

argoscorecard

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Industry Buzz from GSM World Congress

3GSM World Congress, the largest and most important annual gathering for the global mobile industry, was held again this February in Barcelona, Spain. Attendees this year numbered 55,000, slightly up from the last session, but those present could easily confirm that the venue was at capacity.

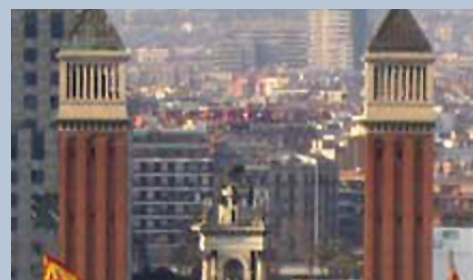
The conference's overall tone this year was highly positive, with less hype than before and far more evidence of consolidation, robustness and maturity. At times it felt like a rerun of last year's show since the themes and players took on a similar cast. A glimpse behind the scenes, however, revealed that much progress had been made, at least among the younger and more entrepreneurial companies in terms of their technologies, business models and market approaches.

The single global topic shared by most of the speakers and conventioners was the debate on the next generation of mobile broadband networks. Telecom equipment makers, mobile operators and media companies all recognize 3G's shortcomings and its failure to deliver on a promise of revenue growth from an array of new multimedia services, despite a steep rise in subscribers. A number of 4G technologies, including HSPA, Wi-Max and LTE, are all trying to fill the gap left by pure-blood 3G. The show's other core topics included mobile video/TV, femtocell wireless IP access, LBS services with next generation GPS, convergence between mobile and media and of course the iPhone—always good for a surprise and brilliant marketing, the success of which remains to be seen in this fiercely competitive mobile market. The leading emerging technology sectors with substantial growth potential included

mobile IM, mobile advertising and mobile search, among others.

This year's show proved yet again the scale of the mobile opportunity for smaller and bigger players alike, despite fundamental and ongoing industry uncertainties that face us all.

Change also implies new opportunities, of course.



Portfolio Company Profile

Neural Technologies (Nt) provides risk management software solutions to the telecommunications and financial sectors. Formed in 1990, the company has built upon a foundation in neural analysis and design to provide quality products that increase bottom-line customer returns.

Neural Technologies' solutions enable organizations to profile potential and existing customers, thus minimizing financial risk to their businesses. Neural offers comprehensive risk management capability from service inception through payment collections, in areas of fraud, bad debt, customer attrition and collections.

It is not only Nt's unique neural architecture that results in such exceptional, right on the mark solutions. It is also the company's extensive effort to make sure that this architecture is compatible with traditional systems. Accuracy is further enhanced by its personalized solution configuration, to ensure that each organization's specific business requirements are met.

A recent merger with Cerebrus Solutions has further enhanced Nt's position in the marketplace, yielding a combined customer base of more than 35 organizations worldwide, including Sprint Nextel, AT&T Wireless, Orange, Vodafone, O2, GE Money and VISA. Currently, one in seven mobile phone users around the world is protected by Nt's fraud management technology.

Nt has been ranked in the Sunday Times Tech Track 100 league table of the UK's top technology companies. The company is based in the UK with offices in Asia Pacific, the USA and Latin America.

Neural Technologies is a privately held company, with investors including Argo Global Capital and private individuals.

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John Gavan
CEO



UPDATE on Portfolio Companies

CAMBRIDGE POSITIONING SYSTEMS, LTD.

CSR plc announced that it had acquired Cambridge Positioning Systems, Ltd. for a total cash consideration of \$35 million.

I-PLAY (DIGITAL BRIDGES, LTD.)

I-play, the mobile entertainment company, announced that it has become the first customer of Dialogue's Payforit Service, the first fully integrated and accredited mobile payments gateway to be rolled out across all UK operator networks. Dialogue's Payforit Service means that I-play will now be available via a purchasing and download mechanism that is not only speedier, but also intuitive and consumer-friendly.

I-play announced a global licensing deal with Slingo, Inc., which will see the companies collaborate on the development of Slingo games on mobile. This includes the popular Zeebys nominated, "Slingo Quest," which will be launched as a mobile game later in 2007 via I-play's global distribution network.

I-play announced the imminent arrival of Pillowfight, its explosive original IP title. As the only game to feature gorgeous gals battling each other with pillows, the title is also the first to include I-play's new community initiative: I-play lounge™, which enables mobile gamers to upload high scores, compete against fellow gamers and receive downloadable rewards for their game play.

GENERAL WIRELESS

General Wireless, the market leader in PC-to-mobile messaging, announced that it has signed a deal with Microsoft for Microsoft® Outlook® Mobile Services. The agreement provides that end-users can use the in-built functionality in Outlook 2007 to send SMS and MMS messages and be charged on their normal phone bills or prepaid accounts.

inCODE

VeriSign, Inc. the leading provider of intelligent infrastructure for the networked world, has acquired InCode. VeriSign's market leading portfolio of managed communications and content offerings, combined with inCode's expertise in wireless business and technology consulting services enables companies to launch compelling services that drive new revenue streams and bolster customer loyalty.

NARAD NETWORKS, INC.

Narad Networks, Inc., the market's leading provider of FTTx solutions for bandwidth enhancement of HFC cable systems, announced an additional round of funding in excess of \$10 million. This money will support the company's ongoing operations and global expansion and also help launch Narad's next-generation switched Ethernet platform.

NEURAL TECHNOLOGIES

DIRECTV, Inc. the USA's leading satellite television service provider, has selected Neural Technologies to help in reducing its risk to fraud. DIRECTV is the first direct broadcast satellite company to implement a fraud solution within North America. After reviewing proposals from several companies with fraud management expertise, DIRECTV focused on a solution that would provide flexibility, easy-to-use case management, core analytics intelligence, along with a local presence for product delivery and consultancy support. DIRECTV selected Neural Technologies after it participated in a pilot study that demonstrated solid preliminary indications of successful fraud detection.

ONMOBILE SYSTEMS, INC.

BSNL, Chennai telecom circle becomes the first BSNL circle in the country to launch BSNL Tunes, the innovative value-added Ring Back Tone service to all its Postpaid Mobile Subscribers. BSNL has partnered with OnMobile Asia Pacific Pvt., Ltd., to deploy Ring Back Tone services for the South zone covering the 4 circles of Tamil Nadu, Chennai Andhra Pradesh, Karnataka and Kerala.

SURFKITCHEN

SurfKitchen and GHRA Telecom, its local Saudi partner and representative, announced another major account: ALJAWAL, Saudi Arabia's largest mobile network operator. Selected to support the launch of ALJAWAL's On-Device Portal, which provides branded, menu-driven access to information and services, SurfKitchen's SurfKit™ Desktop delivers a riveting user experience, increasing mobile data revenues and strengthening the brand.

SYLANTRO SYSTEMS CORPORATION

Swisscom, the leading telecommunications company in Switzerland and Sylantro Systems Corporation, the leading supplier of feature servers for hosted VoIP services in carrier networks, announced an expanded relationship that will facilitate Swisscom's transition to an IMS (IP Multimedia Subsystem) network, which is scheduled to be launched throughout Switzerland in early 2008. Sylantro's Synergy Application Feature Server will be deployed and integrated into Swisscom's IMS network infrastructure, providing advanced telephony services and first-line replacement.

VALLENT CORPORATION (WATCHMARK CORPORATION)

IBM stated that it has completed its acquisition of Vallent Corporation. IBM had announced a definite agreement to acquire Vallent on November 28, 2006. Vallent's operations will be integrated into the IBM Software Group's Tivoli Software unit. Vallent adds significant wireless telecommunications expertise and technology to IBM.

VOLUBILL SA

VoluBill SA, a leading provider of dedicated Mobile Data Charging solutions for data, content, messaging and VoIP services, announced it has recorded its best ever financial year. A combination of recurring business and strategic new contract wins with leading operators such as Telefonica, Orange, Orascom, Bharti-Airtel and Digicel, helped to achieve 94% business growth in 2006. VoluBill's sustained year-on-year success underscores the demand for its state of the art solutions worldwide, and proves that real time, differentiated charging and access control is a key requirement in the telecom industry if operators are to maximize profit from the plethora of new mobile services.

WEBRASKA MOBILE TECHNOLOGIES SA

Webraska Mobile Technologies SA, leading provider of mobile GPS navigation solutions and high-end geospatial software platforms for wireless carriers and major service providers worldwide announced that fleet management specialist QUALCOMM Wireless Business Solutions Europe has selected Webraska's SmartZone Geospatial Platform to power its new European Web Portal Platform.

UPDATE on Portfolio Companies

WORLD WIDE PACKETS

World Wide Packets, a leading provider of Carrier Ethernet solutions, announced the release of its Ethernet Services Manager™ 5.0, a carrier-grade service creation, activation and management platform for Carrier Ethernet aggregation and access networks. Because of native integration, ESM 5.0 amplifies the industry leading capabilities of World Wide Packets' LightningEdge® Operation System (LE-OS) to deliver a best-in-class platform for Carrier Ethernet service delivery.



NewsFlash



I-PLAY (DIGITAL BRIDGES, LTD.)

I-play, the mobile entertainment company, announced its global launch of Ricochet®: Lost Worlds on mobile phones, a new version of the incredibly successful PC game by premiere casual game publisher iWin and leading developer Reflexive® Entertainment. The popular brick-breaking puzzle game, which was featured for 137 weeks on Real Arcade's Top 10 list, will now be available to over one billion mobile subscribers through I-play's international distribution network.

I-play wins GSM Association 2007 Awards with The Fast and the Furious:™ Tokyo. This is the second consecutive year that the company has won in this category at the GSM Awards, with Skipping Stone having triumphed at the 2006 event. Developed and published by I-play, through an agreement with Universal Studios Licensing, "The Fast and the Furious:™ Tokyo" recorded over a million downloads in just over five months.

Motorola announced the launch of the MOTODEV Game Developer Challenge, a competition that will reward two talented MOTODEV developers with the rare opportunity to have their winning applications published by mobile entertainment company and contest title sponsor, I-play.

GENERAL WIRELESS

General Wireless has, in cooperation with Teleca Solutions S.A., signed a contract with Telefónica Móviles España, S.A., delivering its eSMS and eMMS solutions for integrating PC-based E-mail with mobile text and multimedia messaging. Telefónica Móviles España is the leading mobile operator in the Spanish market under the movistar brand name.

KABIRA TECHNOLOGIES, INC.

Kabira Technologies, Inc. announced that NTT Data has successfully deployed Kabira Transaction Platform™ and Kabira Financial Payment Switch™ in its payment transaction business unit, CAFIS (Credit and Finance Information System). The system is expected to address NTT Data's current and future e-payment transaction processing needs.

NEURAL TECHNOLOGIES

Neural Technologies announced that Brasil Telecom is in the process of migrating over to its Minotaur™ Fraud Management Solution. The Minotaur™ solution is replacing the former Cerebrus Solutions system, following the merger of Neural Technologies with Cerebrus Solutions. The new solution combines the best of both companies' products and will assist Brasil Telecom in successfully contending with fraud, by assessing prospective customers at the application stage and by monitoring the behaviour of existing customers and transactional activity during service usage.

SURFKITCHEN

Following the development of "Orange Downloads," a branded On-Device Portal (ODP) application developed for Orange by SurfKitchen, Orange has seen a near doubling of download data ARPU from Signature devices that feature Orange Downloads. The application was developed as part of Orange's Signature device strategy, which aims to offer customers a simple and seamless experience with "one click" access to service.

SYLANTRO SYSTEMS CORPORATION

Sylantro Systems Corporation, the leading provider of feature servers for hosted VoIP services in carrier networks, announced that its Synergy Application Feature Server has passed User Acceptance and will now be a part of Korea Telecom's WiBro (Wireless Broadband) network offering, scheduled to deploy early in the second quarter of 2007. Korea Telecom will offer an integrated Microsoft Hosted Messaging and Collaboration solution with Sylantro Synergy Application Feature Server operated on an IMS (IP Multimedia Subsystem) platform by Samsung Electronics.

VOLUBILL SA

VoluBill SA announced the appointment of one of the telecom industry's leading figures to its board of directors. Mike Frayne, co-founder and former executive Chairman of Intec Telecom Systems, joins VoluBill as a non-executive Director.

WEBRASKA MOBILE TECHNOLOGIES SA

Webraska Mobile Technologies SA, announced the launch of Webraska Inuk, its new platform designed to allow location-based service operators to support user created dynamic content. Webraska Inuk is a powerful and flexible platform enabling service operators, content providers, business users and end-users to dynamically integrate, location-enable, manage, update and distribute large data bases of content-rich data.

WORLD WIDE PACKETS

World Wide Packets, a leading provider of Carrier Ethernet solutions, announced support for Provider Backbone Transport (PBT) through its Lightning Edge® 311v platform (LE-311v). PBT has emerged over the past year as a leading component in the next phase of Carrier Ethernet delivery. World Wide Packets has worked closely with its customers to integrate crucial PBT support into its offerings and now enables the highest quality delivery of Carrier Ethernet service available today.

High-End Mobile Games

GAMES HAVE LONG BEEN HAILED AS A POTENTIALLY MASSIVE MOBILE CONTENT MARKET. THESE EXPECTATIONS HAVE NOT BEEN MET AND DEMAND FROM THE MAJORITY OF MOBILE USERS REMAINS LOW. ADVANCING HANDSET GRAPHICS AND OTHER CAPABILITIES NOW ENABLE MORE ADVANCED GAMES THAT MEET THE EXPECTATIONS OF EXISTING PC AND CONSOLE GAMERS, THUS POTENTIALLY CREATING A NEW HIGH-END MOBILE GAMES SEGMENT. HOWEVER, MORE ADVANCED GAMES ALSO BRING ACCOMPANYING CHALLENGES.

GAMES FORM A PART OF MOST OPERATORS' CONTENT OFFERINGS BUT HAVE NOT LIVED UP TO EXPECTATIONS IN TERMS OF REVENUES. 2003 FORECASTS FOR THE MOBILE GAMES MARKET IN 2006 RANGED FROM US\$3.6BN TO \$18.5BN. IN REALITY, INFORMA TELECOM'S HISTORICAL 2006 ESTIMATE WAS IN FACT US\$2.5BN, COMPARED WITH US\$20-30BN FOR THE TOTAL GLOBAL VIDEO GAMES MARKET.



Advancing handset graphics take games over a quality threshold

Until recently, games which have been largely dominated by comparatively basic, simple diversions, have simply not been compelling enough to persuade most consumers, let alone keen gamers, to pay for them. Now, increasingly, even lower-end handsets have clear colour screens and 3D graphic capabilities.

3D capabilities particularly allow for more sophisticated and visually appealing games. This is unlikely to have an impact on hardcore gamers who already possess dedicated handheld games consoles like the Sony Playstation Portable or Nintendo DS, but will appeal to existing PC and console gamers who are not handheld console owners: the household penetration of handheld consoles is around 12% in Europe versus 34% for games consoles and 90% for mobile phones.

High-end games command a price premium

While the scope for price increases for casual games is limited due to already relatively low uptake, high-end games command a price premium. Tomb Raider, for example, costs the equivalent of US\$14.70 in the UK, compared with a typical range for most games of US\$5.90-9.80 (all values converted from Pound Sterling to US Dollars).

Game costs will rise too

However, these graphically richer and more complex games will also have higher development costs and times. Typical development costs have already risen from US\$35,000 in 2003 to US\$2-300,000 in 2006 with high-end 3D games costing US\$500,000 or more, exclusive of marketing or brand licensing costs, driven mainly by graphic content creation and increased testing requirements. Porting a game to multiple handsets is estimated to run to as much as 50% of development cost.

By contrast, the cost of developing low-end, casual games is likely to drop, driven by outsourced development and tools like Flash-Lite.

Rising costs will increase reliance on licensed IP

The majority of top selling mobile games are licensed TV or film tie-ins (Who Wants To Be A Millionaire) or ports of old PC or console games (Tetris). For example, the ELSPA/ChartTrack UK 2006 top 10 downloaded chart consisted exclusively of these amusements, the highest ranking non-licensed title being Gameloft's New York Nights at number 23. IP license fees represent a major proportion of total production costs, with around 50% of a publisher's earnings for a licensed title being paid to rights owners.

As development costs rise, so does the risk for any given game development. Licensed IP brings immediate brand recognition to a game, which is valuable for mitigating the business risk of games development. Gamers are, however, typically disdainful of film and TV tie-in games, so the licensing focus for advanced games is likely to shift to existing PC and console games.

High-end game requirements limit potential audience

Advanced games will have more demanding hardware requirements, restricting them to higher-end handsets, limiting their potential audiences. For example, while most games currently run from 250-500 kB in size, high-end games like 3D racing game Asphalt 3D weigh in at 1,106 kB and Tomb Raider at 4,045 kB.

In addition to the raw storage space required, lower-end handsets may be restricted by maximum file sizes they can run. JAR size on the Nokia 6230i, for example, caps at 500 kB. Because of growing of game file sizes, such programs must be run on 3G phones.

Conclusion

Improvements in handset graphic capabilities raise the bar for potential games, boosting them above a critical threshold for acceptance by existing games players. This factor should significantly stimulate market demand. More advanced games will also bring related challenges, however, including costlier development, greater risk and a possibly limited market.

KIN-MING LOOI
MANAGER, INCODE

Upcoming Events

MEM07 (MOBILE ENTERTAINMENT MARKET)
June 5-6, 2007
Grimaldi Forum
Monte Carlo

NXT COMM 2007
June 18 - 21, 2007
Chicago IL, USA

COMMUNICASIA 2007
June 19-22, 2007
Singapore
Asia

CTIA WIRELESS I.T. & ENTERTAINMENT 2007
October 23-25, 2007
Moscone Center
San Francisco CA, USA



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