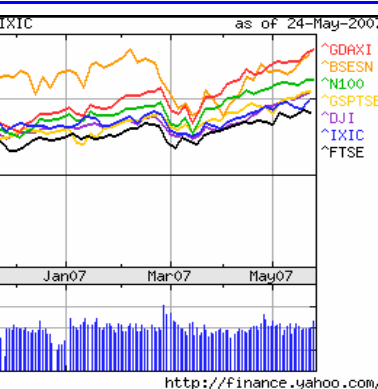
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| Company                   | Trading Symbol | Exchange | Web Site                      | Stock Price 5/25/07 | Revenue FY 2005 (000's) | Revenue FY 2006 (000's) | Outstanding Shares on a fully diluted basis (000's) | Market Cap   | P/E   | P/S  |
|---------------------------|----------------|----------|-------------------------------|---------------------|-------------------------|-------------------------|---|--------------|-------|------|
| Zergo Ltd                 | RGO            | LSE      | www.Zergo.com                 | \$4.37              | \$45,857                | \$58,554                | 30,412  | \$132,900    | 24.28 | 2.27 |
| BSG Clearing Solutions    | BILL           | LSE      | www.billingservicesgroup.com  | 0.66                | \$312,252               | \$356,124               | 272,664   | \$179,958    | N/A   | 0.51 |
| Capgemini                 | CAP            | PA       | www.capgemini.com             | 74.71               | \$9,354,510             | \$10,358,028            | 147,241   | \$11,000,375 | 26.87 | 1.06 |
| Comptel Corporation       | CKP            | BE       | www.comptel.com               | 2.53                | \$88,865                | \$108,200               | 107,055   | \$270,849    | 36.14 | 2.50 |
| LHS Telekom GmbH & Co. KG | LHS            | BE       | www.lhsgroup.com              | 22.87               | \$62,706                | \$96,300                | 14,546  | \$332,667    | 22.87 | 3.45 |
| Intec Telecom             | ITL            | LSE      | www.intec-telecom-systems.com | 0.83                | \$230,567               | \$222,916               | 305,099   | \$253,232    | N/A   | 1.14 |
| Misys                     | MSY            | LSE      | www.misys.com                 | 4.93                | \$1,697,175             | \$1,891,552             | 501,648   | \$2,473,125  | N/A   | 1.31 |
| NTG Clarity Networks Inc. | NCI            | CDNX     | www.ntgclarity.com            | 0.09                | \$5,374                 | \$4,883                 | 24,470  | \$2,202      | N/A   | 0.45 |
| Sopra Group               | SOP            | PA       | www.sopragroup.com            | 92.66               | \$1,018,064             | \$1,207,690             | 10,732  | \$994,427    | 18.24 | 0.82 |
| Steria                    | RIA            | PA       | www.steria.com                | 63.12               | \$1,580,072             | \$1,697,209             | 18,960  | \$1,196,755  | 16.35 | 0.71 |
| Subex/Azure Ltd.          | SUBEX          | NSE      | www.subexazure.com            | 14.92               | \$29,096                | \$45,706                | 41,638  | \$621,239    | 33.16 | 7.12 |
| SysOpen Digia Plc         | S2Y            | BE       | www.sysopendigia.com          | 5.45                | \$8,139                 | \$11,426                | 20,312  | \$110,700    | 16.03 | 9.69 |
| Tata Consultancy Services | TCS            | NSE      | www.tcs.com                   | 30.54               | \$3,288,344             | \$4,625,921             | 978,611   | \$29,886,780 | 29.09 | 6.46 |

All Country currencies have been converted in US Dollars  
 Subex Azure P/S has been adjusted to reflect the acquisition of Syndesis in April 2007.

## INDICES ACROSS THE WORLD



BSESN is the Bombay Index BSE Euronext 100, GSPTSE is the Euronext 100, DJI is the Dow Jones, IXIC is the Euronext 100.

consulting, systems integration, and application outsourcing to businesses.

**Steria (RIA)** is an IT services provider that specializes in consulting, systems integration and managed services.

## NATIONAL STOCK EXCHANGE MUMBAI, INDIA

**The National Stock Exchange Mumbai, India (NSE) is the largest exchange in India and the third largest in the world in terms of volume of transactions.** It has about 1,016 companies listed and was incorporated in 1992. It is owned by a myriad of financial and insurance institutions. An exchange that has experienced rapid growth, the NSE's combined worth of stocks rose 50% in the past two years making it an attractive target

A nice upward trend can be seen across all exchanges. The most growth can be found in the Indian and German exchanges.

outsourcing, consulting and engineering and industrial services.

## TSX VENTURE EXCHANGE

**The TSX Venture Exchange (CDNX)** falls under the umbrella of the TSX Group which also owns and operates the Toronto Stock Exchange (TSX), the NGX (a market for the trading and clearing of natural gas and electricity contracts), and Shorcan, Canada's first inter-dealer broker. **The TSX Venture Exchange serves the public venture equity market and provides access to capital for companies at the early stages of their growth.** The Toronto Stock Exchange offers investors more solid, predictable investments while the Venture Exchange offers investments with higher risk, but more potential for growth and higher returns.

**Highlighted companies traded on the TSX Venture Exchange:**

**NTG Clarity Networks Inc. (NCI)** delivers network, telecom, IT and infrastructure solutions to network service providers.

## LONDON STOCK EXCHANGE

The **London Stock Exchange (LSE)** is one of the oldest stock exchanges in the world tracing its history back to 1698 in the coffee houses of London. **LSE claims the first regulated exchange in 1801 which introduced the modern stock exchange.** Since then, the LSE has become one of the foremost exchanges in the world and is the most international of all stock exchanges with more than 579 companies from over 65 countries. NASDAQ currently holds a 30% stake in LSE and at one time unsuccessfully attempted to acquire the LSE. The LSE currently lists 3251 companies.

**Highlighted companies traded on the LSE:**

**Zergo Ltd (RGO)** is a provider of interactive and multi-channel communications solutions using mobile technologies, fixed-line telecommunications and the internet.

**BSG Clearing Solutions (BILL)** is a supplier of clearing, settlement, payment, and financial risk management solutions for communications service providers.

**Intec Telecom (ITL)** develops, implements and supports BSS/OSS for the majority of the world's largest communications providers.

**Misys (MSY)** specializes in software products and solutions for the banking, treasury and capital markets, and healthcare industries.

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**SUBEX AZURE**  
...Powering the ROC

has agreed to acquire

**SYNDESIS**

*The undersigned advised Subex Azure Limited.*



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for investment. **Soon after the Indian Government lifted its ban on foreign ownership of exchanges, the NYSE bought a 20% stake of NSE.** The NSE has a current market cap of \$4,380,774 Crore (around 1 trillion American dollars).

**Highlighted companies traded on the NSE:**

**Subex/Azure Ltd. (SUBEX)** is a global provider of OSS, fraud management and revenue assurance solutions for telecom operators worldwide.

**Tata Consultancy Services (TATA)** is an IT company that specializes in infrastructure

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**While at our website, surf around. There's plenty of useful information, including our archive of M&A Transaction Case Histories.**

**"Always do right. This will gratify some people and astonish the rest."**  
- Mark Twain (1901)

**SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC BILLING & OSS COMPANIES**  
Q1 2007 Numbers & Stock Prices as of May 22, 2007

Sokoloff & Company compiles 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**, Price to Earnings (market cap 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.

Changed from previous list: Lightbridge (LTBG) spun off its telecom decisioning services business and changed its name to Authorize.Net Holdings, Inc. (ANET).

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| Current Rank   | Previous Rank | Company                          | Symbol  | Stock Price 5/22/2007 | 52 Week Range  | Market Cap 5/22/2007 | 2004 Revenue (000's) | 2005 Revenue (000's) | 2006 Revenue (000's) | 1st Q 06 Revenue (000's) | 1st Q 07 Revenue (000's) | 1st Q 07 Incr. (decr)   | P/E          | EVS          | EVM          |
|--|---------------|----------------------------------|---------|-----------------------|----------------|----------------------|----------------------|----------------------|----------------------|--------------------------|--------------------------|-------------------------|--------------|--------------|--------------|
| 1  | 1             | Synchronoss Technologies, Inc.   | SNCR    | 22.87                 | 6.25 - 25.00   | 739.14M              | 27,191               | 54,218               | 72,400               | 15,724                   | 21,329                   | 35.6%                   | 58.05        | 8.38         | 29.98        |
| 2  | 2             | Oracle                           | ORCL    | 19.37                 | 13.07 - 19.75  | 99.58B               | 10,156,000           | 11,799,000           | 14,380,000           | 3,470,000                | 4,414,000                | 27.2%                   | 25.86        | 5.80         | 14.25        |
| 3  | 3             | Verisign                         | VRSN    | 27.1                  | 15.95 - 27.85  | 6.58B                | 1,166,455            | 1,609,500            | 1,580,000            | 372,769                  | 378,570                  | 1.6%                    | 10.06        | 3.95         | 14.84        |
| 4  | 4             | Authorize.Net Holdings           | ANET    | 15.85                 | 10.45 - 18.17  | 445.16M              | 133,055              | 108,300              | 95,600               | 13,453                   | 16,314                   | 21.3%                   | 18.09        | 3.16         | 13.24        |
| 5  | 8             | Agilent                          | A       | 38.54                 | 26.96 - 38.50  | 15.26B               | 4,556,000            | 4,685,000            | 4,973,000            | 1,239,000                | 1,320,000                | 6.5%                    | 24.80        | 2.83         | 7.81         |
| 6  | 5             | Fair Isaac                       | FIC     | 37                    | 32.51 - 42.97  | 2.12B                | 706,206              | 798,671              | 825,365              | 208,157                  | 201,000                  | -3.4%                   | 22.60        | 2.79         | 8.85         |
| 7  | 6             | AMDOCS Ltd.                      | DOX     | 37.81                 | 32.50 - 41.01  | 7.84B                | 1,773,732            | 2,038,621            | 2,480,050            | 601,129                  | 706,361                  | 17.5%                   | 24.22        | 2.71         | 13.02        |
| 8  | 7             | CSG Systems                      | CSGS    | 27.49                 | 22.98 - 28.45  | 1.19B                | 529,746              | 377,300              | 383,100              | 92,960                   | 98,700                   | 6.2%                    | 21.15        | 2.68         | 8.27         |
| 9  | 10            | Converse Technology              | CMVT.PK | 23.26                 | 16.95 - 24.25  | 4.70B                | 959,442              | 1,193,673            | 1,588,554            | 369,200                  | 405,700                  | 9.9%                    | 42.37        | 2.58         | 18.42        |
| 10   | 13            | Tektronix Inc.                   | TEK     | 30.27                 | 25.26 - 32.34  | 2.39B                | 920,620              | 1,034,654            | 1,040,000            | 262,105                  | 265,756                  | 1.4%                    | 26.76        | 1.96         | 11.51        |
| 11   | 16            | IBM                              | IBM     | 106.7                 | 72.73 - 108.05 | 158.43B              | 96,293,000           | 91,134,000           | 91,424,000           | 20,659,000               | 22,029,000               | 6.6%                    | 17.04        | 1.86         | 8.96         |
| 12   | 17            | ADC Telecom                      | ADCI    | 18.24                 | 11.81 - 23.67  | 2.14B                | 733,900              | 1,129,400            | 1,281,900            | 358,100                  | 349,400                  | -2.4%                   | 30.15        | 1.51         | 13.12        |
| 13   | 12            | NetScout Systems, Inc.           | NTCT    | 7.77                  | 5.77 - 9.59    | 248.87M              | 71,500               | 85,200               | 97,876               | 25,814                   | 27,318                   | 5.8%                    | 33.21        | 1.50         | 12.28        |
| 14   | 18            | Affiliated Comp Services         | ACS     | 59.73                 | 46.50 - 61.67  | 5.92B                | 4,106,393            | 4,351,159            | 5,353,661            | 1,314,455                | 1,440,546                | 9.6%                    | 21.03        | 1.45         | 8.09         |
| 15   | 9             | Opnet                            | OPNT    | 11.1                  | 9.90 - 16.82   | 228.24M              | 56,453               | 64,243               | 76,115               | 21,276                   | 24,359                   | 14.5%                   | 29.52        | 1.42         | 13.31        |
| 16   | 14            | Ustream                          | ULCM.PK | 8.1                   | 7.85 - 10.91   | 350.58M              | 38,400               | 63,436               | 63,016               | 15,702                   | 11,414                   | -27.3%                  | 17.80        | 1.39         | 4.61         |
| 17   | 15            | Mind CTI                         | MNDO    | 2.67                  | 2.25 - 3.12    | 57.58M               | 17,806               | 15,600               | 20,060               | 5,252                    | 4,807                    | -8.5%                   | 41.08        | 1.32         | 6.88         |
| 18   | 19            | Convergys Corp.                  | CVG     | 25.77                 | 17.73 - 27.26  | 3.53B                | 2,487,700            | 2,582,100            | 2,800,000            | 675,300                  | 719,900                  | 6.6%                    | 21.04        | 1.27         | 8.60         |
| 19   | 20            | Tekelec                          | TKLC    | 15.06                 | 9.50 - 16.50   | 1.05B                | 397,072              | 486,500              | 553,600              | 64,852                   | 108,793                  | 67.8%                   | 19.71        | 1.21         | 11.75        |
| 20   | 21            | CGI Group                        | GIB     | 10.41                 | 5.70 - 10.39   | 3.42B                | 2,704,487            | 3,164,597            | 2,986,150            | 866,836                  | 951,342                  | 9.7%                    | 20.86        | 1.17         | 7.78         |
| 21   | 11            | ECTel                            | ECTX    | 3.2                   | 3.02 - 5.50    | 53.28M               | 12,605               | 23,151               | 28,800               | 6,675                    | 3,551                    | -46.8%                  | N/A          | 1.05         | NA           |
| 22   | 22            | Evolving Systems Inc             | EVOL    | 1.78                  | 0.78 - 2.55    | 31.43M               | 26,342               | 39,452               | 33,800               | 8,128                    | 8,461                    | 4.1%                    | N/A          | 1.04         | 6.57         |
| 23   | 23            | Ace Comm                         | ACEC    | 0.78                  | 0.66 - 2.88    | 14.53M               | 13,700               | 20,000               | 26,700               | 6,703                    | 3,106                    | -53.7%                  | N/A          | 0.93         | NA           |
| 24   | 25            | Management Network               | TMNG    | 1.92                  | 1.27 - 2.64    | 68.73M               | 23,700               | 30,378               | 34,000               | 7,163                    | 15,113                   | 111.0%                  | N/A          | 0.86         | NA           |
| 25   | 24            | MER Telemangement Solutions Ltd. | MTSL    | 1.44                  | 1.39 - 3.14    | 8.31M                | 9,413                | 11,560               | 11,000               | 2,814                    | 2,446                    | -13.1%                  | N/A          | 0.73         | NA           |
| 26   | 26            | StarTek, Inc.                    | SRI     | 9.86                  | 8.91 - 16.48   | 145.19M              | 258,100              | 216,370              | 237,600              | 57,105                   | 57,647                   | 0.9%                    | 42.14        | 0.52         | 5.68         |
| 27   | 27            | TTI Team Telecom                 | TTIL    | 2.8                   | 2.30 - 5.28    | 44.80M               | 37,798               | 43,200               | 46,100               | 12,495                   | 10,707                   | -14.3%                  | N/A          | 0.33         | NA           |
| 28   | 28            | Boston Comm.                     | BOGI    | 1.77                  | 1.08 - 4.14    | 31.69M               | 107,928              | 103,858              | No report            | 24,717                   | No report                | N/A                     | N/A          | -0.07        | NA           |
| <b>Sokoloff Index</b>  |               |                                  |         | <b>568.66</b>         |                | <b>Total:</b>        | 128,324,744          | 127,263,141          | 132,492,447          | 30,776,884               | 33,595,640               | <b>Quarterly Growth</b> |              |              |              |
| <b>No report</b> - As of press time, these companies had not yet announced their Q1 and/or Year End results.   |               |                                  |         |                       |                |                      | <b>8.35%</b>         | <b>-0.83%</b>        | <b>4.11%</b>         |                          | <b>9.16%</b>             | <b>7.20%</b>            | <b>27.03</b> | <b>2.01</b>  | <b>11.26</b> |
| Authorize.net (formerly Lightbridge): For information purposes the last four quarters portray only revenue from the Authorize.net subsidiary.        |               |                                  |         |                       |                |                      |                      |                      |                      |                          | <b>Average</b>           |                         |              |              |              |
| Following the divestiture of the TDS business in February 2007, the business will only be recording revenue from Authorize.net.                      |               |                                  |         |                       |                |                      |                      |                      |                      |                          | <b>Median</b>            |                         |              |              |              |
| * Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues. |               |                                  |         |                       |                |                      |                      |                      |                      |                          |                          |                         |              | <b>24.22</b> | <b>1.44</b>  |

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