STOCK WATCH

THE DEATH OF CONTENT?

Pete Sokoloff, MD, Peter A. Sokoloff & Co, asks whether telcos will ever make money from content.

During a February visit to an OSS show in San Diego, which included numerous meetings with great technology, venture capital-backed OSS companies, a few general observations were made. First, with few exceptions, OSS companies are not achieving the revenue base and service provider client penetration that seemed so promising as venture capital money streamed into the business in 1999, 2000 and the first half of 2001.

Second, the need for whiz-bang OSS technology has been reduced while carriers wait to see what the future will bring.

This may be stating the obvious. The telecoms industry has taken a number of hits and OSS spending levels have been declining for some time. Service provider MIS execs are faced with the dilemma of justifying new OSS expense. Not too long ago, all the justification needed to replace legacy software was the anticipation that existing systems would not be able to handle the wonderful world of new customer applications just around the corner.

The future of many complex OSS may be tied to the degree of success that telco service providers experience with content. Content services incorporate transaction payments, interactive events, instantly upgradeable subscription fees, reciprocal payments, targeted advertising, location-based services and other novel twists to open up the hopefully willing wallets of business and residential consumers.

What is the real state of content among the world's service providers? Since the dot-com bust, cash-strapped telcos have mostly gone back to business as usual. And that means fewer real efforts to conquer content.

Virtually every great content idea out there is currently being delivered in a fashion that is carrier neutral. You can download data, stream video, movies and audio. The average consumer sees their service provider as little more than a commodity pipe. Use your credit card, order from a website and download. No special OSS needed there because service providers haven't yet figured out how they should participate in that revenue stream.

Where's the money?

So, why aren't service providers making money from content? It's not for lack of creative ideas among the telco elite that

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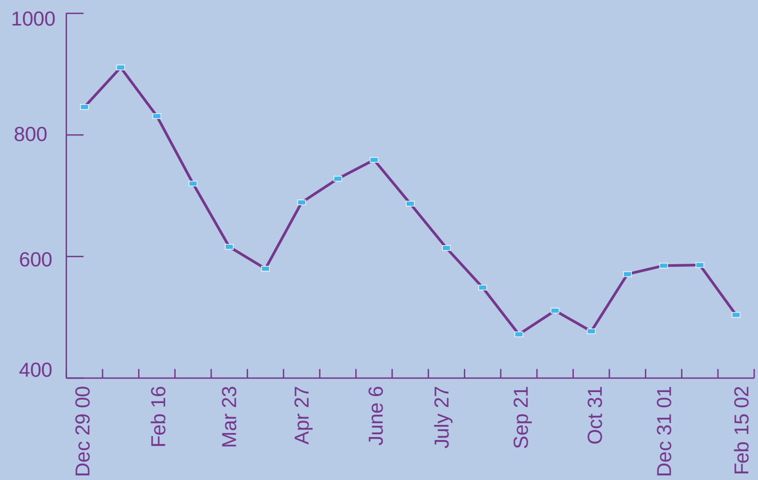

Source: Peter A. Sokoloff & Co

content remains elusive. Nor is it for lack of capital – look how little was accomplished in content by telcos during the boom days.

The missing element can be refined to a single word – cooperation. There is no unifying industry vision to develop, secure and 'profitise' content. Instead there is a hodgepodge of small pilot projects getting little attention from service provider senior management or the public. There is no agreement on how the industry should make money from content and thus there is little success.

Perhaps the best way to illustrate a successful industry cooperation model is to take a look back at the early days of cable television in the United States. A sleepy industry from its origins in the 1950s as a means of importing distant signals into rural areas, 1975 was a watershed year for the cable industry - the year that HBO (Home Box Office) was put on a satellite and sold to households across the country. Cable operators began to realise that they now had a differentiator that could take cable into the mainstream suburban and urban markets.

The late 70s were a time of hope and disarray as various programming services found their way onto the satellite and negotiated rights with cable operators. Early attempts by both cable operators and programmers to retain exclusivity were abandoned as it became obvious that, to be successful, a programming service needed more households than any one cable operator had. Cable operators also noticed that quality programming (content) was needed to implement the strategy of moving from farm towns into the majority of American homes. This required strong cable operator investment and assistance.

Out of this arose a formidable industry cooperation model. Cable coffers backed scores of new entertainment, news, public service and sports channels. Cable operators pledged household distribution and monthly fees to support these channels.

The model worked, and the public was hooked. Vast new media and distribution empires arose overnight. Cable backed content, and content built cable.

Before anyone points out that telcos compete with each other and would never cooperate like this, note that the late 70s and early 80s were the bloodiest of times among cable operators. They fought each other constantly for 'franchises' - exclusive licences to serve a local area. Bayonets in the trenches, and yet with content, they remained unified behind a common vision for the common good.

Telco service providers with an eye on content lack a 'common vision for the common good.' Entrepreneurial content creators, licensers and aggregators need to be supported by an open industry that provides both distribution and funding. Operators themselves need to examine their organisations and set aside the numerous self-created barriers to content success.

A new vision can be created that encompasses, industry-wide, the strengths of broadband distribution, revenue sharing with existing content providers and innovation of new content, tailor-made to the broadband, interactive world. Without such a vision, telcos will lose the content battle to dot-coms and cable operators. Such a future would likely further commoditise the business, ultimately destroying margins and profitability.

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	1.2	1.14	5.3%	2.5	11,141
Affiliated Comp Services	ACS	95.13	106.13	-10.4%	109.55	5,727,682
ADC Telecom	ADCT	3.99	4.6	-13.3%	14.25	3,167,374
American Mgnt. Sys.	AMSY	19.95	18.08	10.3%	25.04	831,636
Alltel Corp.	AT	55.09	61.73	-10.8%	65.15	17,100,597
Astea International	ATEA	0.8	0.73	9.6%	1.43	11,860
Boston Comm.	BCGI	7.92	11.35	-30.2%	18.1	136,058
Comverse Technology Inc	CMVT	17.46	22.37	-21.9%	105.37	3,249,917
CSG Systems	CSGS	31.3	40.45	-22.6%	64.7	1,660,183
Cellular Tech Serv	CTSC	2.05	2.29	-10.5%	5	4,699
Convergys Corp.	CVG	32.49	37.49	-13.3%	44.85	5,590,652
Daleen Technologies	DALN	0.27	0.35	-22.9%	2.75	5,906
AMDOCS Corp.	DOX	32.8	33.97	-3.4%	73.5	7,302,198
DSET Corporation	DSET	0.83	1.15	-27.8%	10.12	2,288
DST Systems	DST	42.25	49.85	-15.2%	64.85	5,085,506
Evolving Systems Inc	EVOL	1.06	0.79	34.2%	6	13,978
HNC Software, Inc.	HNCS	13.7	20.6	-33.5%	35.37	484,048
Lightbridge	LTBG	10.57	12.15	-13.0%	19.43	296,267
MDSI Mobile Data Solutions Inc	MDSI	3.7783	3.51	7.6%	7.62	32,592
Mind CTI	MNDO	1.4094	1.67	-15.6%	7.81	28,986
MetaSolv Software	MSLV	5.64	7.85	-28.2%	22	209,988
Micromuse	MUSE	9.01	15	-39.9%	65.87	662,262
Peregrine Software	PRGN	7.38	14.83	-50.2%	33.55	1,412,370
Portal Software Inc.	PRSF	2.06	2.08	-1.0%	11	357,841
Siebel Systems	SEBL	32.86	27.98	17.4%	64.37	15,193,248
TCSI	TCSI	0.62	0.76	-18.4%	1.4	14,416
Management Network	TMNG	4.7	6.9	-31.9%	12.75	141,757
T-Netix Inc.	TNTX	3.45	3.33	3.6%	4	51,860
TTI Team Telecom	TTIL	31	25.02	23.9%	35.09	309,752
Ulticom	ULCM	7.25	10.06	-27.9%	37	298,098
Veramark Tech	VERA	0.8	0.7	14.3%	2.03	6,635
VeriSign	VRSN	25	38.04	-34.3%	67.94	5,863,000
Vertel Corp.	VRTL	0.4	0.67	-40.3%	3.25	13,157
Total Index		504.22	583.62	-13.6%		

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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