

Billing & OSS Finance Newsletter

Summer, 2002

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Volume IV, Issue 2

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 affect our readers. Peter A. Sokoloff & Co. specializes in handling mergers and acquisitions in Billing and OSS. We welcome all inquiries.

An Overcorrected Market

Remember trying to justify stock prices during the market peaks in 1999 and early 2000? It required a suspension of reality about business basics. Hyper inflated stocks were driven up by a bull-on-steroids mentality on both Wall and Main Streets.

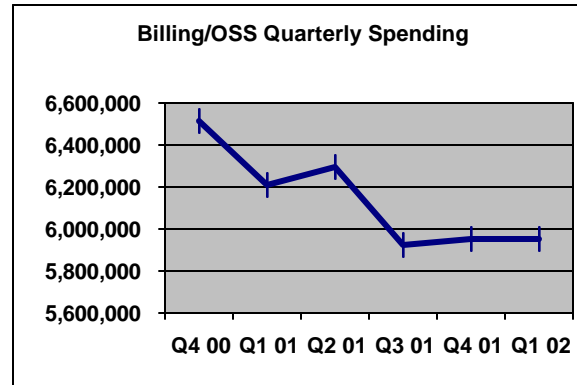
We have finally reached the polar opposite. There is no business basic rationale for many of the stocks on the back page of this newsletter to be trading as low as they are.

Quietly, amidst the doom and gloom and hysteria brought about by dot-com failures, tragedies, war and lousy/fraudulent corporate accounting and governance practices, the Billing and OSS business is turning around. There is pretty clear evidence now that service provider spending reached bottom during Q4 last year.

The chart on this page shows total combined quarterly revenue for the 33 companies we track on the back page of this newsletter. The actual numbers should not be construed to show total industry revenues as some of the revenue is not OSS derived (such as Alltel's service provider ops, Convergys's call centers, DST and ACS's other business lines, etc.). The numbers have also been adjusted to subtract additional revenues resulting from replacing Illuminet with VeriSign and Remedy with Peregrine on the list.

We estimate that total Billing/OSS revenues per quarter derived by the 33 public companies is actually about \$2.3 billion per quarter. For those who like to track industry revenues, this would equate to about \$9.2 billion annually. Add private and non-US Exchange public companies and it is easy to agree with analyst reports that suggest a total range for worldwide Billing/OSS revenues of \$15-\$20 billion per annum.

Industry revenues stopped down trending and began to flatten during Q4 last year.



Q1 reports, while still flat, for the first time show a turn in the industry's declining growth record. This is significant because this is the first time in 8 consecutive quarters that the back page graph showing revenue growth has turned upward.

Investor Psychology Continues to Batter Tech

While the market for tech stocks like Billing/OSS may be overcorrected, bearish investor sentiment has sent the *Sokoloff Index* down by 50% in 2002. Traditionally strong, well-managed companies like Amdocs, TMNG and VeriSign have been pummeled to

ridiculously low prices. DOX has a billion dollars in the bank and trades at an Enterprise Value Multiple (EVM) of just 3.53 (see back page for explanation of EVMs). With its rock-solid long term contracts and stable business, DOX could turn into a widows and orphans stock and afford to pay a 10% annual dividend. Of course, DOX shouldn't follow such a course, but the fact that it could is being missed by investors.

Take out its cash on hand and TMNG has an Enterprise Value of just \$6 million and an EVM of 1.77! What would you pay for a market leader doing more than \$7 million a quarter?!

VeriSign has lots of terrific recurring revenue assets and has sustained high double digit continuous growth throughout the bad times. Yet it trades at a measly 5.7 EVM.

Yes, each company has had its share of bad news and cloudy horizons—but each is a market leader and undeserving of the market's current valuation.

And then there's... Peregrine(E)

When a public company is threatened with delisting by NASDAQ, the scarlet letter "E" is appended to its trading symbol. So, PRGN has become PRGNE. The reason for the NASDAQ action is because PRGN has been unable to produce a clean audit. After what was portrayed as a simple firing of its auditor Arthur Andersen in

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April and a routine replacement with **KPMG**, financial irregularities began to surface. In May came the announcement that an internal company accounting investigation was underway and evidence was pointing to a \$100 million revenue recognition problem. The CEO and CFO promptly resigned. Then it turned out that \$35 million of the questionable transactions were with **KPMG** and **KPMG Consulting**. **PRGN** fired **KPMG** and hired **Price Waterhouse Coopers** to complete the internal investigation.

Now, **Peregrine** is looking for yet another audit firm to complete their audit. Until

“...the evidence shows that PRGN’s execs and board have consistently done the right thing. The quick resignations, the board led investigation, the scrupulous auditor selection process... Isn’t this how we would expect an American corporation to respond to improprieties?”

that happens a cloud of suspicion hangs over the firm and it has become radioactive to investors and fair game for grave robbers who would seek to grab some of **PRGN**’s prime assets at fire sale prices.

What’s wrong with this picture?

For one thing, the evidence shows that **PRGN**’s execs and board have consistently done the right thing. The quick resignations, the board led investigation, the scrupulous auditor selection process...Isn’t this how we would expect an American corporation to respond to improprieties? **PRGN** didn’t pull an **Andersen** or **Enron** and try to shift responsibilities and obscure blame.

The company has shown its willingness to do the right thing. It is unfortunate that they lost two otherwise excellent and seasoned management members in CEO **Steve Gardner** and CFO **Matt Gless**, but it was appropriate for these responsible execs to fall on their swords.

PRGNE should be able to drop the scarlet “E” once it produces a clean audit. Then, perhaps it can get back to business as the

world leader in help desk and other infrastructure management applications.

We wish new CEO, **Gary Greenfield** luck and success in restoring **PRGN** to its former market strength.

Your Web Site is Your Customer’s First Impression

The associates at **Sokoloff & Co.** spend many hours each week researching OSS companies. As a result, we have formed some very definite opinions about web site quality and deficiencies. Here’s a list of what we feel are the **“Top 5 Mistakes Made by OSS Web Site Designers:”**

- 1. No Contact Information.** Address and phone number are just as important as an e-mail address.
- 2. Too Much Technospeak and Hyperbole on the Home Page.** A home page should very clearly explain exactly what the company does, what its target markets are and the major benefits to be enjoyed by using the company’s products or services. Obfuscating the facts with ambiguous language and fancy adjectives leaves the impression that the company doesn’t really know what it is doing. *A wise man once said that the difference between a true expert and a novice is that the expert can simply and plainly explain difficult concepts to a layman.* The novice hides his own lack of understanding behind large words, acronyms and complexities.

- 3. Outdated Information.** In these difficult times, a web site news section that shows its last press release dated sometime in 2000 leaves the impression that the company is either out of business or on its way out. To avoid this, web sites should be updated regularly.

- 4. No Management Team Info.** It’s important to provide some information about real people. Smaller companies might just feature the founder, others should consider bios of the senior management team.

- 5. Too Little Information about Products and Customers.** The two questions any prospective customer is going to want answered immediately - Details about the products and services and; who uses them. A few companies are concerned about publishing their customer list...at least

describe several of your customers without specifically identifying them.

The 24 Hour Broadband Consumer

The Steven Spielberg, Tom Cruise summer thriller, “Minority Report” features lots of high technology possibilities. Aside from the darker sides of the plot, the artist’s vision portrays a host of creative uses for up and coming nanotechnology, interactive telecommunications and 24 hour a day broadband networks.

Nanotechnology, the emerging science of constructing molecular level electronics and machines, promises to revolutionize functionality and lower costs to the point where common household items become intelligent. Imagine a common disposable milk container that could wirelessly communicate to a household computer that it is almost empty - prompting the automatic addition of a quart of milk to the shopping list. How about your kids reading the back of the cereal box and watching video animation?

Unlike the film, in the future our eyes will

“Wi-Fi may seem like a threat to traditional carriers...it will create a boom in broadband usage and wholesale carrier sales..”

probably not be assailed by laser scans from every passing advertising sign, exposing our identity and calling out our names. But identification will exude from cell phones, PDAs and other devices we come in contact with. Consumers will have the ability to control what, when and where they choose to share information with some interactive medium. We will constantly wirelessly interact with our homes, offices and external environment. A huge and imaginative trove of content will be created, directed and streamed into our lives, 24 hours a day.

The Dawn of the Age of The 24 Hour Broadband Consumer

Most of the content will likely be beyond the control of telecom carriers. Who will make the money by connecting the

(Continued from page 2)

consumer to their office, their home and the world in a 24 hour "always-on" mode? 3G, cable and wireline networks will ultimately provide the network backbone, but the fate of the last mile is uncertain given the emergence of publicly available wireless Ethernet technology. Using Wi-Fi standards, any entrepreneur can become an inexpensive broadband service provider, serving a wireless radius of up to 300 feet. Within the next 12 months, it is anticipated that more than 10 million computers and laptops will have 802.11b (Wi-Fi) hardware installed. Within 5 years many offices and homes will be wireless.

Someday, probably sooner than we might expect, we will live in a truly 24 hour interactive broadband environment. Until that ubiquitous time arrives, the next step in the evolution is broadband mobile wireless.

Mobile Broadband is Coming of Age

Very shortly, the majority of laptops will inexpensively come with Wi-Fi. Users will need to subscribe to some kind of connection service. Considering that there are about 27 million laptops in the U.S. alone, this is a huge untapped market.

Right now, in San Francisco you could have coffee and broadband at your local **Starbucks**. Some 50 stores have been wired for Wi-Fi. Or you could subscribe to a service roaming aggregator like **Boingo** and access thousands of Wi-Fi access points. **Boingo**, led by **Earthlink** founder **Sky Dayton**, collects subscriber fees and shares them with the many small network operators who host Wi-Fi systems. Besides coffee houses, Wi-Fi networks serve airports, hotels, office buildings, college campuses, key sections of congested freeways and anywhere else that someone wants to spend a few thousand dollars and open their network to the outside world.

Wayport, started in 1996 is one of the earliest Wi-Fi operators, with access points installed in some 450 hotels and 9 airports. **T-Mobile Broadband** (formerly, **Mobilestar**) provides Wi-Fi to **Starbucks**

Billing/OSS Companies on Non-US Exchanges

Company	Ticker	Exchange	Stock Price*		Mkt Cap* (000's)
			15 May 2002	12 July 2002	
Anite Group plc	AIE.L	London	1.66	0.47	158,023
CMG	CMG.L	London	2.10	1.29	79,745
Elisa Communications	ELIAY	Finland	8.57	7.06	919,900
eServeGlobal	ESV.AX	Australia	0.15	0.14	11,984
Hansen Corp	HSN	Australia	0.24	0.16	12,540
Intec Telecom	ITL.L	London	0.89	0.50	86,972
iSoftel Ltd.	ISOE	Singapore	0.07	0.06	11,496
Logica	LOG.L	London	3.45	2.73	1,254,458
Orchestream	OCHL	London	0.10	0.09	11,104
Spirent	SPT.L	London	1.79	1.29	883,474
International Index			19.03	13.78	

*All figures are converted into US dollars.

and about 600 locations in 19 states.

The Good News

Wi-Fi may seem like a threat to traditional carriers. While Wi-Fi will certainly create more competition for end-user customers, it will create a boom in broadband usage and wholesale carrier sales. This is because every one of these little local networks has to link into a big pipe owned by a carrier. As usage increases, carriers will finally have a compelling reason for switching to usage based billing.

Just as the Internet caught many unaware, Wi-Fi seems destined to creep into the very fabric of our lives. The big broadband pipes were not built in vain, just built too early. Wi-Fi has the potential to fill those pipes faster than many would believe.

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 22 year career as a telecommunications investment banker. **Pete Sokoloff, (818) 547-4500, psokoloff@sokoloffco.com.**

This notice appears as a matter of record only.



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Wi-Fi is still very much an early-adopter medium and the companies mentioned have yet to gain a significant foothold in the broadband market. Earlier attempts such as **Metricom's Ricochet** service failed to attract mobile customers for a narrowband offering. As usual, consumer habits lag behind technology. Mobile broadband does seem destined to become a way of life, but the right combination of content, connection and network is thus far elusive and the message is fragmented.

"Always do right. This will gratify some people and astonish the rest."

- Mark Twain (1901)

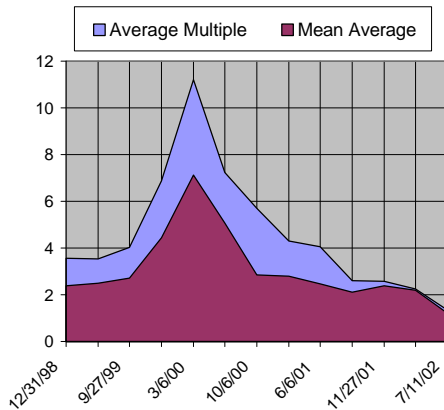
SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC BILLING & OSS COMPANIES

Sokoloff & Company compiles a quarterly review of the public Billing & OSS companies and compares how each is valued by the public marketplace. Since some 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 1st Q 02 percentage column is the increase from 1st Q 01.

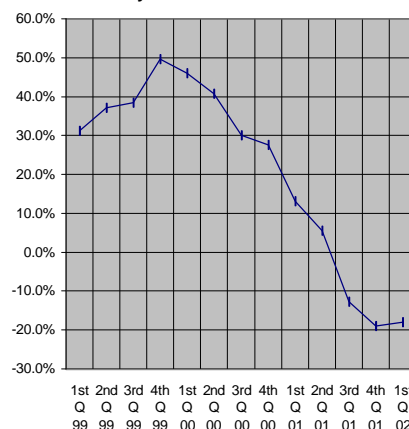
Enterprise Value Multiple (EVM) is obtained by dividing EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) into the sum of the company's market capitalization plus any debt or preferred stock and minus cash on hand. Companies with negative EBITDA are listed as NA. *This information 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 7/11/2002	Market Cap 6/20/2002	2001 Revenue	TTM Revenue	1st Q 02 Revenue	1st Q 02 %	Multiple of Revenue	Enterprise Value Multiple
1	3	Ultilcom	ULCM	6.14	254,171	63,200	48,220	7,097	-58.3%	5.27	5.71
2	1	Siebel Systems	SEBL	12.16	5,758,648	2,050,000	1,927,498	477,847	-20.2%	2.99	8.70
3	6	DST Systems	DST	39.95	4,782,375	1,660,000	1,909,900	620,900	15.3%	2.50	11.18
4	13	Mind CTI	MNDO	1.24	25,502	10,500	10,326	2,411	-5.6%	2.47	NA
5	12	HNCS Software	HNCS	15.37	548,217	227,200	227,997	55,297	2.5%	2.40	43.16
6	4	TTI Team Telecom	TTIL	15.06	150,480	60,800	65,942	18,186	39.1%	2.28	7.56
7	10	Affiliated Comp Services	ACS	44.16	5,821,966	2,063,559	2,756,610	800,687	50.0%	2.11	14.01
8	16	Boston Comm.	BCGI	7.09	122,203	66,300	62,336	15,042	-20.8%	1.96	6.24
9	15	Alltel Corp.	AT	45.45	14,132,178	7,600,000	7,604,800	1,832,900	0.3%	1.86	6.16
10	8	CSG Systems	CSGS	16.61	875,214	476,900	493,184	130,375	14.3%	1.77	5.05
11	7	Micromuse	MUSE	4.21	314,495	202,700	182,451	39,038	-34.2%	1.72	8.94
12	19	Converse Technology	CMVT	9.55	1,786,137	1,270,218	1,116,375	211,194	-42.1%	1.60	NA
13	20	Lightbridge	LTBG	8.49	239,885	176,600	165,216	37,946	-23.1%	1.45	3.92
14	9	Management Network	TMNG	1.9	63,205	54,800	43,766	7,268	-60.4%	1.44	1.77
15	14	MetaSolv Software	MSLV	3.7	138,868	118,800	101,902	21,862	-44.8%	1.36	NA
16	2	Verisign	VERSN	5.94	1,404,151	983,600	1,097,967	327,816	53.6%	1.28	5.70
17	21	ADC Telecom	ADCT	2.33	1,855,670	1,890,000	1,530,900	298,300	-54.3%	1.21	NA
18	17	Convergys Corp.	CVG	15.94	2,756,074	2,320,000	2,316,600	587,500	-0.6%	1.19	6.27
19	5	AMDOCS Ltd.	DOX	8.57	1,907,922	1,610,000	1,697,364	455,269	22.3%	1.12	3.53
20	22	TCSI	TCSI	0.531	11,035	11,045	11,561	4,154	13.7%	0.95	NA
21	25	Astea International	ATEA	0.93	13,580	17,100	16,055	3,953	-21.0%	0.85	NA
22	18	Portal Software Inc.	PRSF	0.54	95,327	154,800	141,335	31,112	-30.2%	0.67	NA
23	27	Mobile Data Sol'n's Inc	MDSI	3.3	29,245	58,100	51,849	11,240	-35.8%	0.56	NA
24	26	American Mgmt. Sys.	AMSG	14.68	614,505	1,180,000	1,111,700	251,400	-22.2%	0.55	7.21
25	24	Ace Comm	ACEC	1.09	10,156	18,900	18,402	5,025	-9.0%	0.55	NA
26	28	Veremark Tech	VERA	0.7	5,827	12,500	11,827	2,639	-20.6%	0.49	NA
27	30	T-Netix Inc.	TNTX	3.6	54,115	117,759	113,212	24,458	-15.7%	0.48	4.21
28	23	Vertel Corp.	VRTL	0.12	4,058	10,600	9,997	2,002	-22.9%	0.41	NA
29	31	Daleen Technologies	DALN	0.15	3,530	12,400	9,158	1,900	-63.3%	0.39	NA
30	11	Peregrine Systems	PRGN	0.7	134,610	693,200		Late report		0.19	NA
31	33	DSET Corporation	DSET	0.25	1,271	9,910	8,000	1,501	-56.0%	0.16	NA
32	32	Cellular Tech Serv	CTSC	1.07	2,452	20,416	17,213	2,358	-57.6%	0.14	NA
33	29	Evolving Systems Inc	EVOL	0.23	3,057	33,895	24,700	4,398	-67.6%	0.12	NA
								(figures in italics are estimates)			
Sokoloff Index				291.75					Average	Average	Average
All Companies					43,920,127	25,255,802		6,293,075	-17.98%	1.35	8.78
Median Average Multiple for the Group										1.21	6.24

Public Billing/OSS Companies Average Multiples of Revenue



Sokoloff Chart of Billing/OSS Industry Revenue Growth



Sokoloff Index of Billing/OSS Stocks

