



## STOCK WATCH

### REMEMBERING 2001

Pete Sokoloff, MD, Peter A Sokoloff & Co, gives his take on the market performance of billing stock this month.

For many, 2001 will be remembered as a brutal year, both on a macro and micro scale. For the first eight months of the year the world slowly fell into recession. The tragic events of September 11th struck at our hearts and also exacerbated the economic decline.

Billing and OSS companies failed to beat the market, with the Billing/OSS Index showing a 31.5% decline in 2001. The NASDAQ Index fell by 21% in 2001.

Early indicators hint at economic recovery. At the time of writing (January 2002), the markets are rising and investor confidence seems to be rebounding. Since the low after 11/9, the NASDAQ has steadily climbed almost 600 points, marking the longest consistent uptrend since the market began its decline in March 2000. However, by the time this issue of Billing hits your mailbox, the trend could be yet another false start. Most of us are pretty gun shy and unwilling to call a recovery until it is well underway.

After peaking in Q4 of 1999, service provider spending growth began a steady decline in 2000 and continued downward throughout 2001. One by one, Billing/OSS vendors lost steam as their sales ground downward from quarterly revenue increases of better than 50%.

Charts can be deceiving and Figure 1 could leave someone with the impression that the vendor marketplace is in chaos.

The truth is that service provider spending has leveled off for the time being. Worldwide, service providers will still spend well in excess of \$15 billion in 2002 on billing and OSS solutions and services.

We surveyed 76 billing and OSS companies at year-end about their expectations for 2002. Vendors expect carrier spending on billing and OSS to start growing again this new year. This expectation has been hard won; it took almost all of 2000 to knock out the optimists - for much of 2001 there just didn't appear to be a light at the end of

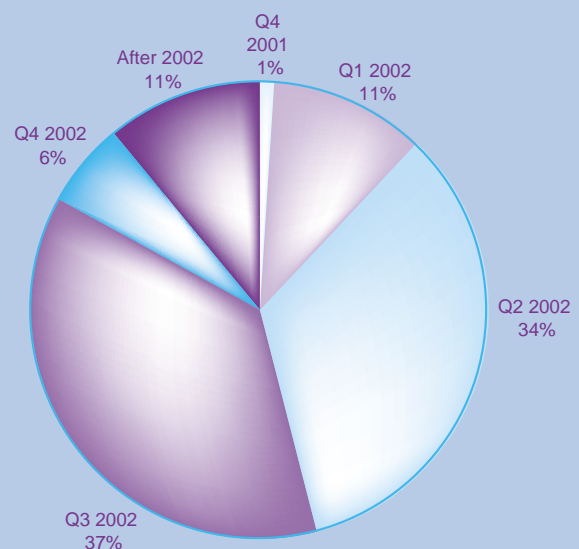
the tunnel. Vendors are expressing a level of optimism that was non-existent during the second half of last year.

#### M&A on the up

On December 10th came the announcement that Verizon (VZ) had struck a deal to sell former GTE subsidiary Telecommunication Services Inc. (TSI) to financial player GTCR Golder Rauner, LLC. GTCR is a \$4 billion equity investment firm that likes to acquire established assets and then bring in strong management to maximise return on investment.

VZ put TSI on the block in June after

FIGURE 1: "WHAT IS YOUR BEST GUESS AS TO WHEN SERVICE PROVIDER OSS SPENDING WILL BEGIN A SUSTAINABLE INCREASE FROM 2001 LEVELS?"



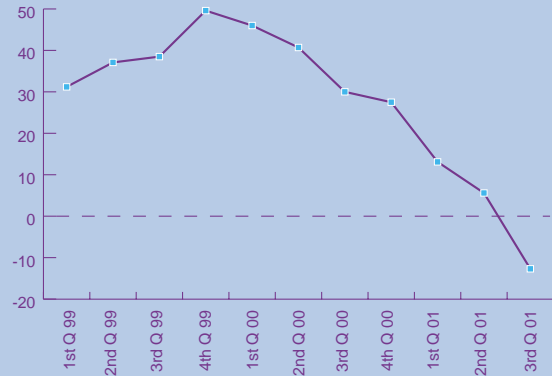
Source: Peter A. Sokoloff & Co

## INDEX OF BILLING/OSS STOCKS (CALENDAR 2001)



Source: Peter A. Sokoloff & Co

## BILLING/OSS INDUSTRY REVENUE GROWTH



deciding the company was not strategic enough. VZ fell far short of its initial expectation of 20 times TSI's formidable EBITDA of \$100 million; \$2 billion would have been 5.71x TSI's revenue of \$350 million. One by one, every major player in the market passed on the transaction. VZ could have won more had it accepted a stock for stock transaction from another suitor, but raising cash was VZ's primary aim. Thus, GTCR used its cash to close the transaction, paying just \$800 million for a solid recurring revenue base and an 'A' customer list.

With its 15% average annual growth, TSI's SS7 network and carrier roaming service bureau businesses might be a bargain at 8x EBITDA. The key will be implementation of a winning business plan to handle imminent changes in SS7 and roaming. GTCR has launched its opening volley by recruiting Dobson Communications' CEO, Edward Evans, to run TSI.

On December 22nd, CSG Systems (CSGS) announced it is picking up the billing and customer care assets of Lucent Technologies (LU) for about \$300 million in cash. The former Kenan Systems was bought by Lucent in 1999 for about \$1.4 billion. The drop in price is not just endemic of the times - Lucent's Kenan subsidiary is rumoured to be hemorrhaging losses following a precipitous decline in revenues in 2001. CSGS'

CEO Neal Hansen and his team can potentially make a major score if they succeed in turning Kenan around.

Finally, on January 7th, VeriSign (VRSN) announced that it was following up on its September acquisition of Illuminet with the acquisition of HO

Systems. HO has about \$80 million in recurring revenue and is quite profitable, serving as the dominant provider of billing services to the Tier 2 and 3 wireless carrier/reseller sector in the US. The \$340 million purchase price is 4.25x revenues.

### Index of Public Billing & OSS Companies

Company	Ticker	31 Dec 2001	29 Dec 2000	YTD % Change	52 Week High	Mkt Cap (000s)
Ace Comm	ACEC	1.14	2.31	-50.7%	3.06	13,740
Affiliated Comp Services	ACS	106.13	60.69	74.9%	107.25	6,370,112
ADC Telecom	ADCT	4.6	18.13	-74.6%	21.81	4,342,195
American Mgmt. Sys.	AMSY	18.08	19.81	-8.7%	25.04	833,720
Alltel Corp.	AT	61.73	62.38	-1.0%	68.68	18,345,349
Astea International	ATEA	0.73	0.88	-16.6%	1.43	10,378
Boston Comm.	BCGI	11.35	27.88	-59.3%	28.31	166,636
Comverse Technology Inc	CMVT	22.37	108.63	-79.4%	124.75	4,960,498
CSG Systems	CSGS	40.45	46.94	-13.8%	64.7	2,031,470
Cellular Tech Serv	CTSC	2.29	2.81	-18.6%	7	5,295
Convergys Corp.	CVG	37.49	45.31	-17.3%	50.25	6,168,817
Daleen Technologies	DALN	0.35	4.00	-91.3%	3.5	9,188
AMDOCS Corp.	DOX	33.97	66.25	-48.7%	80.5	8,627,647
DSET Corporation	DSET	1.15	7.18	-84.0%	16.75	3,336
DST Systems	DST	49.85	67.00	-25.6%	67	5,672,897
Evolving Systems Inc	EVOL	0.79	2.16	-63.4%	6	17,407
HNC Software, Inc.	HNCS	20.6	29.69	-30.6%	35.37	591,846
Illuminet Holdings*	ILUM	39.75	22.94	73.3%	47.6	1,305,541
Lightbridge	LTBG	12.15	13.13	-7.4%	19.43	358,491
MDSI Mobile Data Solutions Inc	MDSI	3.51	7.88	-55.4%	11.25	32,520
Mind CTI	MNDO	1.67	6.69	-75.0%	8.87	35,374
MetaSolv Software	MSLV	7.85	9.13	-14.0%	24.62	308,281
Micromuse	MUSE	15	60.38	-75.2%	88.75	1,120,921
Peregrine Software	PRGN	14.83	19.75	-24.9%	33.55	1,913,780
Portal Software Inc.	PRSF	2.08	7.88	-73.6%	15.31	389,108
Siebel Systems	SEBL	27.98	67.63	-58.6%	84.5	15,396,688
TCSI	TCSI	0.76	1.38	-44.7%	2.12	18,601
Management Network	TMNG	6.9	11.88	-41.9%	15.62	198,459
T-Netix Inc.	TNTX	3.33	2.06	61.5%	4.37	48,102
TTI Team Telecom	TTIL	25.02	15.00	66.8%	31.45	292,266
Ulticom	ULCM	10.06	34.06	-70.5%	48	451,876
Veramarq Tech	VERA	0.7	0.63	12.0%	2.12	7,133
Vertel Corp.	VRTL	0.67	2.38	-71.8%	4.81	18,748
Total Index		585.33	854.77	-31.5%		

Highlighted stocks were up at year-end 2001 over year-end 2000.

\* Illuminet was acquired by VeriSign, Inc. (VRSN) on December 12. Closing price on that day was used.

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