



## STOCK WATCH

### FOUR FORCES THAT WILL SHAPE THE FUTURE

Can we return to the golden age of billing & OSS, and what would the drivers of such a renaissance likely be? Pete Sokoloff, MD, Peter A. Sokoloff & Co, puts forward his four forces that may shape the future of our market.

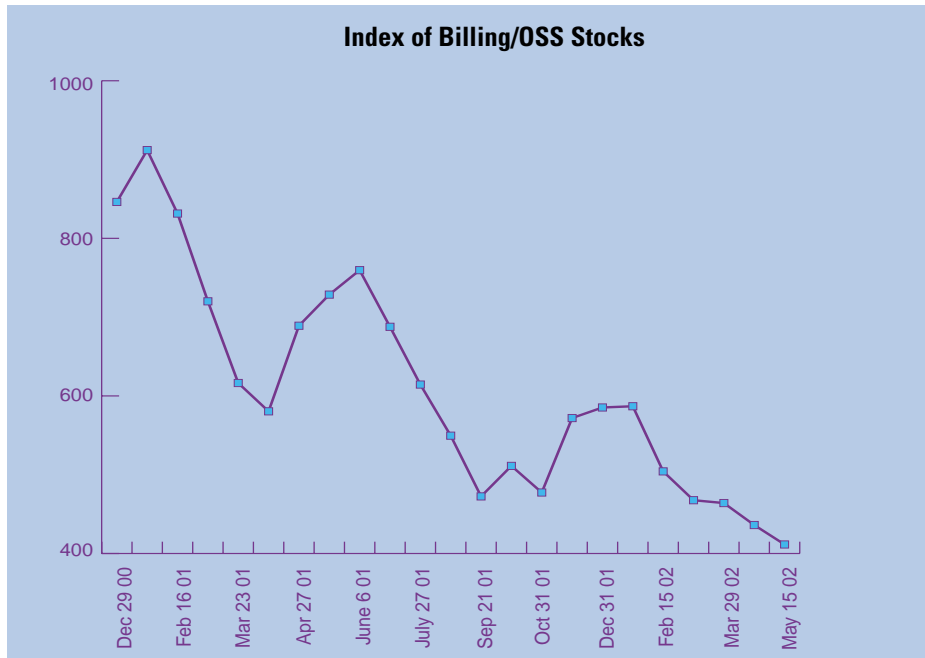
Remember the last half of the 1990's? Deregulation opened national markets. There were daily appearances of new service providers. Funding in abundance was coming from an exuberant investor market, buoyed by dotcom promise. This 'golden age' spawned numerous billing and OSS vendors, eager to serve an expanding market.

From a billing/OSS vendor perspective, more than just a return to spending by established telecoms is needed if we are to return to the glory days. The creation of many new service providers drove the last golden age. The same will drive the next. Here are four factors that could hold the key:

#### Talented management

The dark side of the CLEC (Competitive Local Exchange Carrier) and emerging telecoms era was the blatant lack of operational expertise at the top. Firms like Worldcom, Global Crossing and many others were started by finance heavies who thought money and mergers were all it took to build a successful company.

"The thing that has helped me personally," Worldcom chairman Bernie Ebbers told TIME magazine in 1997, "is that I don't understand a lot of what goes on in this industry." Gary Winnick, founder of Global Crossing, was a financier with virtually no background in the telecommunications business.



In mild defence of these pioneers, at the time there were few experienced telecoms entrepreneurs. There were lots of former AT&T or BT types running about. Used to large organisations and a tortoise-like decision path, most lacked the entrepreneurial know-how necessary to harness their considerable industry skills.

But a new generation of operator/entrepreneurs is arriving on the scene. Hundreds of seasoned managers who successfully brought new service

providers to life in the competitive environment of the late 1990's are on the street, hungry for new opportunities. Their former companies were sold to the big guys. As capital markets improve, these will be the go-to boys and girls that Wall Street embraces.

The next round of new service providers will be a tough, seasoned bunch. My money says they will create the solvent multi-company competitive landscape that was the original hope of deregulation.

### Restoration of capital markets

The overall uncertainty in the capital markets has temporarily suppressed the flow of funding for new service provider ventures. We are already seeing viable business plans for new models to conquer parts of the wireline and wireless universe. As the next two forces suggest, there will be many more business models to come that will attract and capture investors' attention.

### Niche market opportunities

A recent report from the Yankee Group sees more wireless market segmentation ahead in the U.S. "With approximately 44 per cent of all individuals in the United States and roughly 60 per cent of all households already using wireless devices, carriers will have to segment the market and offer tailored programs to previously underserved customer groups such as youths, minorities, seniors, and the credit-challenged, to maintain their growth momentum," says the report.

Witness the rapid growth of new prepaid flat rate operators Leap Wireless International (NASDAQ, LWIN) and Northcoast Wireless (private). Adding new customers at many times the rate of the traditional carriers, this is a good example of how successful a segment strategy can be.

Large national carriers generally think and act globally. Smaller, niche players may think globally but they can act locally too. Local presence, local customer service and affinity-based marketing with local groups can create a competitive edge. Evidence of this are the numerous tier three and four providers who pick up good territorial market share while maintaining lower churn and customer acquisition costs.


### 'Wholesale' of national carriers

Anyone who thinks telecoms competition has peaked, leaving only a few large carriers standing, doesn't understand the underlying dynamics of the telecoms marketplace. In wireless, more competition

is already the order of the day, causing customer churn and acquisition costs to rise. As such economics dictate, carriers will respond by encouraging the growth of an MVNO (Mobile Virtual Network Operator) market.

On the wireline side, government intervention might one day cause large carriers to separate into retail and wholesale units, which would create a level CLEC playing field. CLEC competition and regulator attention are already breeding a more cooperative wholesale wireline marketplace. In some parts of the world, competition from wireless could cause carriers to accept CLECs as allies to

preserve wireline network dominance.

Billing and OSS vendors can prepare for the next golden age by managing their businesses and resources wisely now and positioning themselves for strong future growth. 

Company	Ticker	Exchange	Stock Price* 15 May 2002 (000's)	Mkt Cap*
Anite Group plc	AIE.L	London	1.66	554,253
CMG	CMG.L	London	2.10	130,311
Elisa Communications	ELIAY	Finland	1.33	173,296
eServeGlobal	ESV.AX	Australia	0.15	12,852
Hansen Corp	HSN	Australia	0.24	19,552
Intec Telecom	ITLL	London	0.89	155,757
iSoftel Ltd.	ISOE	Singapore	0.07	12,774
Logica	LOG.L	London	3.45	1,583,401
Orchestream	OCHL	London	0.10	36,000
Spirit	SPT.L	London	1.79	1,226,866
International Index			11.79	

\*All figures are converted into US dollars.

### Index of Public Billing & OSS Companies

Company	Ticker	15 May 2002	31 Dec 2001	YTD % Change	52 Week High	Mkt Cap (000s)
Ace Comm	ACEC	1.14	1.14	0.0%	2	10,602
Affiliated Comp Services	ACS	53.61	106.13	-49.5%	57.05	7,038,189
ADC Telecom	ADCT	3.95	4.6	-14.1%	10.85	3,137,137
American Mgmt. Sys.	AMSY	21.94	18.08	21.3%	25.04	883,217
Alltel Corp.	AT	49.79	61.73	-19.3%	65.15	15,477,421
Astea International	ATEA	0.94	0.73	28.8%	1.32	13,936
Boston Comm.	BCGI	10	11.35	-11.9%	18.1	171,960
Comverse Technology Inc	CMVT	12.44	22.37	-44.4%	73	2,324,215
CSG Systems	CSGS	28.077	40.45	-30.6%	64.7	1,478,788
Cellular Tech Serv	CTSC	2.1	2.29	-8.3%	5	4,813
Convergys Corp.	CVG	27.69	37.49	-26.1%	44.35	4,777,383
Daleen Technologies	DALN	0.181	0.35	-48.3%	1.57	3,959
AMDOCS Corp.	DOX	17.8	33.97	-47.6%	66.5	3,962,778
DSET Corporation	DSET	0.299	1.15	-74.0%	4.48	824
DST Systems	DST	49.27	49.85	-1.2%	59.8	5,938,119
Evolving Systems Inc	EVOL	0.56	0.79	-29.1%	6	7,444
HNC Software, Inc.	HNCS	20.75	20.6	0.7%	33.2	740,111
Lightbridge	LTBG	10.45	12.15	-14.0%	19.43	292,903
MDSI Mobile Data Solutions Inc	MDSI	3.28	3.51	-6.6%	6.06	28,293
Mind CTI	MNDO	1.17	1.67	-29.9%	3.18	24,062
MetaSolv Software	MSLV	5.32	7.85	-32.2%	10.7	198,074
Micromuse	MUSE	7.93	15	-47.1%	50.49	588,509
Peregrine Software	PRGN	1.571	14.83	-89.4%	33.55	302,116
Portal Software Inc.	PRSF	1.3	2.08	-37.5%	6.67	225,822
Siebel Systems	SEBL	24.95	27.98	-10.8%	55.9	11,815,646
TCSI	TCSI	0.64	0.76	-15.8%	1.3	14,900
Management Network	TMNG	3.55	6.9	-48.6%	7.66	107,072
T-Netix Inc.	TNTX	3.25	3.33	-2.4%	4	48,854
TTI Team Telecom	TTIL	28.5	25.02	13.9%	35.09	284,772
Uticom	ULCM	6.749	10.06	-32.9%	36.26	277,499
Veramark Tech	VERA	0.79	0.7	12.9%	1.85	6,552
VeriSign	VRSN	11.27	38.04	-70.4%	67.94	2,659,833
Vertel Corp.	VRTL	0.2101	0.67	-68.6%	1.93	6,988
Total Index		411.47	583.62	-29.5%		

Highlighted stocks are up from year-end 2001.

Source: Peter A. Sokoloff & Co. e-mail: psokoloff@sokoloffco.com