

Billing & OSS Finance Newsletter

March 2008

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Volume IX, Issue 2

This quarter, Sokoloff & Company decided to take a detour from our regular column to highlight our findings from our first annual OSS investment survey. A full length article contrasting the results with recent merger and acquisitions trends will be coming out at the end of March in *European Communications*, but we thought readers may enjoy a teaser. In the survey, we asked telecoms executives and venture capitalists their opinions on which technologies would garner investment. We then compiled the responses to get a pulse on what the next big thing in the OSS space may be.

SURVEY RESPONSES

The number one area cited by Survey respondents about what was most likely to capture venture capital investment can be lumped together under what today is loosely referred to as Product Lifecycle Management (PLM). Conceptually, PLM allows a carrier to build, introduce and deliver services and consumer choices much faster. This requires managing and coordinating many divergent systems and databases. A true PLM system integrates network and business intelligence with back office functionality.

The area of Customer Self-Care was also mentioned by a number of people. No longer does Customer Self-Care mean a simple web portal for customers to review a bill or get information. The next generation of Self-Care automates the entire Move, Add, Change workflow process from customer entry to provisioning and activation. Providing customers with the ability to help themselves is extremely beneficial to a carrier's business as it reduces operational costs and improves customer experience. With churn rates averaging 1-3% monthly and the typical carrier spending \$300-\$600 to gain one new customer, it is obvious why this is a hot topic.

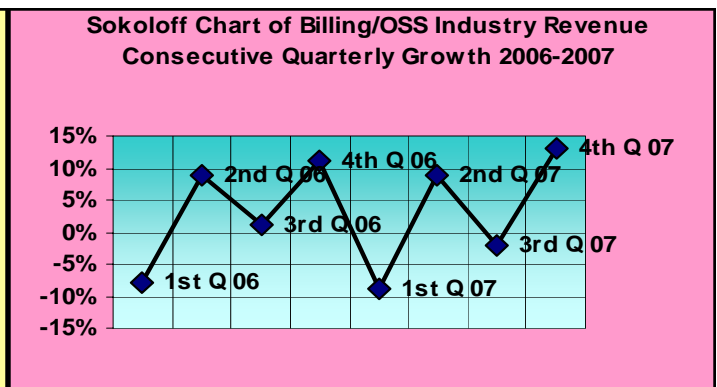
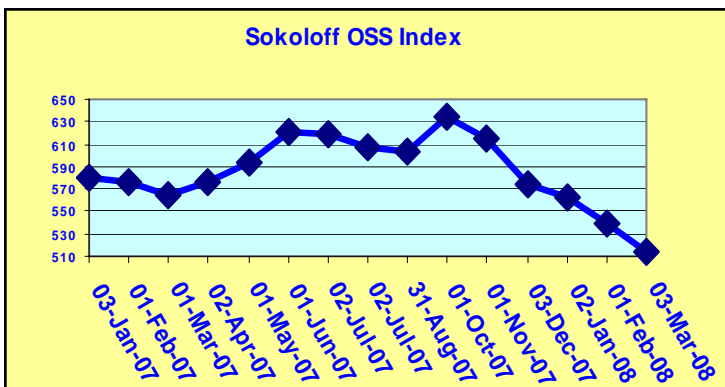
Lane Nordquist, President Information Solutions, a subsidiary of HickoryTech Corporation a diversified communications company, stated "Customer Self-Care through the Web or mobile devices is becoming increasingly pervasive as customers/prospective customers take advantage of their ability to execute consumer choices without interference. **Any technology that seamlessly links customer self care to automated provisioning of services should attract venture capital investment.**" One can only deduce that the capital hasn't been put forth

yet as the technology to make Customer Self-Care seamless is not quite there yet.

Other survey responses included anything having to do with business and network intelligence and a few suggested that emerging WiMax and Mobile Communities, and the OSS software for managing these areas was an up and coming next big thing. With high profile M&A deals for companies like **Facebook** and **MySpace** some see this area as ripe for investment as on-line Communities extend into the mobile and wire line environment.

Both the survey and M&A review heavily pointed at a tidal shift in carrier requirements. The emphasis during the last 5-10 years has been on rolling out new services and adapting systems to IP architecture. While this continues to be of importance, **our study indicates that carriers are increasingly turning their focus to making existing systems more cost and customer efficient and doing so within a real-time environment.**

To see full findings and conclusions, please refer to the Spring issue (out end of March) of *European Communications* or their website at www.eurocomms.com to see the online version.



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TELCO BUSINESS PROCESS OUTSOURCING

With competition and the rapidly advancing world of new products and services, many carriers have embraced business process outsourcing as a means of reducing costs and improving service. Though BPO has become a fixture in the landscape of communications and is playing a significant role in shaping the world to come, very little has been written about telecom BPO. This quarter, Sokoloff and Company decided to shed some light on this niche area and highlight two top Indian BPO Companies: **Tata Consultancy Services** and **Infosys Technologies**.

TATA CONSULTANCY

Tata Consultancy has been in business for forty years and is a provider of revenue assurance, consulting, business process management, IT services, infrastructure outsourcing, systems integration and testing solutions. Last year the telecom sector accounted for \$757 million of Tata's revenues. A global company, they pride themselves on doing business with over 160 clients across the world including a more than decade long relationship with **British Telecom**. **Lakshimi Srinivasan, Head of Telecom BPO for Tata** talked to us.

What is the history of Tata Telecom BPO and how did Tata get into the Telecom BPO area?

BPO as an industry initially started in India, catering to call center operations. Long before the telcos, global banking institutions pioneered this route, pushing call centers back to India. We realized that domain based offerings were much more valuable than a general commodity of call centers attempting to be all things to all outsourcing needs. Thus we began looking at all the industry verticals and using what we'd learned.

In 2003 we moved beyond call centers and identified a set of transactional processes that could be done offshore, well fitting the telecom vertical. From a domain based BPO we coupled IT and BPO together and moved into business processing management (BPM). Customers embraced BPM as they realized it was much more effective than just doing an outsourcing of process. By managing the systems and the processes which they govern we can provide a full service offering. Doing this enabled us to differentiate ourselves and make an impact on the business.

Tata is very much a global company. How has Tata maintained this status, and what have they done to compete globally?

More and more telcos are getting into the market and satura-

Lakshminarasimhan Srinivasan
Head, Telecom BPO Practice
Tata Consultancy Services

Lakshmi has been with TCS for twelve years and is responsible for cross selling BPO offerings in the Telecom domain. Previous to this, he worked for top Telcos which include Verizon, Qwest, AT&T, and British Telecom.

tion levels are getting very high. **You need to be able to quickly launch products**, so we look at our customer's business from 3 perspectives 1) Can we enhance the end user's experience? 2) Can we help to enhance the telcos' top line by generating processes and systems which enable them to launch products quickly? 3) Can we cut down their operating costs? **By breaking it down like this, we set ourselves up to be a partner that can actually transform the telcos' business, not just implement systems.**

I also think an important dimension that we have is that **Tata Group (our holding company) runs the two telcos in India: one Indian local player and the International player, VSNL that is basically the gateway to India.** That gives us an edge in that we're not just an outsourcing company; we have the look and feel that comes from actually running a telecom company.

Furthermore, we understand the different markets and have a lot of diversity. **Tata** as a brand is very popular and this has helped us globally.

Lastly, with VSNL's acquisition of Teleglobe in Canada we were able to enter into one of the world's largest networks. It has given us real visibility in the Americas.

What trends do you see in the Telecom BPO area and how is Tata addressing those?

Companies are moving from BPO toward BPM where the outsourcer is responsible for the business processes, not just executing it. We're also looking at business measures (like how we're going to help our client get to 100,000 customers in the first year), not just from an operational standpoint, but from a commercial standpoint as well.

How does BPO differ in the Telecom area in comparison to the other areas you specialize in?

There are a lot of similarities but the difference I see is that telecom is not something which is abstract. You can feel it in your day to day life. From that perspective it gives us a slight edge in that, because of our operator experience, we can understand the processes and market better. We're much closer to the end user and we can make a significant impact.

What do you think Tata's primary strengths are?

We have a holistic understanding of the telecom domain. We don't just execute, we can set up a telco from scratch. Furthermore, we not only understand the difficult area of how to implement systems but we understand the actual processes.

We're also recognized for getting into new geographies and have a global network delivery model so that deliveries can be made from other regions. We are the first to go into many countries and set up shop. We're pioneers, and even though that can be painful, we are very conscious that we're a global company and this is a great differentiator.

Tell us about a specific success that Tata has achieved with a telco.

We work very closely with the client and set goals. For BT, we had a goal of 100% accuracy in billing. **Last year we produced more than 350 tons of bills without a single mistake.**

What do you think is the future of BPO?

Indian companies have only tapped into about 3% to 4% of the possible telecom outsourcing opportunities. So, moving into different areas has huge potential. **We see the future telco as a company that will be highly focused on its brand, strategy, and customers. The rest will be outsourced.** BPM removes many of the obstacles, learning and management curves so that the telco can concentrate its resources on building a successful business.

What are Tata's plans for growing the company?

Of course we're always on the look out for acquisitions that provide niche offerings, but, having said that we really see our strategy as leveraging the relationships we have with existing customers. We have an extensive menu of capabilities so **it makes a lot of sense to work toward selling additional services to a customer base who already knows the quality of our delivery and trusts us to do the job right.**

INFOSYS TECHNOLOGIES

Infosys Technologies is a four billion dollar a year company that provides fulfillment, assurance & billing, finance & accounting, reporting & analytics and procurement to telecom companies all over the world. Their clients consist of seven of the top ten CSPs, five of the top six North American telcos, four of the top six European telcos, one of the top five Asia-Pacific telcos, three major cable operators and two major ISPs. **Gopal Devenhalli, VP, Communications Provider Infosys BPO** shared his knowledge with us about **Infosys' BPO sector.**

Please tell us about some BPO telecom case studies and how your BPO offerings serve to improve business.

In one case, we cleansed core databases for a leading European Telco. This resulted in better circuit cost management and accurate customer billing, all of which had a positive impact on their P&L statement. **Some of the measurable delivered benefits included cost savings of \$100M for circuit disconnects and cleanup and \$30M due to reduction of network access costs.**

Likewise, for a Tier 1 US carrier with revenues in excess of USD 1 Billion, we reviewed, audited and processed over 15,000 Network Access Cost invoices and resolved disputes resulting in significant

"We see the future telco as a company that will be highly focused on its brand, strategy and customers. The rest will be outsourced."

Lakshmi Srinivasan,
Head, Tata Telecom BPO Practice

"We focus on improving our clients' profitability ("No Surprises" Outsourcing) and predictable, consistent delivery."
Gopal Devanahalli, VP, Infosys BPO

Gopal Devanahalli
Vice President, Infosys BPO

Gopal has over 15 years of professional services experience and joined Infosys in March 1999. He has an Engineering Degree in Computer Science from Birla Institute of Technology & Sciences, Pilani and a Post Graduate Diploma from the Indian Institute of Management, Calcutta.



payments due to our client. Monthly audits of billed access costs generated approximately \$6M a month from charges being disputed. Additionally, over \$1M a month in customer billing or Revenue Assurance leakage were identified and plugged. For a UK global telecom giant we have reduced the manual effort and throughput time through productivity improvement efforts and process automation through IT tool usage. This has resulted in an annual saving of USD 9 Million for the client.

What do you feel are some of the similarities and differences between European, Asian, and North American Telecom BPO companies?

American and European Telecom BPO providers have been around for much longer and have evolved from an initially fragmented model of locally delivered specialist service providers to their current status. Historically, they established their delivery centers either onshore/in-country or near shore. While this model had certain advantages, it also had drawbacks from scalability and more importantly a cost competitiveness standpoint. **This is where Asian BPOs, especially those based in India, have been able to effectively provide a compelling proposition. India with its low cost base, large talent supply and the ability to provide 24x7 support has helped in addressing broader market opportunities.**

The leading Indian BPO providers also bring with them an integrated IT-BPO approach to the table. The blurred boundaries are helping us to expand our footprint globally to offer the appropriate services near the client shore.

Similarly this model has made North American and European BPO providers move out from their dominant home markets to establish offshoring locations in India, Philippines and other low-cost geographies globally.

How do you work to keep your current clients and what do you do to attract new ones?

Infosys believes in providing world class services throughout the life cycle of an engagement. Our clients see value in our delivery model and this has resulted in 95%+ of our revenues accruing through repeat business.

For our existing and new clients, our endeavor is to be seen as a Trusted Transformation partner. We differentiate by way of the competencies we have built over the past few years and by deploying specialized teams for projects, which are focused on verticals. We further add value to our engagements by having an unrelenting eye towards: operational excellence, leveraging our Telecom Centre of Excellence, quality and process certifications, and a robust governance model.

A trend that we have seen in the last 12-18

months is that clients are looking for a strategic partner focused on providing end-to-end services and integrated solutions focused on delivering business transformation. To help accomplish this, we focus on improving our clients' profitability and predictable ("No Surprises" outsourcing), consistent delivery.

What is the formula Infosys uses to insure that everything runs smoothly and delivers what's

fortunes are directly governed by the state of the industry. However, downturns in the industry tend to be a period for clients to focus on cutting costs and looking at working with Telecom BPOs. We see this as an opportunity to partner with our clients to improve customer experience as well as controlling costs, thus equipping them to turn the tide to their advantage.

This notice appears as a matter of record only.

has agreed to acquire

The undersigned advised Subex Azure Limited.

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promised to the client?

Infosys BPO's focus is to deploy a robust, risk-mitigated approach while taking on service delivery responsibility for the client's processes. **Our job is to do this in the shortest time frame possible and without putting the client's ongoing business at risk.**

This is accomplished through a proven and tested methodology: 1) Completion of Process Documentation during the transition phase, 2) Investment in Domain Training through our Telecom Centre of Excellence, 3) Structured Client-Specific Process Training, and our 4) Governance Model which ensures regular and effective communication across different levels between both organizations.

How does the tide of Telecom BPO ebb and flow depending on the state of telecom economics?

Ups and downs are part of any business cycle. Conventional wisdom would say that a Telecom BPO's

During times of economic improvement the client may focus on customer acquisition, with cost pressures really not being the cause of concern. In this case Infosys BPO will help our clients with revenue-side solutions as well as solutions that impact the cost of goods sold.

What do you feel is the future of Telecom BPO?

CSPs face a unique set of lucrative opportunities and momentous challenges. We see a shift from traditional ("vanilla") services to more platform-based/ managed services that focus on some of the core processes that may not have been traditionally outsourced.

Because of cost pressures and new generation networks leading to convergence we see a paradigm shift in the belief of what are core and non core processes. **This new belief will lead the telcos away from process-based outsourcing to a total outsourcing model.**

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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
Q4 2007 Numbers & Stock Prices as of February 26, 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. Changed from previous list: NeuStar, Inc. (NSR) and Syniverse Holdings, Inc. (SVR) has been added. Ulicom, ULCM.pk was removed.

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Current Rank*	Previous Rank	Company	Symbol	Stock Price 2/28/2008	52 Week Range	Market Cap 2/28/2008	2005 Revenue (000's)	2006 Revenue (000's)	2007 Revenue (000's)	4th Q 06 Revenue (000's)	4th Q 07 Revenue (000's)	4th Q 07 Incr. (decr)	P/E	EVS	EVM
1	2	Verisign	<u>VRSN</u>	37.54	23.78 - 41.96	8.37B	1,609,500	1,562,998	1,496,289	408,639	386,436	-5.4%	N/A	5.35	25.03
2	3	Oracle	<u>ORCL</u>	19.21	15.97 - 23.31	98.67B	11,799,000	14,380,000	17,996,000	4,163,000	5,313,000	27.6%	21.02	4.74	11.63
3	New	NeuStar, Inc.	<u>NSR</u>	26.37	21.33 - 36.33	2.03B	242,469	332,957	429,172	92,022	121,274	31.8%	22.64	4.28	9.83
4	1	Synchronoss Technologies, Inc.	<u>SNCR</u>	17.10	15.00 - 48.03	557.97M	54,218	72,406	123,538	20,331	36,411	79.1%	24.02	3.77	11.93
5	New	Syniverse Holdings, Inc.	<u>SVR</u>	17.80	9.93 - 19.18	1.22B	341,791	337,019	377,524	85,841	101,493	18.2%	14.47	3.60	9.97
6	4	Cisco	<u>CSCO</u>	24.07	21.77 - 34.24	143.48B	24,801,000	28,484,000	34,922,000	8,439,000	9,831,000	16.5%	18.72	3.34	11.51
7	6	NetScout Systems, Inc.	<u>NTCI</u>	9.16	7.22 - 15.54	353.62M	85,200	97,876	102,472	26,499	53,741	102.8%	64.96	2.65	16.82
8	7	Agilent	<u>A</u>	31.87	30.26 - 40.42	11.73B	4,685,000	4,973,000	5,420,000	1,280,000	1,393,000	8.8%	20.82	2.20	14.31
9	8	AMDOCS Ltd.	<u>DOX</u>	31.01	30.34 - 40.36	6.45B	2,038,621	2,480,050	2,836,173	691,032	742,250	7.4%	18.64	2.02	10.51
10	5	Fair Isaac	<u>FIG</u>	24.37	21.19 - 40.83	1.19B	798,671	825,365	822,236	208,227	199,385	-4.2%	14.41	1.97	8.43
11	9	IBM	<u>IBM</u>	114.38	88.77 - 121.46	158.99B	91,134,000	91,424,000	98,786,000	26,257,000	28,866,000	9.9%	15.93	1.74	8.77
12	11	Comverse Technology	<u>CMVT.PK</u>	16.65	14.41 - 28.95	3.36B	1,193,673	1,588,554	No report	415,057	No report	N/A	30.33	1.38	9.87
13	21	Tekelec	<u>TKLC</u>	12.54	10.12 - 15.70	846.19M	486,500	443,346	431,800	125,099	115,226	-7.9%	N/A	1.30	9.72
14	13	Evolving Systems Inc	<u>EVOL</u>	2.4	1.58 - 3.19	42.66M	39,452	33,800	No report	8,800	No report	N/A	35.29	1.24	7.84
15	16	Affiliated Comp Services	<u>ACS</u>	52.66	39.46 - 61.67	5.05B	4,351,159	5,353,661	5,772,480	1,426,761	1,511,442	5.9%	19.83	1.20	6.77
16	10	CSG Systems	<u>CSGS</u>	11.79	11.40 - 28.22	398.25M	377,300	383,106	419,261	96,643	113,452	17.4%	7.77	1.18	4.26
17	12	ADC Telecom	<u>ADCI</u>	14.07	12.63 - 21.06	1.65B	1,128,900	1,281,700	1,322,200	297,200	338,500	13.9%	15.46	1.12	9.33
18	17	CGI Group	<u>GIB</u>	11.08	8.14 - 11.97	3.58B	3,164,597	2,986,150	3,675,858	895,452	905,956	1.2%	14.13	1.05	6.80
19	26	Ace Comm	<u>ACEC.OB</u>	0.65	0.30 - 0.70	12.33M	19,961	26,671	13,282	3,146	4,333	37.7%	N/A	0.86	N/A
20	14	ECTel	<u>ECTX</u>	2.49	2.01 - 5.11	41.55M	23,151	28,802	20,898	7,666	6,616	-13.7%	N/A	0.82	N/A
21	18	Management Network	<u>TMNG</u>	2.15	1.67 - 2.76	77.58M	30,378	34,013	71,875	8,618	20,828	141.7%	N/A	0.80	N/A
22	20	Opnet	<u>OPNI</u>	8.01	7.52 - 15.71	163.64M	64,243	76,115	95,130	24,522	26,017	6.1%	75.57	0.79	31.53
23	23	MER Telemangement Solutions Ltd.	<u>MTSL</u>	1.08	0.02 - 3.26	6.23M	11,560	10,484	9,338	2,314	2,200	-4.9%	N/A	0.77	N/A
24	22	Convergys Corp.	<u>CVG</u>	15.24	13.81 - 27.26	1.98B	2,582,100	2,789,800	2,844,300	720,000	713,700	-0.9%	12.38	0.73	5.50
25	15	Packeteer, Inc.	<u>PKTR</u>	4.87	3.87 - 13.48	176.30M	112,941	145,123	144,461	42,683	40,906	-4.2%	N/A	0.63	N/A
26	24	Mind CTI	<u>MINDO</u>	1.97	1.85 - 3.08	42.54M	15,600	20,060	18,400	5,080	5,600	10.2%	16.02	0.53	5.41
27	27	StarTek, Inc.	<u>SRTI</u>	8.95	8.02 - 11.91	131.88M	216,370	237,612	245,304	59,117	65,656	11.1%	N/A	0.49	6.46
28	25	Openwave Systems, Inc.	<u>OPWV</u>	2.34	1.20 - 10.58	195.05M	383,635	396,232	290,301	75,692	63,181	-16.5%	N/A	0.42	N/A
29	28	TTI Team Telecom	<u>TTIL</u>	2.21	2.05 - 3.29	35.36M	43,200	46,114	45,917	10,109	12,194	20.6%	N/A	0.07	1.17
Sokoloff Index				524.03	Total:		151,834,190	160,851,014	178,732,209	45,895,550	50,989,797	Quarterly Growth			
				Growth over Previous Period:			1.19%		11.12%		13%		Average	18.90%	10.58
							5.94%		11.12%		18.90%		Median	1.76	9.72
No report - As of press time, these companies had not yet announced their Q4 results.														9.94%	18.72
* 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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