BACC/OSS Finance Newsletter

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This is a financial newsletter for CEOs and corporate development professionals in the Billing and Customer Care ("BACC") 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 BACC and OSS. We welcome all inquiries.*

Where Have You Gone, Joe DiMaggio?

March 10, 2000 will forever be remembered as the last day of the longest bull technology market. As we passed the first anniversary of that day, investor woes continue unabated in the BACC/OSS sector. Virtually mirroring the yearlong decline in the **NASDAQ** Composite Stock Index, as of March 2nd the average BACC/OSS company we follow lost about 61% of its value from its March 10th high. This, tracks the evaporation of the NASDAQ, which lost 58.1% over the same period. The tumble also was symptomatic of the overall communications sector. **Morningstar's** Communications mutual fund index was down 46.1% in the same period.

The biggest decline since the inception of the NASDAQ index in 1971 was 59.9%, during the period from January 1973 to October 1974. Now, THAT was a time for market pessimism! OPEC drove oil prices through the roof, inflation was raging in double digits and the Nixon presidency was crumbling. Virtually every economic indicator was in a sustained decline as the world suffered through the worst recession since the great depression.

We live in clearly better economic times. Yet, market bears have come out of hibernation to bite most tech stocks, including BACC/OSS. After a roller coastery 2000 ride ending 19.2% down from year-end 1999, January looked a little hopeful, posting a 5.5% increase. That may have been a final sigh, after which the tech sector just gave up. By March 2nd, BACC/OSS stocks had fallen 19.4% from year-end. What a contrast to the same period in Q1 2000, when the BACC/OSS index soared wildly about 70%.

Valuations Go From Home Runs to Strike Outs

Sokoloff & Co. has long compared companies by using a figure that is obtained by dividing a company's market capitalization by its trailing twelve month (ttm) revenues. This is also referred to as "Price to Sales (P/S)." Comparing today to a time when BACC/OSS stocks were part of a bull market at its peak reveals a mighty decline. The chart above shows the multiples of ttm revenues that certain companies were trading at just before the peak and recently on March 2nd. As if out to punish those who profited the most from the Bull, companies like **Portal Software (PRSF), Daleen (DALN) and MetaSolv (MSLV)** have been pummeled by the bear to a fraction of their former selves. **PRSF**'s market cap hit nearly $12 billion before it began a descent that has taken it to barely over $1 billion today. **DALN** went from $574 million to $36 million. **MSLV** hit $2.8 billion and fell to $670 million.

Descent from Fantasyland
Multiples Tumble from Last Year's Highs

	3/6/2000	*3/2/2001*	*Decline*
PRSF	108.25	4.44	-95.9%
MSLV	38.06	5.08	-86.7%
SEBL	36.91	8.8	-76.2%
DOX	29.03	12.26	-57.8%
DALN	27.71	0.83	-97.0%
ILUM	24.90	5.37	-78.4%
TMNG	16.12	4.15	-74.2%
CSGS	9.55	5.39	-43.6%
RMDY	7.80	2.53	-67.6%

> ***"CVG is acquiring Geneva Tech for about $692 million. This is more than 23x Geneva's 2000 revenues…"***

Geneva Technology is the New Home Run Champ

Like ***Mark McGwire***, who broke the home run record during his team's otherwise losing 1998 season, this announcement was an exhilarating spoonful of sugar amidst a bushel of bad news. **Convergys Corp. (CVG)** is acquiring privately held **Geneva Technology** for stock that was valued at $692 million as of the date of the announcement, March 6th. This equates to more than 23x **Geneva's** 2000 revenues of $29 million and nearly 10x projected 2001 revenues of $70 million.

CVG's share price has suffered like other tech stocks, continuing to fall almost daily, a trend that began at the end of January. As of March 19th, the deal, which is for 17.6 million shares of **CVG** stock, had

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The BACC/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.

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dropped below $600 million.

CVG management, attempting to justify the purchase during their conference call, cited further projections of $125 million in 2002 and $210 million in 2003.

Geneva expects to become profitable in late 2001 and **CVG** expects to improve that picture with as much as $15 million in cost efficiencies.

This was a good deal for CVG. Despite the high premium paid, kudos must go to **CVG CEO *Jim Orr*** for exhibiting rare courage under fire. **CVG** was one of the few winners in 2000, with its stock price appreciating against the trend. They did this by building on basics like steadily improving earnings. Another basic is to never get so comfortable that your company fails to take advantage of market changes. Taking this advantage often comes with a negative impact on earnings. Thus the courage under fire analogy is really quite apt, since the deal is expected to reduce **CVG's** earnings by .11-.15 cents this year and .05-.11 cents in 2002.

Geneva gives **CVG** a long missing European market strategy. With 40 customers in 17 countries, **Geneva** has proven it can rapidly build market share throughout Europe. **Geneva** also contributes a true next generation product...and for those who are confused about what next gen is, today this likely means the next evolutionary step above **Portal, Solect** and other systems created during the mid-nineties. **Geneva** is a true thin client application that is highly flexible, modularized, fully web enabled and quickly implemented for any billing and other types of applications.

The Best Batting Averages

As noted, **Sokoloff & Co.** ranks companies each quarter in the BACC/OSS sector on the basis of Price to Sales. The chart on the back page of this newsletter shows those rankings.

#1 in the rankings is network signaling software leader, **Ulticom Inc. (ULCM)** trading at 20.62x ttm (trailing twelve months) revenues. Showing 100% revenue growth and beating all analysts' earnings estimates (earnings were up 642%), **ULCM** has earned its number one ranking.

Even after stumbling recently to below 15x ttm revenue, **#2** was **MicroMuse (MUSE)**. The stumble was not **MUSE's** call. Despite the fact that **MUSE** is tracking well with growth expectations, ***Marianne Wolk,*** an analyst at **Robertson Stephens** downgraded the stock March 19th. She cited concerns about a general economic slowdown in telecom spending. "... while we believe **MicroMuse** is a leader in its space, and we continue to believe that as networks proliferate **MUSE's** ***NetCool*** product suite offers important functionality, we believe that in current economic conditions companies may slow down spending significantly and **MicroMuse** could eventually be affected."

Ms. Wolk makes a good point. The only way to justify very high multiples in an unforgiving market is to show a clear

> ***"BACC/OSS corporate revenues are still growing, averaging 27.5% in Q4."***

expectation to maintain 50% plus quarterly growth over several years. Investors are in a fog when it comes to this. On one hand, all believe that telecom will continue to be a growth market for years to come. On the other hand, no one knows how much a general economic slowdown will effect service providers in the near term of 2001 and 2002.

#3 in the rankings is long time favorite, **AMDOCS Ltd (DOX).** Weighing in at a multiple of 12.26x (dropped to about 10x as of press time), **DOX** continues to post strong quarters. Q4 revenue was up by 45%.

Comverse Technologies (CMVT) was ***#4***. **CMVT** is both a hardware and software provider to the telecom industry. Indicative of the continued slide after the Rankings were compiled on March 2nd, by March 19th, **CMVT** had dropped in value to just under 9x.

Rounding out the top 5 was **Siebel Systems (SEBL). SEBL** has been a regular in the Top 5 and a favorite of investors. Q4 revenue was up a sizzling 116%! Trading today (3/19) at under 7x ttm revenue, **SEBL** going lower is like throwing out the baby with the bathwater. If **SEBL** continues south, it will be only because it has been dragged along by poor performance at **Oracle**, **Intel** and other big cap tech stocks.

Economic Slowdown is Real, but there's still a Ballgame

Watching the tech stock indicators plummet as market psychology turns insane reminds one of a ***Rudyard Kipling*** poem, "***IF.***" The poem is about keeping our heads when others are in a panic.

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BACC/OSS corporate revenues are still growing, averaging 27.5% in Q4. While the growth rate has been downtrending for four quarters, and we likely have not yet hit bottom, ***long term optimism among BACC/OSS execs continues unabated.*** That's because so many are sticking to their plan and enjoying business success. This is a great time to be on either end of an M&A. Buyers have a chance to pick up technology and market share. Sellers can find liquidity and a safe haven with resources. Together buyers and sellers will rebuild values and reap a rich harvest of future benefit.

Sokoloff & Co. has enclosed a copy of the ***Kipling*** poem in each newsletter sent out this quarter. We dedicate it to the many terrific entrepreneurs and company officers who will keep their heads and persevere because they believe in themselves and their teammates. They also recognize the fact that their own destiny, and the fate of their company, rests solely in their own hands.

An M&A Paradox: GAAP vs. Cash Earnings

Amdocs, Ltd (DOX).has an interesting problem, shared with many other companies, that may be solved this year. Because it is amortizing a pile of goodwill from its previous acquisitions of **Solect** and **ITDS**, **DOX** shows meager earnings. Even though a casual investor might think otherwise, **DOX** is really highly profitable.

Excess goodwill is generated when a sale takes place and the sale price is more than the balance sheet (book) value. A $100 million purchase price may acquire a company with a book value of $10 million. Therefore, there would be as much as $90 million of goodwill that gets placed on the acquirer's balance sheet and amortized over a period of time. This goodwill must then be expensed against earnings year after year. Thus, like **DOX**, companies must show what is a warped picture of performance to the public.

" A movement is on to allow companies to report Cash Earnings (earnings before amortization)."

How a company states its financial performance is governed by rules known as Generally Accepted Accounting Principles (GAAP). These rules are set by an independent, self-regulatory organization called the FASB (Financial Accounting Standards Board).

The concept of goodwill amortization has been around since antiquity. It is based on the expectation that every asset has a finite life and therefore should be amortized (for intangible assets) or depreciated (for tangible assets).

This is okay if we're talking about a contract that has a limited life or some hardware or software that is likewise expected to decline in value. But goodwill has always been troublesome. Often goodwill increases in value as evidenced by company sales growth. Yet, GAAP says companies must treat goodwill as if it is going down in value.

For a number of years, M&A accountants have used a special technique to lessen this problem, called "pooling of interests." Merging companies literally merge their balance sheets and change the course of history. The surviving company actually restates its historical financial statements to make it appear as if the two companies were always one. The issue of excess goodwill is sidestepped since it does not appear on the pooled balance sheet

The FASB does not like pooling and would like to bar the practice. Because of the complexities, many companies don't like it either. But it beats the alternative, which is killing earnings with excessive goodwill amortization.

A great compromise may be in the works. A movement is on to allow companies to report ***Cash Earnings*** (earnings before amortization). Some companies have already begun to tell the public what both their "Cash Earnings" and "GAAP Earnings" are. If the FASB allowed stating Cash Earnings as formal practice, opposition to disallowing pooling of interests by the FASB would abate greatly.

Sokoloff & Co. has advised firms in both pooling and "purchase basis" transactions. We endorse a movement to Cash Earnings and the barring of pooling because it makes financial reporting more accurate and real; it also helps buyers and sellers utilize more flexible M&A structures.

February 2001
This notice appears as a matter of record only.

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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."

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

Sokoloff & Company compiles a quarterly review of the public BACC & 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). The following were deleted from this quarter's list: BILL (divested assets to Platinum Equity Holdings), CAIR (Merged with LTBG), OSII (Acquired by Agilent) . Note: The 4th Q 00 percentage column is the increase from 4th Q 99. Added to the list: MUSE, ULCM, CMVT, MNDO, TTIL, HNCS, MDSI, EVOL.

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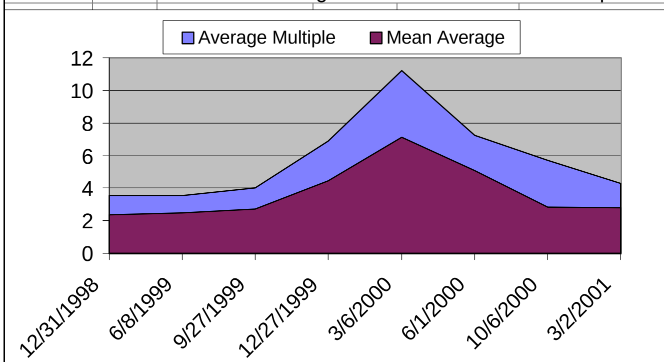
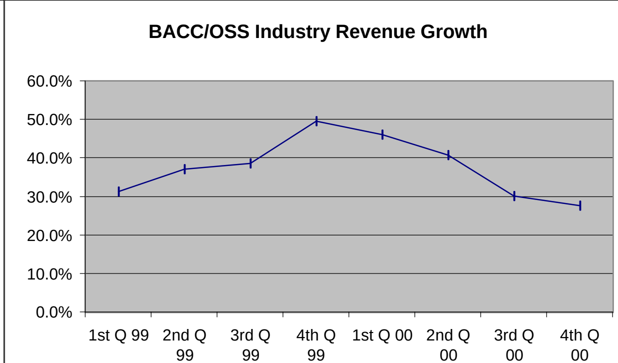
Current Rank	Previous Rank	Company	Symbol	Stock Price 3/2/2001	Market Cap 3/2/2001	1999 Revenue	2000 Revenue	Fourth Q 00	4th Q 00 % Incr. (decr)	Multiple of Revenue
					(000's)	*(000's)*	*(000's)*	*(000's)*		
							Estimates are italicized	NA= Q4 report unavailable at presstime.		
1		Ulticom	ULCM	21.875	886,178	25,831	*42,986*	15,201	99.8%	20.62
2		Micromuse	MUSE	41	2,891,320	69,573	151,022	49,820	123.1%	19.15
3	3	AMDOCS Ltd.	DOX	67.9	15,017,104	730,936	1,224,981	342,167	45.3%	12.26
4		Comverse Technology	CMVT	76.0625	12,625,843	847,702	1,119,094	317,966	36.5%	11.28
5	1	Siebel Systems	SEBL	36.0937	15,503,782	795,882	1,762,488	581,634	116.8%	8.80
6		Mind CTI	MNDO	6.125	123,211	8,196	15,613	4,603	67.1%	7.89
7	10	DST Systems	DST	59.79	7,465,559	1,203,300	1,362,100	349,200	18.4%	5.48
8	13	CSG Systems	CSGS	40.9375	2,149,383	322,162	398,895	108,700	20.1%	5.39
9	9	Illuminet Holdings	ILUM	25.6875	821,717	111,849	153,141	40,762	42.0%	5.37
10	5	MetaSolv Software	MSLV	18.75	670,125	73,007	131,877	37,804	71.7%	5.08
11		TTI Team Telecom	TTIL	19.5	194,844	30,861	42,830	11,976	29.5%	4.55
12	2	Portal Software Inc.	PRSF	6.9375	1,190,961	103,000	268,000	81,100	108.0%	4.44
13	6	Management Network	TMNG	11.125	322,603	50,322	77,727	21,858	63.7%	4.15
14	4	Vertel Corp.	VRTL	2.0625	58,412	19,815	16,398	2,742	-45.2%	3.56
15		HNCS Software	HNCS	26.125	841,016	216,889	254,884	55,076	3.9%	3.30
16	18	Lightbridge	LTBG	12.5	346,938	89,716	121,555	35,904	47.6%	2.85
17	15	Convergys Corp.	CVG	39.76	6,132,423	1,762,900	2,162,500	582,500	19.7%	2.84
18	7	ADC Telecom	ADCT	11.4375	8,810,306	2,151,800	3,287,900	1,032,000	62.8%	2.68
19	17	Remedy Corp.	RMDY	23.75	730,455	228,933	288,510	82,473	13.5%	2.53
20	16	Alltel Corp.	AT	54.1	16,914,636	6,302,271	7,066,978	1,843,758	24.5%	2.39
21	22	Affiliated Comp Services	ACS	63.85	3,392,031	1,810,920	2,018,356	500,882	5.2%	1.68
22	14	Boston Comm.	BCGI	7	118,111	64,181	75,570	19,311	12.8%	1.56
23	21	TCSI	TCSI	1.1875	27,484	32,766	18,901	4,266	-18.8%	1.45
24		Mobile Data Sol'ns Inc	MDSI	6.875	56,519	51,244	61,542	18,607	33.0%	0.92
25	8	Daleen Technologies	DALN	1.6562	36,067	20,725	43,643	9,175	21.9%	0.83
26	27	American Mgnt. Sys.	AMSY	22.625	938,960	1,240,300	1,279,300	327,400	1.6%	0.73
27		Evolving Systems Inc	EVOL	2.75	35,225	40,487	52,843	15,638	42.0%	0.67
28	12	Crosskeys Tech.	CKEY	1	18,988	30,802	*28,732*	*2,906*	-59.4%	0.66
29	28	Astea International	ATEA	0.9375	13,895	33,035	*22,128*	NA	NA	0.63
30	19	Ace Comm	ACEC	1.9375	17,881	31,560	31,892	5,275	-33.9%	0.56
31	23	DSET Corporation	DSET	2.125	24,508	44,629	47,043	5,344	-64.7%	0.52
32	24	Veramark Tech	VERA	1.0312	8,358	29,396	16,525	3,610	-55.5%	0.51
33	29	T-Netix Inc.	TNTX	3.1875	41,367	73,325	*106,168*	NA	NA	0.39
34	25	Cellular Tech Serv	CTSC	3.375	7,736	10,241	*25,808*	NA	NA	0.30
		Sokoloff Index		**721.06**					Average	Average
		All Companies			98,433,942	18,658,556	23,777,930	6,509,658	27.52%	4.29
		Mean Average Multiple for the Group								2.79
		1999/2000 Average Revenue Increase - All Companies					27.44%			





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