Billing & OSS Finance Newsletter

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This is a financial newsletter for CEOs and corporate development professionals in the Billing and Customer Care and Operations Support System ("OSS") industries. Each quarter we tackle valuation, merger and acquisition issues that effect our readers. ***Peter A. Sokoloff & Co.*** *specializes in handling mergers and acquisitions in Billing and OSS. We welcome all inquiries.*

Flourishing and Prospering is the Best Revenge

As we go to press with this issue, the horrible events of yesterday, September 11th weigh heavily on us. We are sick with the knowledge that many countrymen and comrades have fallen. Even as our hearts go out to the victims and their families, we face the task of continuing our business.

Our president has said "We will not allow this enemy to win the war by changing our way of life or restricting our freedoms." Let us not forget that we in business are constantly exercising our freedom to pursue a better life for ourselves, families, and our associates.

At this time, let us pray and care for those harmed, while redoubling our efforts to do better in our businesses. After all, flourishing and prospering has to be the best revenge of all.

Indicators Still Moving the Wrong Way

Despite hopeful signs of revival in April and May (31% increase), June, July and August saw the ***Sokoloff Billing & OSS Index*** *drop by 27.6%, its lowest point all year.* Since year end, the Index is off by about 35%. The industry's revenue growth continues to grind downward as evidenced by Q2 data. With reports now in from 100% of the companies listed in the Index, a steady 18 month slide has brought average growth in the sector down to less than 6%. Much service provider spending remains in the deep freeze. Twelve of the companies in the Index reported Q2 revenue decreases from the same period last year. Five of the companies had growth below the 6% average.

While almost half of the companies on the Index continue to show respectable double digit revenue growth levels, billing & OSS executives remain very cautious. Not too long ago, analysts could depend on most of these companies to "make their numbers" each quarter. Analysts heeded estimates of earnings and revenue; the companies delivered. Now, mid-term "revised forward guidances" have become quite the norm as corporate execs scramble to minimize stock value damage resulting from not meeting analyst expectations.

Sokoloff Rankings Company	Symbol	P/S Price to Sales	P/E Price to Earnings	P/EBITDA Price to Earnings Before Interest, Taxes, Depreciation & Amortization
#1 Ulticom	**ULCM**	7.79	33.38	23.46
#2 Peregrine Systems	**PRGN**	7.78	N/A	N/A
#3 Illuminet Holdings	**ILUM**	6.22	28.95	14.90
#4 Amdocs Ltd	**DOX**	5.92	143.19	24.39
#5 CSG Systems	**CSGS**	5.49	23.51	13.51

On July 18th, fault management and service assurance leader **Micromuse (MUSE)** released Q2 numbers, showing a boffo 92% quarterly revenue increase. Later that same day they issued a guidance to the market that Q3 revenue would drop off by 24%-27% from the Q2 level. Reasons cited are a 40% decrease in average deal size, lower closure rates and a struggling European market. This will be **Micromuse's** first consecutive quarterly revenue decrease. After a flat Q4, **Micromuse** expects a modest upturn in revenues during Q1 2002.

While a number of analysts immediately downgraded **Micromuse**, it is interesting to note that by the end of August, some analysts had turned bullish and are recommending buying the stock. **MUSE** executives have convinced them that belt-tightening measures, a strong channel partner program (97 channel partners have sold **MUSE** products this year), and a push into Asian and Latin American markets will make the difference in 2002.

Long term, there seem to be lots of good buys for investors who have the stomach to sit through another few quarters of roller coastering. Frightened service providers and their financial backers haven't yet figured out that the sky really isn't falling - or that purchases from software companies are not directly tied to the glut of equipment and cable that are the bane of the telecom manufacturers.

Who are the companies that show signs of building long term shareholder value?

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The Billing & OSS Finance Newsletter is a service of Peter A. Sokoloff & Co.. It is distributed quarterly to CEOs, CFOs , corporate development executives and financial analysts in the telecommunications Billing and Customer Care and OSS industry.

Peter A. Sokoloff & Co.

The Leader in OSS Mergers and Acquisitions

a limited liability organization

550 North Brand Blvd. Suite 1650 Glendale, CA 91203

(818) 547-4500, fax (818) 547-4388, psokoloff@sokoloffco.com

Here's the market's answers...the table on the first page shows the top 5 companies from this issue's **Sokoloff Rankings**, based on their Price to Sales (P/S) multiples as of 31 August.

The table also considers that most important corporate bellwether, P/E (Price to Earnings). P/E can be deceiving so we also show P/EBITDA. As an example, **Amdocs** has a high P/E, but a much lower P/EBITDA. Non-cash amortization of goodwill from past acquisitions impacts **Amdocs'** earnings. But, write-off of goodwill is not indicative of the forward financial health of the company. Starting next quarter, **Sokoloff & Co.** will begin tracking P/E and P/EBITDA for the companies listed in the **Sokoloff Rankings.**

Peregrine Closes on Remedy

On Monday, August 27th, Peregrine Systems closed its acquisition of Remedy Corp. The market applauded the bold initiative by pushing **PRGN** stock up by 10% the next day. This is because the combined companies promise to rapidly develop economies that will boost earnings per share over the next four quarters. Further, while **Remedy's** help desk products compete with **Peregrine**, the companies' customer bases are neatly divided by size - large enterprises to **PRGN** and mid-sized enterprises to **RMDY**. This clearly establishes market dominance in certain niches and enables the combined company to compete on a more even playing field with giants like **SAP** and **Computer Associates**.

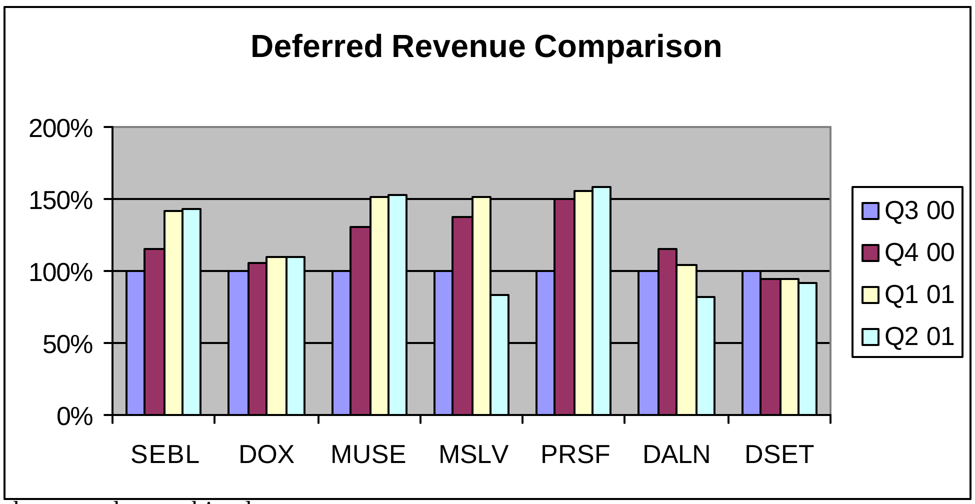
Remember when Enterprise was considered stodgy and tired? The soaring service provider sector eclipsed the 20% growth rate for the sale of ***enterprise OSS*** products during 1999 and 2000. Now in 2001, enterprise is still chugging along at about 20%, which makes companies like **Peregrine** look like champions.

Predicting the Future

The number one question on every analyst's mind is where's the bottom? Will it be a long hard winter or will the groundhog come out early to bask in the sun? Frankly, we don't really know the answer to the question!

> ***" ...where's the bottom? Will it be a long hard winter or will the groundhog come out early to bask in the sun?"***

But our look backward is 20/20. The table on this page compares growth of deferred revenue for several companies. "Deferred Revenue" is a balance sheet liability line item used for deposits and other cash receipts received prior to the completion of the sale. *Deferred revenue is important because it's the money a company collects before it actually delivers a product. For example, a software company that sells and gets paid for a computer program before it gets delivered or installed. It doesn't get recorded as straight revenue because if something goes wrong with the job, the money is at risk.* *



Looking at deferred revenue gives an insight into the next quarter's performance. Studying the quarterly trends may also yield some illumination. The chart on this page tracks deferred revenue for a sampling of companies. We pulled one year's worth of information and assigned a value of 100% to the first Q shown (Q3 2000). Thereafter the numbers rose or fell as a percentage of the Q3 baseline.

Companies with consecutive downtrends rapidly lose investor confidence. The **Sokoloff Rankings** show #33 **DSET** residing at the very bottom, with three quarters in a row of declining deferred revenue. #29, **Daleen (DALN)** is down steeply for two quarters. #21 **Metasolv (MSLV)** dropped off a cliff in Q2.

#4 **Amdocs (DOX),** #6 **Seibel (SEBL)** and #7 **Micromuse (MUSE)** all look like they're at the highest point of a roller coaster. We hope that doesn't mean a scary, accelerating ride down. Some evidence, such as **Micromuse's** revised forward guidance (see story on page 1) already suggests a Q3 tumble is inevitable. Let's hope we take the dip and recover quickly.

#22 **Portal Software (PRSF)** is an anomaly. Despite increasing deferred revenue, **PRSF's** revenue growth has been negative for two quarters. In Q1 **PRSF** revenue suffered a huge 45% drop from Q4 2000. Q2 was flat. Why hasn't **PRSF** delivered the backlogged contracts and installations? Recognizing that revenue would have helped it avoid the meltdown that pushed it off the cliff from the peaks of last year.

ROI Selling

How to overcome service provider objections even in the face of board ordered spending freezes…

We speak to literally hundreds of billing and OSS executives every month. Over and over we hear stories of delayed software purchases, projects stuck in endless RFIs and that most awful of all edicts—the board ordered spending freeze.

Over the last year we've heard more and more folks talk about "**R**eturn **O**n **I**nvestment **S**elling." This means selling your product by proving it will pay for itself in short order and add percentage

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*Source: Taxopedia.com

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points onto the service provider's gross margin.

Talk is cheap. If you are nodding your head in agreement with the concept of ROI Selling, ***how about really implementing it?*** Here's a few suggestions.

Get Educated. There are books, web sites and consulting firms dedicated to spreading the gospel on ROI Selling. Check out *www.alinean.com.* **Alinean** was founded in July by a group of former **Gartner Group** executives led by ***Tom Pisello.*** The site has an excellent resource center and will take you to a world of relevant references.

Talk to Your Customers. Interview or collect written testimonials that clearly show cost savings, margin improvements, more successful customer acquisition programs, etc. Boil it down to dollars and cents. Chart your product costs against real dollars made (saved). Use this information to create an effective sales plan, targeted promo pieces and CEO-grade sales presentations.

Review your Product Strategy. Take a cold hard look at the products you have versus the products your customers tell them are producing real ROI. You may have spent millions developing a new whiz-bang end-to-end OSS suite. But your customers are telling you that implementing your old inventory management program always reduces staffing requirements by 10% and cuts truck rolls by 20%. *Sell the product that clearly provides quantifiable ROI.* Then, up sell parts of the OSS suite once you've developed hero status with a real ROI success.

"A special place in hell is reserved for a CEO who fiddles while his company burns, instead of jumping back on sales lines and personally closing sales as his number one priority."

You Must Sell to VITO. We have mentioned this in past newsletters. Your message must be delivered to the **V**ery **I**mportant **T**op **O**fficer. Only the CEO can get a board to make a spending freeze exception. Only the CEO can cut through the endless red tape thrown up by MIS middle managers who think studying things is their only job. Spend $10 at **Amazon** and buy "Selling to VITO" by **Anthony Parinello**. Then, forget about *selling* to Bob the billing manager. *Involve* Bob, but ***sell*** to the CEO.

Never Give Up, Never Surrender. During a long career immersed in organizational selling and managing sales people, the two biggest obstacles I find to sales successes are a) the fellow at the top got so successful he didn't need to sell anymore and; b) people at all levels of the organization have stopped calling on existing customers and new prospects in volume.

A CEO who has let go of the sales reins in a down trending company and has stopped playing the role of closer is actively working on destroying his own business. No kidding. These are very harsh words. A special place in hell is reserved for a CEO who fiddles while his company burns, instead of jumping back on sales lines and personally closing sales as his number one priority.

The tone of a company is always set at the top. Usually accompanying the non-selling CEO are demoralized employees who won't talk to customers and are afraid to go after new business. Funny, they look like they're going after new business... preparing proposals, running spreadsheets, having internal meetings...man, are those employees busy! Forget busy— ***track how many customers and prospects are actually being talked to each day.*** Sales don't happen because of a pretty promo piece. They happen because someone in your organization took the time and made the effort to build a relationship with a potential customer. All successful companies have this in common— employees know that their customers and prospects come first– and there is always lots of contact with customers and prospects occurring.

Conclusion and Sermon. These are rough times. Organizations have to think and act smart and fast. Executives have to be morally responsible and mentally awake. And we need to embrace our customers and prospects as the source of salvation and solvency they have always been. Use ROI Selling to become or stay a winner.

...Pete Sokoloff

Contact Sokoloff & Co.

Please contact Pete Sokoloff for a confidential consultation about your company's merger and acquisition strategies. Mr. Sokoloff has guided numerous M&A transactions during a 21 year career as a telecommunications investment banker. ***Pete Sokoloff, (818) 547-4500, psokoloff@sokoloffco.com.***

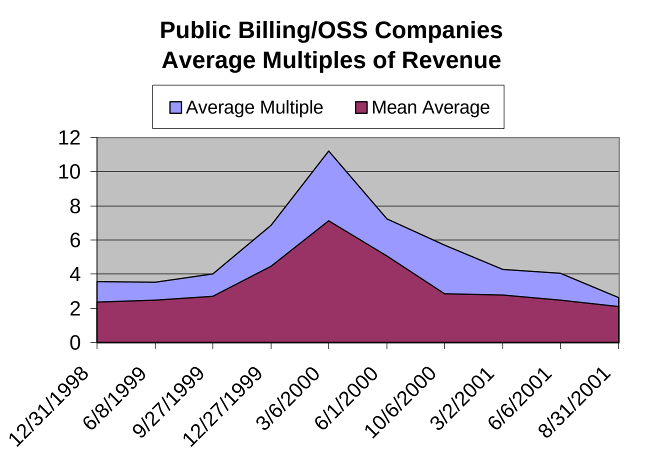
"Always do right. This will gratify some people and astonish the rest."
- Mark Twain (1901)

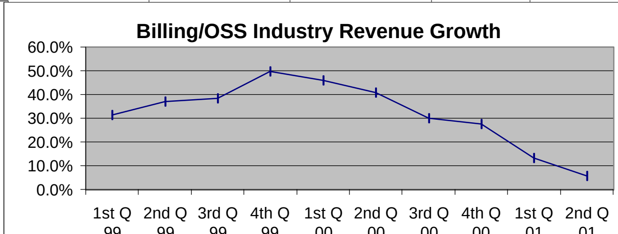
SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC BILLING & OSS COMPANIES

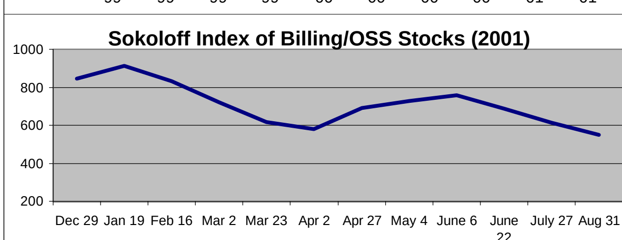
Sokoloff & Company compiles a quarterly review of the public Billing & OSS companies and compares how each is valued by the public marketplace. Since many of the companies on the list do not yet have earnings to report, we chose *total market capitalization divided by annual revenue (price to sales)* as a valid basis for comparison. Multiple of Revenue is based on the trailing twelve months (TTM). Note: The 2nd Q 01 percentage column is the increase from 2nd Q 00. Remedy Corp. (RMDY) has been eliminated from the list as it was acquired by Peregrine Systems (PRGN) on August 27, 2001. PRGN has been added to the list.

This information is provided strictly for informational purposes to BACC/OSS industry senior executives. Sokoloff & Co. makes no representations as to its accuracy . Sokoloff & Co. does not advise public investors; therefore this information should not be used for investing purposes.

Current Rank	Previous Rank	Company	Symbol	Stock Price 8/31/2001	Market Cap 8/31/2001	2000 Revenue	TTM Revenue	2nd Q 01 Revenue	2nd Q 01 % Incr. (decr)	Multiple of Revenue
					(000's)	*(000's)*	*(000's)*	*(000's)*		
1	1	Ulticom	ULCM	12	490,608	47,441	63,000	17,926	69.0%	7.79
2	NA	Peregrine Systems	PRGN	26.18	4,995,458	564,683	642,403	172,044	82.4%	7.78
3	7	Illuminet Holdings	ILUM	33.2	1,082,154	153,141	174,100	47,200	30.0%	6.22
4	4	AMDOCS Ltd.	DOX	38.3	8,470,619	1,224,981	1,430,000	404,000	36.0%	5.92
5	6	CSG Systems	CSGS	45.9	2,442,614	398,895	445,000	120,086	25.0%	5.49
6	3	Siebel Systems	SEBL	21.6	9,943,560	1,762,488	2,220,000	549,742	38.3%	4.48
7	2	Micromuse	MUSE	11.84	872,265	151,022	213,000	63,300	92.0%	4.10
8	8	DST Systems	DST	47.85	5,885,598	1,362,100	1,510,000	451,600	34.0%	3.90
9	14	Boston Comm.	BCGI	17.05	290,924	75,570	75,300	17,100	-9.5%	3.86
10	9	TTI Team Telecom	TTIL	13.77	137,590	42,830	40,100	14,600	43.0%	3.43
11	5	Comverse Technology	CMVT	25.14	4,308,669	1,119,094	1,370,000	345,090	18.2%	3.15
12	11	HNCS Software	HNCS	21.11	739,251	254,884	245,900	59,000	29.0%	3.01
13	16	Mind CTI	MNDO	2.17	43,652	15,613	14,700	3,300	-8.3%	2.97
14	12	Vertel Corp.	VRTL	1.05	34,537	16,398	12,200	3,500	-33.4%	2.83
15	15	Alltel Corp.	AT	58	17,993,862	7,066,978	7,340,000	1,920,000	5.5%	2.45
16	19	Management Network	TMNG	6	177,390	77,727	73,900	13,700	29.7%	2.40
17	13	Convergys Corp.	CVG	28.07	4,799,858	2,162,500	2,290,000	571,200	8.0%	2.10
18	18	Lightbridge	LTBG	11.7	337,042	121,555	162,200	45,800	1.3%	2.08
19	20	Affiliated Comp Services	ACS	81.77	4,136,090	2,018,356	2,060,000	550,500	20.0%	2.01
20	23	TCSI	TCSI	0.98	22,740	18,901	14,500	2,800	-48.0%	1.57
21	17	MetaSolv Software	MSLV	5.9	212,677	131,877	150,100	37,700	17.0%	1.42
22	10	Portal Software Inc.	PRSF	1.86	321,583	268,000	242,400	44,700	-30.7%	1.33
23	22	ADC Telecom	ADCT	4.37	3,415,583	3,287,900	3,040,000	548,000	-39.0%	1.12
24	25	Astea International	ATEA	1.05	15,566	19,935	17,800	4,386	-27.0%	0.87
25	24	Evolving Systems Inc	EVOL	2.78	36,646	52,843	52,600	11,967	-15.1%	0.70
26	30	Ace Comm	ACEC	1.53	14,145	31,892	24,200	4,400	-53.6%	0.58
27	26	American Mgnt. Sys.	AMSY	17.66	736,104	1,279,300	1,290,000	319,000	0.3%	0.57
28	27	Veramark Tech	VERA	0.9	7,465	16,525	15,120	3,297	6.0%	0.49
29	29	Daleen Technologies	DALN	0.66	14,436	43,643	31,700	3,400	-70.0%	0.46
30	28	Mobile Data Sol'ns Inc	MDSI	2.76	22,690	61,542	65,700	14,000	2.2%	0.35
31	33	T-Netix Inc.	TNTX	2.35	35,325	103,303	114,900	32,000	28.0%	0.31
32	31	Cellular Tech Serv	CTSC	2.502	5,735	25,973	25,800	5,568	-13.0%	0.22
33	32	DSET Corporation	DSET	1.55	4,506	47,043	25,200	2,600	-83.9%	0.18
		Sokoloff Index		**549.55**					Average	Average
		All Companies			**72,046,942**	**24,024,933**	**25,491,823**	**6,403,506**	**5.56%**	**2.61**
		Mean Average Multiple for the Group								2.10







Prepared by Peter A. Sokoloff & Co.

550 N. Brand Blvd., Suite 1650
Glendale, CA 91203
(818) 547-4500, fax (818) 547-4388
psokolof@sokoloffco.com