

Billing & OSS Finance Newsletter

September 2006

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Volume VII, Issue 3

Consolidation Picks up Steam

Industry consolidation in the OSS and BSS space is accelerating. The year so far has seen several large acquisitions take place including **Amdocs** (NYSE: DOX) purchase of **Cramer Systems Group Ltd.** and most notably, purchases by outsiders, **Oracle** (NASDAQ: ORCL) and **IBM** (NYSE:IBM).

In April **Oracle** paid \$220 million to acquire **Portal Software Inc.**, a move that expands Oracle's vision into the billing and revenue-management arena. **IBM** also broadened its offering in the telco space when it followed its early 2006 acquisition of **Micromuse** with August's announcement that it was acquiring **Internet Security Solutions, Inc.** (NASDAQ: ISSX).

Convergence continues to stimulate juggernaut appetites. **IBM** has been on an aggressive campaign to acquire companies that help manage the increasingly melded IT and communications environments. **IBM** has developed a strategy aimed at encompassing full convergence while

Convergence continues to stimulate juggernaut appetites.

simplifying IT environments and lowering operational costs for customers.

Via its existing **Tivoli Systems** network management business unit, **IBM** began looking for broad solutions that encompass the full gamut of IT and telecom services. A converged solution must be able to handle everything from POTS (Plain Old Telephone Service) and LAN networks to

advanced IP services and all manner of wireless devices.

Maneuvering through this complex environment led **IBM** to **Micromuse**, a dominant provider of service assurance solutions to the world's top 20 telecom operators, as well as 9 out of 10 of the world's largest financial players. The acquisition cost **IBM** \$865 million, representing 4.5x revenue and 43x EBITDA.

IBM continued its buying spree with its August 23rd announcement that it has agreed to purchase **Internet Security Systems Inc. (ISSX)** for \$1.3 billion in cash, which is 3x revenue and 13x EBITDA (multiples of Enterprise Value). The deal is expected to be approved by shareholders and close in the 4th quarter. **ISS** helps guard against data theft and other network problems with automated monitoring products and technical consultants.

Oracle is another mega vendor that is expanding its capabilities in the BSS space, recently completing its acquisition of billing and revenue-management vendor **Portal Software**. Once again, convergence is the driver. "This is exactly the kind of combination our customers have been asking for, it will bring together Oracle's leading ERP, CRM, and infrastructure software with Portal's global billing and revenue management into an integrated solution" said **Portal's** Founder and CEO, **Dave Labuda**.

The acquisition by **Amdocs** of OSS vendor **Cramer** for \$375 million closed on August 15th. We estimate that **DOX** paid 4.2x trailing twelve months revenue and 19.7x EBITDA. **Amdocs** is primarily a BSS

company that specializes in services that enable integrated customer management. **Cramer** is a provider of OSS software that helps telcos manage network inventory, capacity, implementation, and services. The combination of the two companies gives billing market leader **Amdocs** a suite of OSS/BSS solutions that should be attractive to its Tier 1 carrier customers.

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CEO of **Amdocs**, **Dov Baharav** said "Service Providers recognize that the combined **Amdocs-Cramer** solution of modular products, tailored consulting services and industry expertise will support providers seeking to reduce time to market for new services and lower the total cost of ownership of their OSS infrastructure as they take advantage of next generation networks."

Also of interest this quarter was **Synchronoss Technologies Inc.**'s IPO. **Synchronoss** which provides OSS clearinghouse services for carriers and targets the area of VoIP, filed for an initial public offering to sell up to \$75 million in common stock and 7,066,054 shares.

Synchronoss (NASDAQ: SNCR) expected \$9-11 a share, but opened on June 16th priced at \$8.00. Nevertheless, the market valuation makes **SNCR** our new **Sokoloff Rankings** star, opening at #1, trading at an enterprise value multiple of 3.35x revenue and 16.71x EBITDA.

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Jack and the Giant: How Does a Smaller OSS Vendor Sell to a Tier 1?

Choosing an OSS vendor can be quite a challenge for a Tier 1 operator. *How does a tier one carrier make a decision to take a chance with a new OSS vendor? And what can an OSS vendor do to convince a tier one carrier that they can deliver?*

POSITIONING

Determining where the OSS company's products fit in relation to the marketplace is the first step to being competitive. Well positioned products predispose a successful match between vendor and carrier.

Andrea Baptiste, CEO of **Atreus**, cites several necessary steps in positioning which have worked well for her company. "Start with a product that is going to scale. In other words, the software has to be able to handle millions of subscribers. We've spent significant investment and time on products that scale." **Baptiste** also points out that their partnering with big players like **Lucent** and **IBM** add a comfort level that tier one carriers appreciate.

Baptiste says focus plays a role in securing tier one customers. "In an emerging market, you need to get those first couple of solutions identified, hone in on them and get a road map to deliver to the customer."

Rich Nespola, CEO of **TMNG**, cautions, "Be prepared for a protracted sales cycle. It takes significantly longer for the necessary approvals when you're working with the big carriers. Large companies have a bureaucratic process, and you should anticipate all elements of dealing with it."

"A small OSS company has to have a compelling solution for a real tier one problem," says **John Cronin**, CEO of **Azure** (Now, **Subex-Azure**). "An improvement on an existing solution or some clever technology is not enough. If the solution is convincing, then the tier one carrier may look for references. Carriers need to find out if the OSS company is credible and if they've sold the solution

Andrea Baptiste, President & CEO, Atreus

Andrea is a co-founder of Atreus. A veteran executive in telecommunications, she has held positions at Cambrian Systems Corporation, CrossKeys Systems, TeleSat Mobile, and Newbridge Networks.



John Cronin, Founder, Pres. & CEO, Azure

John has nearly 30 years experience in the Telecommunications and Software industry. His career includes senior roles in NetSource Europe, Teleglobe, Mercury Communications and BT.



elsewhere, especially to other tier ones. OSS vendors should also be prepared to offer a firm commitment to a partnership and prove that they are a good backer of their product if things go wrong down the line. Other ideal

exclusive your product is. It's not how big you are (though that is a factor), but how critical the functionality is that your product offers. If your product is not unique, they'll go somewhere else, to someone they feel secure with. But if your service is distinctive and if it's mission critical and they can't wait, they're going to go to a smaller vendor."

ADVANTAGES

In addition to positioning, small OSS companies compete by offering extra benefits to the tier one carrier that the larger vendor can't or won't.

Baptiste states that smaller companies are more agile in addressing carrier requirements. "We have a compact team so it's easier to get through the process. We're flexible and we respond faster to updates and feature changes." **Cronin** agrees. "In a small company, decision making can be very quick and carriers are able to access senior people including the CEO. A smaller vendor really values large customers because it can be a significant proportion of its revenue. The large Telco gets a very high level of commitment from the smaller vendors."

According to **Nespola** smaller companies on the whole can be "more responsive, more willing to develop custom solutions in a quick turnaround time, more nimble, and offer better customer service."

PERCEPTION OF RISKS

Cronin has found that a minority of their customers have wanted to use a systems integrator partner for a variety of reasons including risk, but that they have never been required to have an SI on board. **Palmer** feels that carriers are moving away from the systems integrators. **Nespola**, however, has had the opposite experience. "It depends on the type of project, but the percentage is increasing. Risk sharing is in vogue and is going to get more in vogue; too many carriers have gotten burned and more want risk sharing."

The risks or perceived risks of hiring a small OSS vendor are a direct result of mistakes in the marketplace by companies that have

July 31, 2006
This notice appears as a matter of record only.



MER Telemangement Solutions Ltd.

Has acquired



The undersigned advised TelSoft Solutions, Inc.



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characteristics that will help the OSS vendor succeed are having a strong brand and reputation, evident resources, a recognizable management team, a portfolio of more than one product and in-country support. A Telco background can also be a positive element."

Eric Palmer, CFO of **Syndesis** echoes **Cronin's** ideas on the uniqueness of product. "Normally, it's very difficult to get that first sale. What will get it for you is how

promised solutions and are unable to deliver. **Nespola** states "there are too many horror stories to discuss. Large carriers have been burned in the past which hurts all small vendors."

"The biggest thing we see with small vendors is misunderstanding the complexity of the service," **Baptiste** says. "It's important to set a phased approach to getting a service out the door and have a flexible solution."

Nespola believes that many CSPs (Commercial Service Providers) simply don't do the amount of business evaluation necessary to check the viability of the vendor. "They do technical evaluations but they don't take the same care in checking the financial stability of the vendor."

Palmer believes the real risk lies in carriers opting for framework vs. COTS (commercial off the shelf) software. Framework product is software that is specifically customized for the service provider and requires extensive customization and systems integration whereas COTS software is fully packaged and developed as a solution to problems at a more generic level.

Baptiste feels it is critical that carriers work with a vendor that really has a grasp of the whole system. "Tier ones need to determine how the vendor manages new requirements that come up." She mentions that carriers are looking more and more for reference verification (seeing if vendors have done this before and had success) and that they will continue to look for that as they move forward in their next phases of deployment.

FUTURE

What then, is the future for the small OSS vendor?

Rich Nespola sees a trend toward consolidation. "I think there will be less and less of a role for small "spot solution" vendors because of consolidation. They're mirroring what's happening with their clients—the clients are in rapid consolidation mode so that the OSS vendors

Richard Nespola, Chairman & CEO, TMNG

Rich founded The Management Network Group. Prior to this he held senior-level positions with MCI, Sprint, and Telesphere Communications. Rich serves on several corporate boards.



also consolidate to increase the breadth of their offerings.

John Cronin sees the trend of consolidation as well but feels smaller vendors will continue to

for a large vendor, in the competitive environment they often need to have something deployed in 90 days."

June 2006
This notice appears as a matter of record only.



Solutions Limited

Has merged with



The undersigned advised Subex Systems Limited.



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thrive. "Smaller vendors exit to larger vendors or become larger vendors themselves. However, there will continue to be a role for the small vendor. At one level they can still push the industry with innovation in thinking and new technology. At another level they continue to be the smaller building blocks that larger vendors will use to extend their business."

Eric Palmer sees a bright future. "I think we see a movement toward CSP's using smaller vendors, because they need to make their systems work quickly. They can't wait a year

Andrea Baptiste sees opportunity in the ever emerging marketplace. "There's a lot of change occurring in the telecommunications industry. In the IMS* space, VoIP is moving forward. How do you bill for these services? How do you monitor and provision them? There are lots of opportunities for small vendors to address rapidly growing new services."

One thing is certain, the marketplace is swiftly changing and the opportunities available are expanding almost faster than technology can keep up. Smaller vendors that address issues of positioning and carriers that pinpoint risks and benefits to using these vendors will be the companies to decide the playing field of the telecommunication environment for many years to come.

*IP Multimedia Subsystems. This is technology that uses cellular and internet technologies to provide access and services.

Contact
Sokoloff & Company

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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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)



Eric Palmer, CFO, Syndesis

Prior to Syndesis, Eric worked for KPMG Management Consulting and was CFO at Mortice Kern Systems Inc., where he lead them through a period of rapid growth and completed a public share financing.

SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC BILLING & OSS COMPANIES Q2 2006 Numbers & Stock Prices as of August 28, 2006

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 **PE**, 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. The 2nd Q 06 percentage column is the increase from 2nd Q 05.

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Current Rank*	Previous Rank	Company	Symbol	Stock Price 8/28/2006	52 Week Range	Market Cap 8/28/2006	2003 Revenue (000's)	2004 Revenue (000's)	2005 Revenue (000's)	1st Q 06 Revenue (000's)	2nd Q 06 Revenue (000's)	2nd Q 06 Incr. (decr)	P/E	EVS	EVM				
1	New	Synchronoss Technologies, Inc.	<u>SNCR</u>	8.58	8.00-8.58	273.80M		27,191	54,218	15,724	17,442	26.6%	18.90	3.35	16.71				
2	4	CSG Systems	<u>CSGS</u>	26.88	19.71-27.20	1.29B	439,660	529,746	377,300	92,960	96,053	-1.9%	19.04	2.90	8.96				
3	3	AMDOCS Ltd.	<u>DOX</u>	37.14	24.30-39.15	7.59B	1,570,000	1,773,732	2,038,621	601,100	626,450	23.5%	25.65	2.80	13.40				
4	9	Ullicom	<u>ULCM</u>	10.14	8.87 - 12.90	438.87M	38,378	38,400	63,436	15,702	No report	NA	22.29	2.73	9.06				
5	1	Verisign	<u>VRSN</u>	19.47	15.95 - 25.45	4.73B	1,054,780	1,166,455	1,609,500	373,604	No report	NA	7.23	2.70	10.14				
6	2	Fair Isaac	<u>FIC</u>	33.77	32.51 - 48.47	2.12B	651,904	706,206	798,671	208,157	207,129	1.6%	19.11	2.68	8.52				
7	7	Opnet	<u>OPNI</u>	12.99	7.50 - 15.00	264.45M	52,518	64,200	64,200	21,276	22,632	37.4%	63.68	2.17	19.44				
8	6	Agilent	<u>A</u>	30.80	26.96 - 39.54	12.60B	6,287,000	7,181,000	5,139,000	1,431,000	1,453,000	17.0%	4.48	2.08	16.45				
9	11	Converse Technology	<u>CMVT</u>	20.90	17.04 - 29.64	4.22B	521,526	765,892	959,442	373,500	No report	NA	38.07	2.07	14.78				
10	5	Lightbridge	<u>LTBG</u>	11.45	7.13 - 14.69	312.62M	119,978	133,055	108,300	26,542	25,223	-5.0%	43.21	2.07	10.42				
11	8	Tektronix Inc.	<u>TEK</u>	28.25	22.64 - 36.89	2.35B	1,354,288	920,620	1,034,654	282,105	289,309	10.8%	25.82	1.91	10.56				
12	12	Ace Comm	<u>ACEC</u>	2.57	2.17 - 3.70	45.44M	10,511	13,700	20,000	6,737	6,703	78.3%	38.36	1.74	17.38				
13	19	Mind CTI	<u>MINDQ</u>	2.52	2.25 - 3.50	54.25M	12,936	17,806	15,600	5,250	5,074	48.3%	24.71	1.56	6.61				
14	14	NetScout Systems, Inc.	<u>NTCI</u>	7.33	5.05 - 9.63	232.46M	71,700	71,500	85,200	25,814	23,575	0.3%	36.29	1.45	11.78				
15	16	Affiliated Comp Services	<u>ACS</u>	51.45	46.50 - 63.66	6.10B	3,994,680	4,106,393	4,351,159	1,314,455	1,380,702	13.7%	17.76	1.43	8.75				
16	17	Tekelec	<u>TKLC</u>	13.07	9.50 - 21.15	878.91M	263,700	397,072	536,909	107,466	149,868	34.5%	N/A	1.38	33.44				
17	10	ECTel	<u>ECTX</u>	4.15	3.78 - 5.75	75.62M	28,857	12,605	23,151	6,675	7,151	27.2%	122.06	1.37	60.29				
18	13	InfoVista SA	<u>IVTA</u>	6.30	3.00 - 9.22	115.56M	29,300	35,000	41,500	12,500	14,592	55.2%	210.00	1.29	35.20				
19	15	ADC Telecom	<u>ADCI</u>	14.33	11.81 - 27.90	1.68B	741,800	784,300	1,169,200	367,200	343,600	11.9%	35.38	1.24	10.32				
20	20	Convergys Corp.	<u>CVG</u>	19.84	13.59 - 19.87	2.75B	2,288,800	2,487,700	2,582,100	675,300	691,800	9.7%	19.84	1.09	6.89				
21	22	MetaSolv Software	<u>MSLY</u>	3.20	2.50-3.50	161.65M	79,506	81,161	91,815	22,598	25,382	8.4%	N/A	1.06	17.82				
22	18	MER Telemangement Solutions Ltd.	<u>MTSL</u>	2.25	2.08 - 4.04	12.97M	N/A	9,413	11,560	2,800	2,704	-3.8%	N/A	0.97	-9.22				
23	23	CGI Group	<u>GIB</u>	6.46	5.70 - 8.53	2.19B	103,819	2,574,500	3,173,600	866,800	866,500	-7.5%	16.35	0.87	5.99				
24	26	TTI Team Telecom	<u>TIIL</u>	4.76	2.68 - 5.50	73.37M	45,867	37,798	43,200	12,500	12,551	22.8%	60.25	0.74	8.77				
25	24	Evolving Systems Inc	<u>EVOL</u>	11.06	0.78 - 3.10	15.56M	27,973	26,342	39,452	8,128	8,200	-17.4%	N/A	0.70	5.43				
26	25	StarTek, Inc.	<u>SRT</u>	11.06	10.91 - 24.50	162.53M	231,200	258,100	216,400	57,105	59,525	16.7%	15.45	0.60	4.52				
27	21	Management Network	<u>TMNG</u>	1.57	1.49-3.05	56.36M	23,476	23,700	30,400	7,163	9,541	5.8%	N/A	0.48	-2.98				
28	27	Boston Comm.	<u>BCGI</u>	2.37	0.87 - 4.14	42.43M	103,191	107,928	103,900	24,717	No report	NA	N/A	0.01	0.03				
Sokoloff Index										394.56	Total:	20,147,348	24,343,815	24,782,488	17.3%	40.18	12.84		
Sokoloff Index										394.56	Total:	20,147,348	24,343,815	24,782,488	17.3%	40.18	12.84	1.44	10.23

No report - As of press time, these companies had not yet announced their Q2 results.
 * Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues.



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