

Billing & OSS Finance Newsletter

June 2008

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A Tale of Two Companies

The market can be exuberant about prospects for a company one day and then trash it the next. Despite investor understanding that long term holding of quality companies almost always produces good results, woefully there are those impatient investors who make buy-sell decisions based upon quarter to quarter performance. This bane of public company boards and executives came home to roost this past quarter with contrasting reports from **NeuStar** and **Syniverse**.

Both companies have similar recurring revenue business models, serving a myriad of carriers in North America and globally with various wireless and wireline clearinghouse services.

Last quarter, Sokoloff & Company introduced **NeuStar, Inc. (NYSE:NSR)** and **(NYSE:SVR) Syniverse Holdings, Inc.** to the back page rankings*. Both companies made strong debuts, coming in at numbers three and five respectively. This quarter their rankings are similar however **Syniverse pushed past NeuStar, jumping to number three and NeuStar trails at number four.** Though on the surface the movement appears minimal, a bigger story can be told.

Upon release of quarterly earnings, **NeuStar's stock fell sharply while Syniverse showed a major share price jump.** The chart on this page shows **NSR** moving upward from April 1st, while **SVR** drifted downward. Then, in a reversal of fortunes, May 7th and 8th witnessed a mirror like effect as each stock spiked in opposite directions.

What went right for **Syniverse** and wrong for **NeuStar**? It appears that fall out from the post-closing impact of acquisitions each company made spelled trouble in one case, joy in the other.

On May 7th, **SVR** saw its stock gain 26.5% to reach a two year high, fresh on the heels of publishing its May 6th first quarter results. Across the board, total year-over-year numbers increased in double digits: Revenues showed an

increase of 37%, net revenues 39%, net income 100%, cash net income 75%, and Adjusted EBITDA 73%.

Tony Holcomb, President and CEO said "**Syniverse** reported a strong first quarter, driven by continued strength in messaging and mobile data. **The acquisition of BSG Wireless has significantly increased our global focus,** while adding a complementary financial clearing service."

JP Morgan reacted by upgrading **SVR** to overweight, with other brokerages including **Lehman Brothers** raising their ratings as well.

JP Morgan mentioned that **Syniverse's acquisition of BSG Wireless would give them an added edge during the vacation months of June through September which traditionally drive roaming revenue.**

was adjusting its February earnings guidance for 2008 downward from "exceed \$1.29" to "exceed \$.90," a drop of about 30%. They also cut revenue guidance from "exceed \$515 million" to "range between \$500 million and \$515 million," also due to **NGM** underperformance.

Several Analysts lowered their ratings but **Wedbush Morgan's Scott Sutherland kept his at "Strong Buy" stating that, though the company took a hit with its NGM business, it still only accounts for 5% of total sales and that the "strong fundamentals remain intact" which will continue to help push the earnings per share above expectations.**

Jeff Babka, NeuStar's Chief Financial Officer said "The reduction of our **NGM** forecast and the recording of a \$29 million impairment charge detracts from what we consider to be a strong start to 2008. From a guidance perspective, it is still early in the year, and thus we believe that

incremental revenue from our existing and new service offerings can provide opportunities to attain our original target of 20% growth in revenues for the year, with strong margins and cash flow generation. The underlying fundamentals in this business remain very solid and capable of delivering our stated goals for revenue growth and profitability."

In relation to other companies on our back page, **NSR** and **SVR** both trade below the average EBITDA multiple for the entire group.

Considering the growth,

concentrated levels of recurring revenue, low forward P/Es and near monopoly positions each company enjoys in their primary clearinghouse spaces, it seems a long term patient investor may be duly rewarded in either case.

*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.



Meanwhile, **NeuStar** stock plummeted by 20% on May 8th, right after the release of first quarter numbers May 7th. **NSR reported a significant loss due to a \$29 million goodwill impairment charge related to the company's Next Generation Messaging (NGM) business which was acquired for \$139 million cash in November, 2006.** The company blames the charge on changes in market conditions and customer-related events. Moreover, though overall revenues were up by 20%, the write-down from **NGM** significantly impacted earnings and EBITDA and caused the company to advise that it

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A CHAT WITH THE CEO OF REDKNEE SOLUTIONS

Redknee Solutions, Inc. (RKN:AIM), is a global provider of OSS products that specializes in revenue generating solutions for network operators. A relatively young company, **Redknee** had its start in Canada in 1999. Since then, it has grown to an international company having a footprint in over fifty countries. Much of their success can be attributed to an unfaltering focus on achieving market growth and a desire to create value for employees, customers, and shareholders. **Peter A. Sokoloff & Co.** was able to sit down for a few moments to speak with the **Founder and CEO, Lucas Skoczkowski** (Lucas cheerfully says, that's pronounced "scotch-cough-ski"), who gave us some insight on how the company is run and the path they've followed to reach their current state.

Please tell us about the history of Redknee Solutions.

For the first eight years, **Redknee Solutions** was self funded. We grew rapidly while maintaining a focus on profitability. In 2004, we decided to accelerate our investment to build a strong core with focused technology and to define our market share in the high growth areas of Africa, the Middle East, and Asia. Today, **Redknee Solutions** is the holding company and we have **Redknee, Inc.** subsidiaries all over the world.

When did the company become public and how does that add to the value of the business?

We started out being a private company focused on three things: accelerating sales, investing in product lines, and expanding our market share. In addition to our strong organic growth, we also wanted to consider acquisitions. **We saw that we were limited by being a private company and felt that if we wanted to attain our goals, we needed to go public.** So we had our IPO in February of 2007 on AIM (London Stock Exchange) and successfully raised forty million dollars. Despite the market at this time being quite turbulent, we were oversubscribed. That's how successful the IPO was.

There is a feeling that a public company commands more trust, confidence, and sustainability. Within six weeks of the IPO, we more than doubled our short listing by our customers. The transparency of accounting helped us as well. We were able to rapidly increase

our sales and marketing employees, drastically improve our pipeline and pipeline quality, and double our new customer acquisitions.

Describe Redknee's market focus.

Redknee Inc., has an international focus and we use the same technology platform for all of our customers. We view ourselves as being in two growth markets: Africa, Middle East, and Asia, which we call our High Growth Markets,

"I really believe that corporate culture is the DNA that shapes how resilient and successful this company will be in the future."

and our Tier-1 Market: US and Europe.

In our High Growth Markets, we focus on end-to-end convergence for every voice, data and short message transaction, from point-of-

for the customer is through our employees, and the only way to create value for the shareholders is through our customers. So it's a chain that starts with great employees, and I believe we have the most talented and dedicated team in the industry.

What acquisitions have been vital in shaping Redknee and what are the main things you look for in acquiring new businesses?

Our strong organic growth has been the most vital in our progress to date. That said, **we made our first small acquisition in February of this year with Argent Networks out of Australia.** We were drawn to them because they had an excellent interconnect/wholesale billing system, strategically located offices with a strong team of dedicated employees, and over ten large customers.

We feel that acquisitions will play an increasingly important role in our growth as we accelerate our presence into new markets. **The main things we're looking for are strong employees, a good customer base, relevant technology, and access to key markets.**

How are Redknee products different from the competition?

One of the ways we are very different from our competitors is that we're focused on real-time end-to-end solutions and have open interfaces which are fully compliant with 3GPP/OMA standards

(standards which define how things are interfaced together). **We've concentrated on building configurable products as opposed to being just a customization shop.** Further, we've invested in protecting our innovation and intellectual property by filing for patents, with over forty filed globally.

We have such a complete product that we usually eliminate three to six vendors for the operator when they decide to use us.

How does Redknee determine which products to bring to market and what new exciting areas is Redknee branching into?

For us, it's about maintaining technology leadership and translating it into market leadership. **We see that converged real-time rating and charging is what the market is asking for and we also want to be part of anything that allows operators to make money or transfer funds on the network.**

Recent innovations that we've identified were

Deal Taker.com
The Place For Coupons & Deals!

has been acquired by **Media General**

The undersigned advised DealTaker.com

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sales systems all the way through to provisioning, customer care, loyalty, and wholesale interconnect systems. **For our Tier-1 customers in the US and Europe, our concentration is on helping the network operators on difficult mission critical problems** such as charging for data services in real time, enabling subscriber location services and the associated management of subscriber privacy.

Please tell us about the corporate culture of Redknee.

We have a very high-energy, dynamic, corporate culture that supports individuality and a love of learning. We take it very seriously and I really believe corporate culture is the DNA that shapes how resilient and successful this company will be in the future.

We have three priorities at Redknee in this order: 1) Employees 2) Customers 3) Shareholders. There's a logical reason why employees are first. The only way we can create value

global opportunities where we worked with the customers to build a product for their market. Last year we developed a product called mobile money where you can transfer money across users and countries. Today we're connecting nine operators across Africa to transfer funds.

We also rolled out a comprehensive mobile point-of-sale solution. This is a mobile handset which has the ability to actually sell prepaid minutes and sign up new subscribers. It acts as a cash register for village entrepreneurs where there are few or no retail stores - and it works to enhance the GDP growth of the region which is another positive impact.

How do you go into new territories and what are the major hurdles that have to be overcome to ensure success?

The major hurdles in going into a new territory are understanding all the local laws, regulations, business ethics, and standards. We've been very disciplined about engaging expertise in each market to insure that we meet these standards. The added bonus is that the local talent we procure adds to our diversity and that is what makes the company even more successful.

How does Redknee monitor and improve the everyday workings within the company and do you have a standard management system which helps to retain employees?

First off, we spend a lot of time on the hiring front and we locate very smart people. Secondly, we're always evolving and are very open with our current employees, taking in both new ideas and criticisms. Employees have the opportunity to meet with me if they'd like and we have a program called 'Executive Connect' where people are able to meet across the organization with executives. This results in a fairly deep dialogue which continuously improves the company. Thirdly, we measure employee satisfaction and engagement through an external rating company called Saratoga.

Lastly, we create an environment where people grow. We developed the Redknee Institute, and in the last six months alone our employees have invested over 17,000 development hours into various areas of professional growth.

Redknee is very active in corporate sponsorships and working with the community. Tell us about some of the projects you support and how this benefits the community and Redknee.

Since the first year of inception, we've been

**Lucas Skoczowski
CEO, Redknee**

Lucas founded Redknee in 1999 and has driven the development of Redknee's product portfolio, sales, and overall organizational performance. Due to his exceptional leadership he was honored with the Ernst & Young Entrepreneur of the Year Award for 2004 and Top 40 under 40 Award for Canada.



the benefactor of two main causes: education and a healthy community. On the education side, we've set up foundations providing internships, scholarships, and mentorships for students in the engineering, computer science,

desire to give back and make the world a better place.

What do you see as the future of OSS and how is Redknee preparing for this?

OSS will change drastically by being converged and combined with other aspects and layers of the network. The need for a real-time system that focuses on creating business advantages is where the future is heading.

Everything will be geared to benefit the subscriber so that their next experience with their provider will be their best. That's the role we need to fill and we have been very focused on that by continuing to build up our technology, protect our innovation via patents, and improve on our expertise. The global market is demanding for us to become larger so that we have the size and reach to positively impact their businesses going forward. We're making sure our management platform is strong so we can continue to scale and remain relevant.



**Contact
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Please contact Mark Schwartz,
Managing Director,
New Business Development
for a confidential consultation
about your company's merger
and acquisition needs.
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SUBEX AZURE

has agreed to acquire

SYNDESIS

The undersigned advised Subex Azure Limited.

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and math fields.

On the healthy community side, we support a great deal of cancer research and various other causes. We also help to build sustainable com-

"The need for a real-time system that focuses on creating business advantages is where the future is heading."

munities - an example project is Green -WIFI's (<http://www.green-wifi.org>) a group that sets up Internet Cafes throughout Africa and connects them with associated supporting community programs.

When people ask me, what do we get out of it? My answer is, I don't know how we can not do this. It's the right thing to do, and there's a real

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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 2008 Numbers & Stock Prices as of May 22, 2008

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 Taxes, 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. **Information provided strictly for informational purposes to industry senior executives. Sokoloff & Co. makes no representations as to its accuracy.**
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Current Rank*	Previous Rank	Company	Symbol	Stock Price 5/22/2008	52 Week Range	Market Cap 5/22/2008	2005 Revenue (000's)	2006 Revenue (000's)	2007 Revenue (000's)	1st Q 08 Revenue (000's)	1st Q 08 Incr. (decr)	P/E	EVS
1		Verisign	VRSN	39.64	26.22 - 41.96	7,71B	1,609,500	1,562,998	1,496,289	354,281	7.9%	N/A	5.71
2		Oracle	ORCL	22.31	18.18 - 23.31	114,93B	11,799,000	14,380,000	17,996,000	5,349,000	21.2%	22.93	5.23
3		Syniverse Holdings, Inc.	SVR	20.61	11.65 - 22.93	1,41B	341,791	337,019	377,524	115,645	37.1%	23.18	4.88
4		NeuStar, Inc.	NSR	22.68	21.33 - 36.33	1,73B	242,469	332,957	429,172	117,413	20.5%	25.48	3.86
5		Cisco	CSCO	25.58	21.77 - 34.24	152,00B	24,801,000	28,484,000	34,922,000	9,791,000	10.4%	19.98	3.53
6		NetScout Systems, Inc.	NICI	11.44	7.37 - 15.54	443.03M	85,200	97,876	102,472	57,690	111.2%	N/A	2.83
7		Agilent	A	36.02	28.79 - 40.42	13,15B	4,685,000	4,973,000	5,420,000	1,456,000	10.3%	23.53	2.45
8		Synchronoss Technologies, Inc.	SNCR	12.42	11.90 - 48.03	406.76M	54,218	72,406	123,538	29,110	36.5%	17.06	2.33
9		Fair Isaac	FIG	25.57	20.70 - 40.71	1,24B	798,671	825,365	822,236	193,234	1.3%	15.79	2.09
10		AMDOCS Ltd.	DOX	31.40	27.18 - 40.36	6,50B	2,038,621	2,480,050	2,836,173	774,281	9.6%	18.19	1.95
11		IBM	IBM	124.70	97.04 - 128.83	171,27B	91,134,000	91,424,000	98,786,000	24,502,000	11.2%	16.27	1.93
12		Tekelec	TKLC	16.31	10.12 - 16.55	1,06B	486,500	443,346	431,800	118,243	8.7%	40.27	1.72
13		Comverse Technology**	CMVT.PK	18.80	13.42 - 28.95	3,80B	1,193,673	1,588,554	No report	No report	N/A	34.24	1.43
14		ADC Telecom	ADCI	15.01	11.59 - 21.06	1,77B	1,128,900	1,281,700	1,322,200	4-Jun	N/A	22.24	1.34
15		Packeteer, Inc.	PKTR	7.07	3.81 - 10.52	257.93M	112,941	145,123	144,461	37,183	7.1%	N/A	1.30
16		Evolving Systems Inc	EVOL	2.26	1.55 - 3.19	43.78M	39,452	33,833	35,953	9,127	7.9%	64.57	1.26
17		CSG Systems	CSGS	12.98	10.49 - 28.22	453.20M	377,300	383,106	419,261	113,596	15.0%	8.09	1.22
18		Affiliated Comp Services	ACGS	53.76	39.46 - 60.03	5.17B	4,351,159	5,353,661	5,772,480	1,540,000	6.9%	20.03	1.20
19		Opnet	OPNI	9.34	7.52 - 12.89	190.81M	64,243	76,115	95,130	27,006	10.9%	88.11	1.04
20		ECTel	ECTX	2.07	1.91 - 3.67	34.54M	23,151	28,802	20,898	6,505	83.2%	N/A	1.01
21		CGI Group	GIB	10.55	8.73 - 11.97	3,35B	3,164,597	2,986,150	3,675,858	954,654	-0.3%	12.80	1.00
22		Ace Comm	ACEC.OB	0.38	0.30 - 0.72	7.22M	19,961	26,671	13,282	3,542	14.0%	N/A	0.76
23		Convergys Corp.	CVG	16.02	13.66 - 26.39	1,98B	2,582,100	2,789,800	2,844,300	716,400	-0.5%	13.35	0.76
24		Management Network	TMNG	1.73	1.47 - 2.76	62.27M	30,378	34,013	71,875	21,541	42.5%	N/A	0.54
25		MER Telemgmt Solutions Ltd.	MTSL	1.15	0.02 - 3.26	6.64M	11,560	10,484	9,338	2,408	-1.6%	N/A	0.51
26		StarTek, Inc.	SRT	8.46	7.81 - 11.91	124.66M	216,370	237,612	245,304	64,745	12.3%	N/A	0.41
27		Openwave Systems, Inc.	OPWV	1.98	1.20 - 10.58	163.46M	383,635	396,232	290,301	58,043	-7.4%	N/A	0.39
28		Mind CTI	MINDO	1.20	1.13 - 2.90	25.91M	15,600	20,060	18,400	5,400	12.3%	9.76	0.02
29		TTI Team Telecom	TTIL	2.07	1.77 - 3.29	33.13M	43,200	46,114	45,917	13,049	21.9%	13.62	0.00
Sokoloff Index							Total:	151,834,190	160,851,047	178,768,162			
Growth over Previous Period:								1.19%	5.94%	11.14%	Average		
Quarterly Growth											18.89%		
Median											10.87%		

No report - As of press time, these companies had not yet announced their Q1 results.
*** Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues.**
**** No current reporting is available and numbers presented are based on old information.**



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