

Billing & OSS Finance Newsletter

Winter, 2001

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

Happy Holidays and Best Wishes for a Great 2002!

What will the New Year Hold for Billing/OSS Vendors?

2001 will not be remembered fondly in our industry. On top of the national tragedy and economic repercussions of September 11th, we have seen nearly a two year decline in revenue growth. Seven quarters after the peak in Q4 '99, Q3 '01 has produced the first negative growth number. This is a long fall from the Y2K salad days, when the industry had a 50% quarter over quarter growth rate. For Q3 the 33 companies in our index posted an average growth rate of minus 12.66%. Two-thirds of the 33 companies listed posted negative quarterly numbers.

Burning questions on everyone's mind: Where is the bottom of the market? When will service provider OSS spending pick up again?

At this writing in early December, the

Sokoloff Index of Billing/OSS Stocks is on an up trend, up 20% in November and back to a level last experienced in August. The **NASDAQ Index** was up 14.5% over the same period.

Overall the **Sokoloff Index** is 32% down for the year.

Are we at the bottom? Early in December the jury is still out on Q4 results. Various estimates seem to indicate we'll see a plateau in Q4, which this analyst thinks will serve as a runway for renewed revenue growth in Q1 2002. This is a minority opinion.

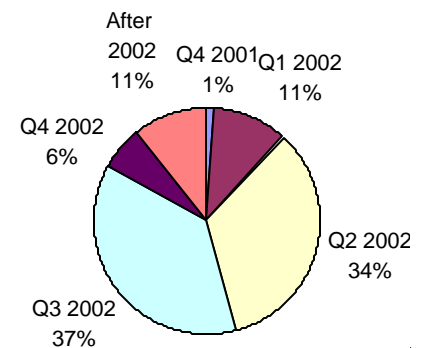
Sokoloff & Co. surveyed some 80 billing and OSS companies in late November/early December. Survey respondents overwhelmingly selected either Q2 or Q3

2002 is the fact that the mean average price to sales (P/S) multiples of public billing/OSS companies has flattened since



Sokoloff Vendor Survey:

"What is your best guess as to when service provider OSS spending will begin a sustainable increase from 2001 levels?"



August and is showing signs of an up trend (see chart on back page). Increases in market values are usually a good predictor that economic conditions will improve within 6-12 months. This would support the survey result expectations that increased service provider spending will occur during the window that begins in late Q1 and goes through Q3.

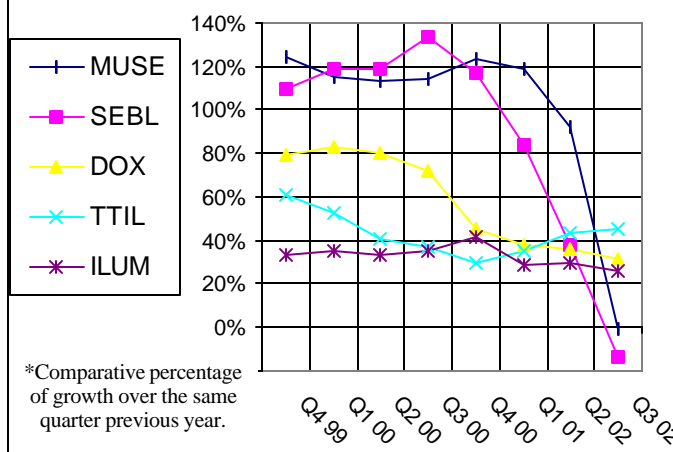
TSI Goes for \$800 Million

On December 10th came the long awaited announcement that **Verizon (VZ)** had struck a deal to sell former **GTE** subsidiary, **Telecommunication Services Inc.** to financial player, **GTCR Golder Rauner, LLC.**

VZ put **TSI** on the block in June after deciding the company was not strategic.

(Continued on page 2)

5 Trendsetters: 2 Year Growth History'



as the quarter when service provider spending will again start to ramp up (see chart on this page).

One advance sign that service provider spending might begin again to ramp up in

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VZ set the expectation at 20 times TSI's formidable EBITDA of \$100 million; \$2 billion would be 5.71x revenue of \$350 million. One by one, every major player in the market passed on the transaction. VZ could have gotten more had it accepted a stock for stock transaction from another suitor; but raising cash was VZ's primary aim.

In stepped GTCR, a \$4 billion equity investment firm and a welcome new entrant into the billing and OSS industry. With its 15% average annual growth, TSI's SS7 network and carrier roaming service bureau businesses might be a bargain at 8x EBITDA. The key will be implementation of a winning business plan to handle imminent changes in SS7 and roaming. GTCR has launched its opening volley by recruiting Dobson Communications' CEO, Edward Evans to run TSI

TSI's SS7 competitor is Illuminet. A rare opportunity to compare the prospects for each company has occurred because Illuminet is also being acquired. See the next article...

Illuminet and VeriSign Merge Switched Circuit and Packet Technologies

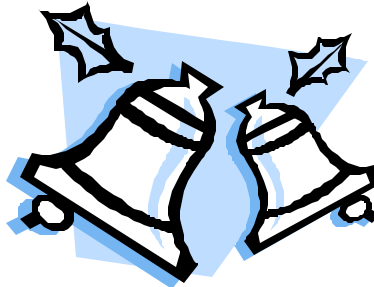
On September 24th, Illuminet (ILUM) and VeriSign (VRSN) released the news of their impending marriage. The romance started almost two years ago when ILUM CEO, Roger Moore met VRSN CEO Stratton Slavos at an analyst conference.

"The management team at Illuminet developed a long term plan that anticipated the convergence of our intelligent circuit switched signaling network with a packet switched environment," Roger Moore explains, "We felt the need to create greater shareholder value by finding a partner we could work with to expand our intelligent network into next generation networks."

Roger and Stratton traded ideas and e-mails for a year and then, in January arranged to have the two companies' product teams meet. According to Moore more than 20 opportunities to work

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together were identified. "The most promising in the short term is the relaying of short messaging solutions (SMS) between carriers. In the future our combined solutions will provide enhanced



location based services to consumers and corporate customers. We will be able to handle an inquiry over the web, via multiple databases to intelligently complete a phone call. A hungry customer could be instantly connected through their browser to the telephone at their nearest McDonalds."

The companies contemplated a deal over the summer that would have paid a 50%

11% of VRSN. Due to the decline in VRSN's stock, ILUM shareholders will now walk away with 13% of VRSN when the deal closes in January.

A quick financial analysis of the deal is in the box on this page. From first look, VeriSign seems to be getting the better. But consider that VRSN grew by 47% in Q3 vs. 26% for ILUM. Additionally, the many synergies make this a true "2+2=7" transaction. While much integration of the two companies is planned, ILUM will serve as a fourth division for VRSN, responsible for all carrier business and telephony solutions.

Very well done to both teams at ILUM and VRSN for what looks like what will be a winning deal, very much in the near term and long term interests of all shareholders.

Introducing "Enterprise Value Multiples" (EVM)

In today's market climate, the valuation methodology with the greatest credibility analyzes the comparative profitability of companies. This article is dedicated to educating the intelligent reviewer on the topic of using profitability as a means of corporate valuation.

While there are many factors that go into valuing a company, comparing profitability

is an important tool that analysts use. Understanding corporate profitability can be tricky.

Some Definitions

Earnings are the net income (profits) produced after the company has accounted for all its expenses.

Dividends are a portion of earnings that the company's board of directors pays out to the company's

shareholders. Often the board decides to reinvest all or most of the earnings, so many companies pay little or no dividends.

Earnings Per Share (EPS) is calculated by dividing earnings by the number of outstanding shares of stock.

Deal Analysis:	Illuminet	VeriSign
Transaction	Exchange 1 Share ILUM for .93 Shares VRSN	
Share Price on 9/24	\$36.37	\$39.86
Market Cap 9/24	\$1.2 billion	\$8.1 billion
Purchase Price	\$1.22 billion	-
Cash in the Bank	\$102 million	\$715 million
Debt	\$8.5 million	0
Preferred Shares	0	0
Enterprise Value	\$1.127 billion	\$7.385 billion
TTM Revenue	\$185 million	\$897 million
Multiple of Revenue	6.59x	9.03x
TTM EBITDA	\$75 million	\$123 million
Enterprise Multiple Value	16.26x	65.85x

premium to ILUM shareholders. VRSN's declining stock price held things up. At the time the deal was announced in late September, VRSN was paying just a 2% premium over ILUM's stock price on the day the deal was announced. Actually, ILUM managed to improve the deal. Had they closed when first anticipated, ILUM's shareholders would have ended up with

“...Thus P/Es and EPSs can swing wildly, impairing their ability to serve as a basis of comparison. EBITDA is a more consistent standard.”

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Price to Earnings (P/E) is a ratio calculated by dividing the earnings into the market capitalization of the company.

EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization.

Enterprise Value is the fair market value of the company's equity (market capitalization) plus long-term corporate debt plus preferred stock, minus cash. This measures a company's value in terms of the total funds being used to finance it. The concept is simple. One buys a \$250,000 house; it has a mortgage of \$200,000 plus equity value of \$50,000 (down-payment). The enterprise value is \$250,000. Likewise, if a public company has a market cap of \$10 million plus debt of \$4 million and \$2 million of preferred stock, less \$1 million cash, the company's **Enterprise Value** is \$15 million.

Apples to Apples

Service and software companies, contribute unique blends of interest, taxes, depreciation and amortization to their profit and loss statements. Thus P/Es and EPSs can swing wildly, impairing their ability to serve as a basis of comparison. EBITDA is a more consistent standard. Another obstacle to comparison is the fact that debt loads, cash on hand and the value of preferred stock vary from company to company. Taking all this into account, a meaningful comparison that links profitability to company value can be attained by dividing Enterprise Value by EBITDA. The multiple thus arrived at we call the Enterprise Value Multiple (EVM).

Billing/OSS Corporate EVMs

The sidebar accompanying this article shows the EVMs for 19 billing/OSS companies. About one-third of the companies we track each month are not

listed, as they are not currently profitable and do not enjoy positive EBITDA. We caution the reader to avoid evaluating a stock strictly on the basis of EVM. Many other factors effect valuation.

Growth in EBITDA is critical to supporting EVM. As a rule of thumb, a public company's shareholders would need to be *very* comfortable that their company can sustain a 15% cumulative rate of EBITDA growth each year for the next

of conservative practices. Bear investors seek out companies with no debt, who hoard cash and trim expenses.

Bear markets are tougher to make money in. Unlike a bull market, where following the herd will make money, following the bears into conservative stocks is no guarantee of investor success. Bolster investor luck with some real homework and compare your favorite billing/OSS company's growth prospects to its EVM. Good luck!

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



Has been acquired by



Hansen Corporation

The undersigned initiated the transaction and advised Marotz Inc.



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five years to justify an EVM of 12. If investors believe the company will have more growth than the current EVM suggests, the stock price is likely to increase. Generally, as investors become more optimistic about long term growth prospects, EVMs rise and stock prices increase.

Opportunities abound in both bull and bear markets. In a bull market, investors are willing to look long term; they will bet on big futures and condone the massive spending required to thrive in that rosy time ahead. In a bear market, investors sail into safe harbor stocks where the underlying companies espouse the mantra

Enterprise Value Multiple	
Symbol	12/5/2001
ILUM	15.20
ULCM	12.63
TTIL	25.63
MUSE	28.28
SEBL	19.87
DOX	17.47
DST	14.06
CSGS	8.91
HNCS	55.22
CMVT	12.88
TMNG	9.01
AT	8.43
ACS	19.63
CVG	13.13
BCGI	7.04
MSLV	9.92
LTBG	7.88
AMSY	6.31
TNTX	3.83
Average	15.54
Median	12.88

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 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 3rd Q 01 percentage column is the increase from 3rd Q 00.

Enterprise Value Multiple is obtained by dividing EBITDA 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.

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Current Rank	Previous Rank	Company	Symbol	Stock Price 11/27/2001	Market Cap 11/27/2001	2000 Revenue	TTM Revenue	3rd Q 01 Revenue	3rd Q 01 % Incr. (decr)	Multiple of Revenue	Enterprise Value Multiple
1	3	Illuminet Holdings	ILUM	37.45	1,230,000	153,141	184,800	52,300	26.0%	6.66	15.20
2	1	Ulticom	ULCM	10.1	415,100	47,441	63,000	13,500	5.5%	6.59	12.63
3	10	TTI Team Telecom	TTIL	25.74	293,300	42,830	50,600	16,000	45.0%	5.80	25.63
4	7	Micromuse	MUSE	15.64	1,150,000	151,022	212,500	40,000	-1.0%	5.41	28.28
5	2	Peregrine Systems	PRGN	18.57	3,550,000	564,683	674,700	175,000	23.0%	5.26	NA
6	6	Siebel Systems	SEBL	24.31	11,200,000	1,762,488	2,150,000	428,500	-14.0%	5.21	19.87
7	4	AMDOCS Ltd.	DOX	34.69	7,720,000	1,224,981	1,530,000	415,400	31.9%	5.05	17.47
8	8	DST Systems	DST	50.45	6,070,000	1,362,100	1,590,000	420,800	25.4%	3.82	14.06
9	5	CSG Systems	CSGS	32.65	1,730,000	398,895	467,300	124,400	21.9%	3.70	8.91
10	12	HNCS Software	HNCS	22.05	779,100	254,884	227,200	59,100	15.0%	3.43	55.22
11	11	Comverse Technology	CMVT	22.98	4,260,000	1,119,094	1,370,000	295,000	-6.9%	3.11	12.88
12	16	Management Network	TMNG	6.55	197,600	77,727	66,100	12,200	-38.9%	2.99	9.01
13	15	Alltel Corp.	AT	68.88	19,500,000	7,066,978	7,380,000	1,899,013	2.0%	2.64	8.43
14	13	Mind CTI	MNDO	1.68	33,500	15,613	12,700	2,200	-47.6%	2.64	NA
15	19	Affiliated Comp Services	ACS	95.99	5,780,000	2,018,356	2,240,000	655,000	37.0%	2.58	19.63
16	17	Convergys Corp.	CVG	33.35	5,740,000	2,162,500	2,310,000	567,200	2.0%	2.48	13.13
17	9	Boston Comm.	BCGI	9.93	169,600	75,570	71,300	15,900	-7.1%	2.38	7.04
18	21	MetaSolv Software	MSLV	8.05	299,700	131,877	137,900	23,600	-34.0%	2.17	9.92
19	18	Lightbridge	LTBG	13.25	371,400	121,555	171,100	40,000	-13.8%	2.17	7.88
20	22	Portal Software Inc.	PRSF	2.34	406,500	268,000	202,200	31,800	-28.9%	2.01	NA
21	14	Vertel Corp.	VRTL	0.72	23,700	16,398	12,200	3,300	-5.7%	1.94	NA
22	23	ADC Telecom	ADCT	4.7	3,710,000	3,287,900	3,040,000	392,000	-60.8%	1.22	NA
23	20	TCSI	TCSI	0.61	14,200	18,901	13,700	3,000	-21.0%	1.04	NA
24	24	Astea International	ATEA	0.9	13,300	19,935	17,800	3,450	-31.0%	0.75	NA
25	26	Ace Comm	ACEC	1.22	11,300	31,892	19,600	4,400	-51.1%	0.58	NA
26	29	Daleen Technologies	DALN	0.52	11,400	43,643	19,900	2,200	-84.3%	0.57	NA
27	30	Mobile Data Sof'ns Inc	MDSI	3.95	34,100	61,542	63,100	13,000	-16.3%	0.54	NA
28	27	American Mgmt. Sys.	AMSY	15.605	650,500	1,279,300	1,250,000	281,400	-12.8%	0.52	6.31
29	31	T-Netix Inc.	TNTX	3.95	59,400	103,303	118,300	31,400	14.6%	0.50	3.83
30	28	Veremark Tech	VERA	0.46	3,810	16,525	13,200	3,003	-9.0%	0.29	NA
31	25	Evolving Systems Inc	EVOL	0.95	11,800	52,843	45,300	4,074	-64.3%	0.26	NA
32	32	Cellular Tech Serv	CTSC	2.55	5,840	25,973	23,100	5,370	-33.0%	0.25	NA
33	33	DSET Corporation	DSET	1.12	3,260	47,043	13,400	2,000	-85.5%	0.24	NA
								(figures in italics are estimates)			
Sokoloff Index				571.91				<i>Average</i>	<i>Average</i>	<i>Average</i>	
All Companies					75,448,410	24,024,933	25,761,000	6,035,510	-12.66%	2.57	15.54
Mean Average Multiple for the Group										2.38	12.88

