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NEXT-GENERATION NETWORKS

IP Essentials

Executive Summary:

On February 1st 2008, AGC hosted a webinar covering pertinent aspects of the “IP Essentials” industry piece which was published in January. Jon Arnold was the guest speaker for this event and shared his views on the market place. Mr. Arnold is an independent telecom analyst with a focus on IP Communications. The webinar was well attended and included a broad audience ranging from financial institutions, private equity and venture capitalists to public and private suppliers. The IP Essentials webinar covered four key topics: (1) Macro trends, and Industry key growth themes (2) Service Provider Landscape (3) Supplier Landscape (4) Outlook for 2008.

Related Companies

Acme Packet (APKT)
Veraz Networks (VRAZ)

Key Points:

- **IP Rules with Many Factors Aligning:** Traditional landlines have declined over 30%, from 2000 to 2007, while approximately 10% of voice minutes are forecasted to shift to wireless, y/y. Moreover, the homes with only wireless phones tend to be headed by people under 35 years old. On-going shift to globalization – telecom revenues are expected to increase from \$2.9 billion in 2006 to \$3.9 billion in 2009, international growth is expected to increase to \$3.4 billion, up 34 % from 2006.
- **Non-Traditional Competition:** Google (NASDAQ:GOOG), Microsoft (NASDAQ:MSFT), and Yahoo! (NASDAQ:YHOO) all offer forms of communication services, requiring AT&T (NYSE:T), Verizon (NYSE:VZ) and peers to adopt new business models. Today, end users are driving demand, changing a 100-year old relationship between service providers and end users.
- **IMS is a Unifying Mantra:** The key IMS objective is to facilitate the control of a single session across each of the three planes: (1) IP Transport Network (access and core); (2) Session Control; and, (3) Applications. Mobile Operators are adopting IP/IMS core strategies, similar to those adopted by fixed who migrated to Softswitch-based networks in 2000.
- **FMC is Building Momentum:** In some recent studies by service providers, end users are using 80% of their mobile voice minutes either in their home or inside other buildings such as their offices, making a good case for WiFi and/or Femto. In 2007, the Dual Model Handsets (DMHS) using UMA trials were going to be converted to deployments. The Femto hype erupted and now we believe Operators are going to try both solutions in 2008.
- **IP Essential Suppliers:** IP network elements such as Session Border Controllers (SBC), Security Gateways (SGW), Deep Packet Inspection (DPI), Policy Management (PM) Platforms and Media Switches (MS) will benefit from the macro trends.
- **America's Take:** We recently launched coverage on Acme Packet (NASDAQ:APKT) with an intrinsic value estimate of \$20.00, and Veraz Networks (NASDAQ:VRAZ) with an intrinsic value estimate of \$8.00. We believe both companies provide an opportunity that appeals to investors looking for pure-play focus and the benefit of growth opportunities outlined in the webinar and the industry piece “IP Essentials.” We believe the pure play companies that innovate and have flexible product lines able to adjust for dynamic changes in the market place are here to stay.

See disclosures and certification information on page 7



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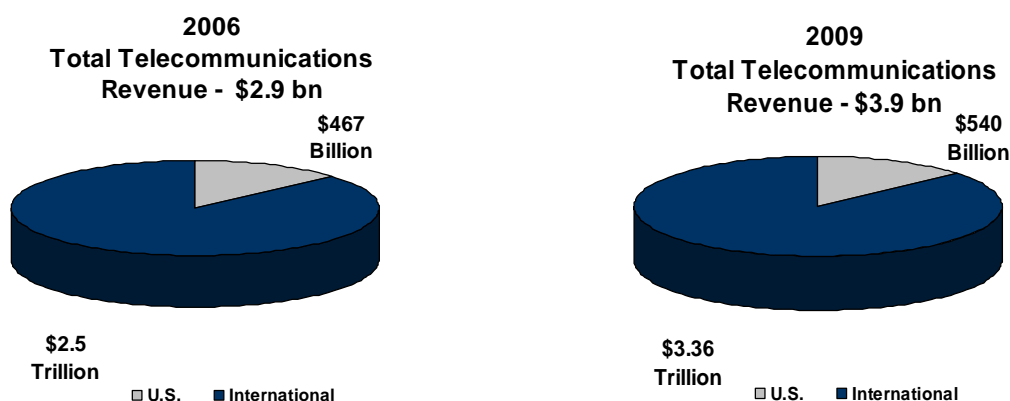
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Industry Growth Drivers

We believe the following macro trends are key forces that drive industry growth resulting in new product development and bolstered capital spending by the carrier and enterprise network infrastructure buyers.

- **Increase in Broadband** - Broadband penetration in most developed countries ranges from 55-90% and in many cases the end user has WiFi as well. In homes and offices, broadband is available.
- **Increase in Global Networking** - Because more and more applications are based on the TCP/IP protocol, new types of threats have emerged to harvest data and compromise the integrity of e-business systems and servers. Session Management, Security and Deep Packet Inspection are interlinked and essential components of IP Communications delivery.
- **Increase in IP-Mobile Internet** - Wireless minutes are expected to double by 2015 to 15 trillion /year.
- **Femto Addressable Market** - ABI Research forecasts over 150 million Femto cell users by 2012, Mobile Operators will generate \$51 billion in revenue from the Femto segment, and these Operators will save \$21 billion in capacity savings and \$68 billion in energy savings.

Exhibit I: Trend: On-Going Shift to Globalization



Source: TIA and U.S. Census Bureau

Together, these growth drivers have caused both carriers and enterprise network architects to retool, migrate to next generation network technologies and upgrade their networks with essential IP network elements to enable real time IP based communications.

Service Providers Landscape

A Good Case for IP Multimedia Subsystems (IMS) Adoption

With rising competition from non-traditional competitors such as Google and Yahoo!, Operators are now finally feeling the pressure to quickly create, deploy and replace applications. As it turns out, IP/IMS is an ideal architecture to swiftly deploy new and Internet-like services; it is no surprise that the industry has finally united around the IMS standard. IMS is designed as a unifying architecture across an array of broadband access technologies, providing seamless integration of disparate media: work phones, mobile phones, instant messaging, wireline and wireless e-mail, laptops, TV, Internet, video telephony, etc.

A Good Case for WiFi/Femto

In the US, 14% of homes have a wireless phone, but no wireline phone (National Health Interview Survey Dec. 07), and in European countries the percentage of non-wireline homes is even higher. With end users using 80% of their mobile voice minutes either in-home or inside buildings, such as their offices, Operators are looking to improve both in- building and in-home coverage.

FMC is a work-around solution for Mobile Operators to reduce their backhaul expenses; this is accomplished by essentially riding over the top of broadband service (such as Vonage) for free. It is estimated that 30-40% of Mobile Operators' opex is used to pay for expensive backhaul. As Mobile Operators build out plans for 3G and future 4G to support consumer usage of data and video over cellular networks this trend is expected to increase.

Mobile Operators will want to ensure that regardless of WiFi, Femto, macro cellular or WiMax networks, they can promise the same security, mobility features, and QoS policies. This creates the need for Security Gateways, SBCs, Deep Packet

Inspection, and policy management capabilities to ensure security while providing roaming for either mobile-to-mobile and mobile-to-fixed networks.

As stated above, most minutes of usage occur where there is a broadband connection available and either WiFi or Femto either already exists or can be easily deployed. Moreover, these homes tend to be headed by people under 35 years old, so the value of lifetime revenue to the Mobile Operator is significant and therefore retention is critical. Therefore, voice quality, convergence within triple or quad play, playshifting and other rich media FMC applications will be critical to retain this market segment for the Operators.

The Femto cell or Dual Mode Handset (DMHS) access through broadband connection provides the following benefits to Mobile Operators and end users.

Benefits for Mobile Operators and MVNOs:

- Lead in wireline replacement and ability to compete against VoIP Operators such as Vonage.
- Compete with IP Centrex/IP Hosted service providers to enterprises.
- Lower capex and opex, this includes reduction in backhaul cost from Cellular tower to Mobile Telephone Switching Office (MTSO) since access network is provided by ISP for which subscriber is responsible.
- Reduction in use of costly licensed spectrum.
- More revenue opportunities such as increased Average Revenue Per User (ARPU) by offering alternative access and removing the need for separate home phone numbers for users. Also by leveraging broadband networks offering and charging for video “place shifting” (TV, PC, PDA, cell phone), becomes more possible without substantial capex investment.
- Customer retention and less churn.

Benefits for end users:

- Improved in-building coverage.
- Better QoS.
- Higher voice quality.
- Lower cost (with home zone calling plans).
- Same phone number and voice mail box while a user is mobile or stationary (at home).
- Same security, authentication, customer support, and billing interface irrespective of access technology (Cellular or WiFi) while roaming in the WiFi networks.
- Subscriber can roam nationally or internationally without paying hefty roaming charges while attaching to carrier network through WiFi or Femto cell access point.
- New applications and richer video experience.

Supplier Landscape

In the near-term for FMC we see product convergence. SBCs and Security Gateways (SGW) will likely be the first areas to overlap. Recent activity in this sector supports this hypothesis. Acme Packet has released key protocols and participated in webinars discussing converged SBC/SGW topics. NextPoint is the product of a merger of NexTone and Reef Point, providers of SBCs and SGs/Femto technology, respectively. AudioCodes has refocused its development efforts on Netrake’s acquisition of SBC and Security Gateway products.

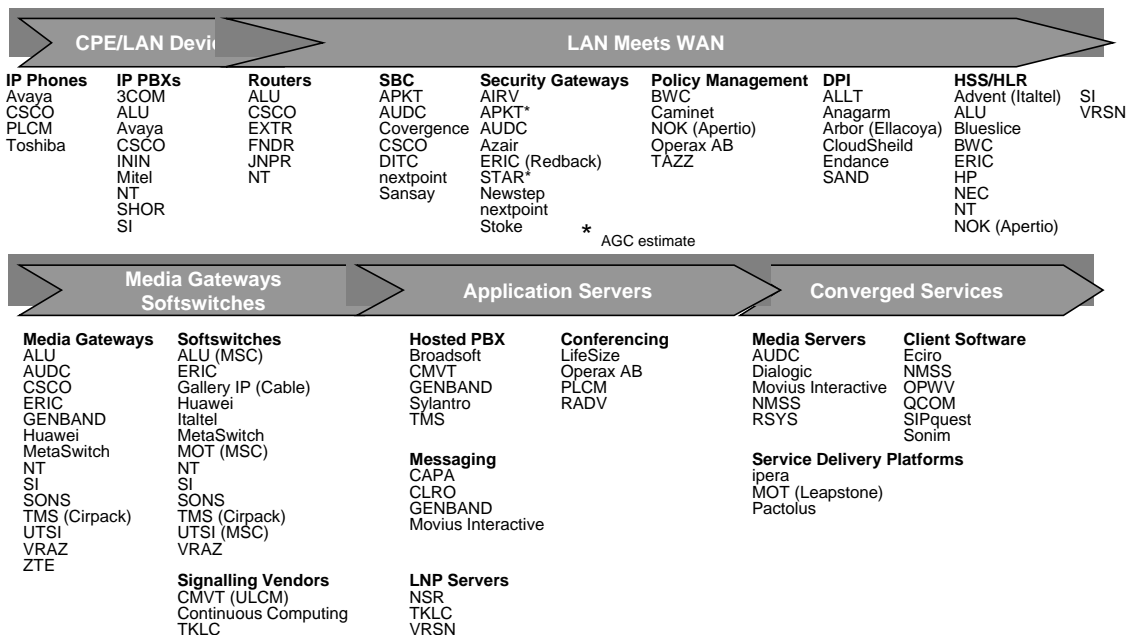
Near-term the markets for policy management and DPI are small and will grow steadily. We believe the pure play vendors and large OEM vendors who have had traction in both the IP/IMS and IPTV markets are well positioned to take advantage of the surge in broadband subscriber growth. The step-up in demand for policy management solutions by Operators has been driven by the emergence of IP video, voice and gaming services. The non-SIP applications are driving IP traffic which in turn motivates Operators to adopt policy management solutions.

Exhibit II: Partnerships and IP related Acquisitions

Systems Integrators	IP-related acquisitions	Partners	IMS Trials	Announced All IP Network Contracts and IMS contracts
Alcatel-Lucent	Spatial wireless (softswitch), Telica (Softswitch & Media Gateway), Tropic Networks, Mobilitec, Sequans	AudioCodes, Acme Packet, Aylus, Alvarion, BEA, Bridgewater, Broadsoft, Arbor, Movius Interactive, RadiSys	58	AT&T, BT, Eaccess, France Telecom, KPN, O2, Phone Systems, Shandong Telecom, Sprint Nextel, Telecom Uganda for a Mobile NGN solution; Mongolia's Mobicom for a nation-wide NGN network, and Polish operator Exatel SA for an IMS platform
Ericsson	LHS Telekommunikation	AudioCodes, Acme Packet, Bridgewater, Broadsoft, Cisco, Huawei	87	Algérie Télécom, BT, AT&T (Cingular Wireless), Elion, Rogers Communications, Softbank, Sonaecom, Swisscom Mobile, Fixnet, Suncom, Telecom Italia Mobile, Telefonica, Telia Sonera, Vodafone Germany and Portugal
Nokia-Siemens Networks	Apertio, Atrica, Vivento Technical Services,	Avaya (Ubiquity), Sylanro, IP Unity, Cisco, Ellacoya, Sonus, Huawei, Harbour Networks,	12	KPN, MM02, TeliaSonera
Nortel	Tasman Networks, Sasken Communication Technologies	AudioCodes, Acme Packet, Avaya, BEA Sytems, BroadSoft, GENBAND, Movius Interactive	Verizon	Vastar Cable TV, PEOPLEnet
Motorola	Winphoria (Softswitch), Leapstone (SPD), Vertex Standard, Terayon Communication	Acme Packet, BroadSoft, BlueSlice, Sonus Networks, Movius Interactive		Mena Telecom, an investment subsidiary of Kuwait Finance House (Bahrain), selected Motorola to plan, deploy and manage a nationwide 802.16e-based mobile WiMAX and IP Multimedia Subsystem (IMS) network in the Kingdom of Bahrain.
Huawei		BroadSoft, Sylanro		China Mobile, Warid Telcom, Magyar Telekom
Cisco	Dyamicsoft, SoonR, Secureit, Navini Networks	Siemens, Ericsson, IBM, Itatel		

Source: Press Releases and AGC's Estimates

Exhibit III: Supplier Landscape



Source: Press Releases and AGC's Estimates

Outlook for 2008

- Ripple effect from carrier consolidation, to large OEM players and now many of the pure play private companies are consolidating. Since our report, Arbor Networks has acquired Ellacoya Networks.
- No vendor has all the pieces, partnerships are critical, in the past few years fixed and Mobile Operators have migrated back to buying from Large OEMs. We believe Best-of-Breed is still viable, with IMS and ATCA standards.
- Software-as-a-Service (SaaS) is gaining momentum, and rise to many niche players such as Packet Island.
- Wireless spectrum auctions in the U.S and Canada will set the table for the rest of 2008.
- VoIP will disrupt the wireless space in 2008 the way it disrupted wireline in 2004.
- Video is the next big wave – watch Cisco.

Upcoming Earnings Calendar:

- Acme Packet (NASDAQ: APKT)

Fourth Quarter 2007 Earnings Call: Thursday, February 7, 2008, 5:00 pm ET

Tel: (866) 861-5389

Passcode: APKT

Replay Phone Number: (800) 475-6701

Replay Passcode: 905456

- Veraz Networks (NASDAQ: VRAZ)

Fourth Quarter and Full Year Financial Results: Monday, February 18, 2008, 4:30 pm ET

Tel: (800) 240-2134

Passcode: NA

Replay Phone Number: (800) 405-2236

Replay Passcode: 11106700#

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Company	Ticker	Price			FY	EPS Estimates			P/E			Mrkt Cap & Cash Data				Revenue(Mil.)			EV/Sales		
		Price (\$)	52 Low	52 High		FY2007	2008E	2009E	2007A	2008E	2009E	Shares('000)	Market Cap.(SMill)	Net Cash (Mil)	Ent. Value (\$Mil.)	2007A	2008E	2009E	2007A	2008E	2009E
Infrastructure Convergence																					
Alcatel-Lucent	ALU	6.53	5.68	15.91	Dec	(0.51)	0.43	0.72	NM	15.4 x	9.0 x	2,258,400	14,737,799	7,322	14,738,115	26,008	26,675	27,533	NM	0.4x	0.7x
Cisco Systems, Inc.	CSCO	23.82	22.30	34.24	Jul	1.17	1.57	1.18	20.4 x	15.2 x	20.2 x	6,067,967	144,539	24,679	126,442	34,922	40,170	45,971	3.6x	3.1x	2.8x
International Business Machine	IBM	107.93	88.77	121.46	Dec	7.18	8.22	9.21	15.0 x	13.1 x	11.7 x	1,384,100	149,386	16,146	168,514	98,787	104,568	109,454	1.7x	1.6x	1.5x
Juniper Networks, Inc.	JNPR	26.40	17.21	37.95	Dec	0.62	1.13	1.41	42.4 x	23.3 x	18.7 x	521,600	13,770	1,957	15,809	2,836	3,502	4,131	5.6x	4.5x	3.8x
LM Ericsson Telephone Co.	ERIC	21.55	20.37	43.41	Dec	0.22	0.21	0.24	99.8 x	105.1 x	90.9 x	15,900,000	34,265	9,117	29,447	29,662	30,629	32,138	1.0x	1.0x	0.9x
Motorola Inc.	MOT	12.22	9.43	19.93	Dec	(0.05)	0.16	0.65	NM	78.8 x	18.7 x	2,284,300	27,914	8,606	23,631	36,622	34,697	38,998	0.6x	0.7x	0.6x
Nokia Corp.	NOK	37.05	20.77	42.22	Dec	2.72	2.60	2.77	13.6 x	14.3 x	13.4 x	3,845,900	142,491	17,786	126,594	75,726	83,523	87,198	1.7x	1.5x	1.5x
Nortel Networks Corp.	NT	12.70	12.03	31.79	Dec	0.51	1.22	1.38	25.0 x	10.4 x	9.2 x	437,000	5,550	3,231	6,815	11,032	11,498	11,584	0.6x	0.6x	0.6x
								Average	36.0 x	37.2 x	33.1 x				Average	41,370	44,084	47,068	2.1 x	1.9 x	1.7 x
Next Generation Coverage																					
Acme Packet, Inc.	APKT	9.48	8.68	18.75	Dec	0.35	0.44	0.55	27.1 x	21.5 x	17.2 x	60,220	579	127.80	451.50	113.60	151.80	195.70	3.97x	2.97x	2.31x
Airvana, Inc.	AIRV	5.21	4.75	8.35	Dec	2.39	0.50	0.48	2.2 x	10.5 x	10.9 x	63,528	332	210.00	121.60	303.00	168.80	202.40	0.40x	0.72x	0.60x
AudioCodes Ltd.	AUDC	4.82	3.78	10.40	Dec	0.18	0.36	0.48	26.6 x	13.3 x	10.1 x	43,083	206	25.17	180.00	157.88	182.72	210.82	1.14x	0.99x	0.85x
Ditech Networks, Inc.	DITC	3.15	2.96	8.99	Apr	(0.25)	(0.15)	NA	NM	NM	NM	25,967	85	69.40	15.77	33.68	37.45	32.97	0.47x	0.42x	0.48x
NMS Communications Corporat	NMSS	1.49	1.20	2.08	Dec	(0.08)	0.03	0.02	NM	49.7 x	74.5 x	45,637	67	25.18	41.91	81.84	91.17	102.30	0.51x	0.46x	0.41x
RadiSys Corp.	RSYS	13.84	10.50	17.60	Dec	0.27	0.53	0.91	51.6 x	26.1 x	15.3 x	22,193	302	100.20	299.57	321.91	382.18	425.36	0.93x	0.78x	0.70x
Sonus Networks, Inc.	SONS	4.20	3.00	9.03	Dec	0.10	0.23	0.32	42.0 x	18.5 x	13.2 x	268,357	1,141	326.20	814.32	320.71	412.14	515.92	2.54x	1.98x	1.58x
Starent Networks, Corp.	STAR	16.00	10.00	31.67	Dec	0.57	0.70	NA	28.2 x	14.3 x	NM	68,669	1,092	223.99	867.85	213.91	285.53	381.47	4.06x	3.04x	2.28x
Tekelec	TKLC	11.94	10.12	15.70	Dec	0.63	0.68	0.94	19.0 x	17.5 x	12.7 x	68,811	818	431.00	512.16	432.74	452.03	503.70	1.18x	1.13x	1.02x
Veraz Networks, Inc.	VRAZ	5.07	3.65	8.33	Dec	0.09	0.21	0.30	56.3 x	24.1 x	16.9 x	41,100	209	63.00	149.69	124.97	154.55	182.52	1.20x	0.97x	0.82x
								Average	31.6 x	21.7 x	21.4 x				Average	210	232	275	1.6 x	1.3 x	1.1 x

* Footnote: EPS and Revenues are Reuters Estimates

Source: Capital IQ Estimates, Reuters Estimates. AGC Estimates for APKT and VRAZ

Important Disclosures

Company	Related Disclosure
Acme Packet, Inc.	6
Veraz Networks, Inc.	6

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