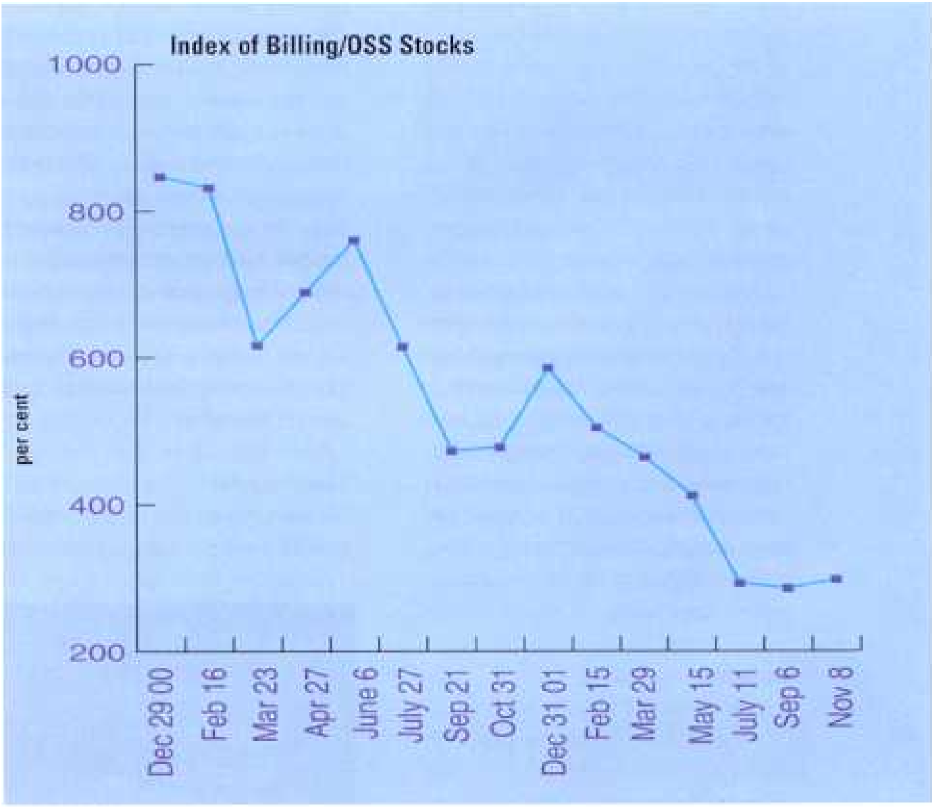
# STOCK WATCH

## 2003 YEAR OF RECOVERY?

Pete Sokoloff, MD, Peter A. Sokoloff & Co., peers into his crystal ball in an effort to determine what the stars hold for 2003.

The Billing/OSS Index seemed to have bottomed out in August and has been climbing very slowly through early November. Many analysts are cautiously bullish and expect a slow long-term recovery, firmly tied to underlying business principles. On a macro level for billing and OSS companies, positive 'underlying business principles' in 2003 will mean a) increased spending by service providers, b) operators' success in roll-out of new services, and c) more intelligent operation of billing and OSS companies.




**MIS spending**

Capital expenditure for the nine largest U.S. wireline companies has declined in 2002 by about 40%, down to some $40.6 billion, according to the Soundview Technology Group. Soundview projects the nine largest carriers' capital expenditures will hit $41.3 billion in 2003, up 2%.

RHK sees a rise in U.S. wireline spending next year to $43 billion, up about 3% from its projection of $41.8 billion in 2002. Capital spending in North America in the wireless realm, meanwhile, will probably decline a little next year, to $17.5 billion, from $18 billion this year.

A recent report by Dataquest shows worldwide IT spending is being led by the telecommunications sector, which is on pace to represent 58.4% of IT spending in 2002. Worldwide telecoms spending will hit $1.34 trillion in 2002, up 1.9% over 2001. In 2003, telecoms spending is expected to reach $1.45 trillion, up 7.1% over 2002.

"Our forecast shows that we are unlikely to see anything beyond normal seasonality before the second quarter of 2003," said George Shiffler, who tracks the market for Dataquest. "We expect the return to spending to begin with shorter-term less strategic items, such as PCs, low-end servers and infrastructure software that can help deliver more value out of systems and networks."

Consensus seems to suggest that 2003 will see very slow overall improvement in telecoms capital spending. Mr. Shiffler's remark suggests that OSS spending will be among the first capital items to recover, matching other analysts' expectations.

**VoP leads the way to new services**

While wireless operators put 3G plans on hold and struggle with creating incremental retail revenue from 2.5G, carriers have begun to deploy packet networks as a means to deliver greater flexibility, efficiencies and cost savings. VoP (Voice over Packet) includes all forms of packetised voice including VoIP, voice over frame relay, and voice over ATM. The near-term growth of VoP is expected to be driven by expense reductions created as packet-switched voice displaces circuit-switched voice technology.

VoP-based services will grow from less than $13 billion in 2002 to $197 billion in 2007, according to an October 2002 report from Insight. The company predicts that VoP services will grow at a compounded rate of over 72% over the forecast period. "The ability to be profitable in voice services is essential for the survival of almost all telecom service providers," says Robert Rosenberg, President of Insight. "Even though data exceeds voice in terms of traffic volume, voice revenue still pays the bills for phone companies, and will continue to for years to come, which is why the operational savings associated with VoP are so important." Insight predicts that VoP related carrier revenues will explode, fueled by lower operational costs to carry a voice call along with new service offerings such as follow-me, unified messaging, and multimedia communications.

Rosenberg expects a spillover for OSS: "Associated expenditures on the Operations Support Systems (OSS) used to create and maintain VoP-based services will also increase over the forecast period at a compounded growth rate of 58%, indicating heavy investment in correlation with the phenomenal revenue growth of VoP."

**Intelligent business plans**

Valuable lessons have been learned by those vendors who will survive in 2003 and flourish in the long term. Serving the customer well has always been the goal of every company. The traditional means of selling OSS, the upfront perpetual license sale model, while useful to both service provider and vendor in the short-term, has proven to be very risky for both sides. Despite maintenance revenues, vendors who depend on one-time license fees, or

**"Vendors who ignore providers' needs for rapid return on investment are at peril of becoming dinosaurs"**

fees tied only to growth in subscribers, remain at high risk of insolvency during bad times. A billing or MIS manager's nightmare has to be the demise of his software vendor.

The OSS business appears to be headed for a glacial shift away from one-time license fees to term licenses and outsourcing. The partnership between provider and vendor can only be sustained if both parties continue to make money; a vendor model whose revenues are mostly recurring is the surest means to a healthy long-term relationship.

Vendors who ignore providers' needs for rapid return on investment are at peril of becoming dinosaurs. An OSS vendor who cannot clearly justify its existence in dollars and cents cannot communicate a compelling reason for operator expenditure. This simple fact became obscured during the wild spending days of the past. An intelligent vendor business plan insists this standard be met and exceeded.

Recurring revenues, return on investment and intelligent business management will continue to be the hallmarks of both today and tomorrow's successful billing and OSS vendor. Ⓑ

**Index of Public Billing & OSS Companies**

| Company | Ticker | 6 Sept 2002 | 31 Dec 2001 | YTD % Change | 52 Week High | Mkt Cap (000s) |
|---|---|---|---|---|---|---|
| Ace Comm | ACEC | 0.62 | 1.14 | -45.6% | 1.75 | 5,790 |
| Affiliated Comp Services | ACS | 48.3 | 106.13 | -54.5% | 57.05 | 6,380,382 |
| ADC Telecom | ADCT | 1.878 | 4.6 | -59.2% | 5.97 | 1,485,928 |
| American Mgnt. Sys | AMSY | 12 | 18.08 | -33.6% | 23.33 | 505,620 |
| Alltel Corp | AT | 49.25 | 61.73 | -20.2% | 65.15 | 15,317,489 |
| Astea International | ATEA | 0.64 | 0.73 | -12.3% | 1.14 | 9,347 |
| Boston Comm. | BCGI | 14.13 | 11.35 | 24.5% | 15.71 | 245,014 |
| Comverse Technology Inc | CMVT | 8.201 | 22.37 | -63.3% | 28.28 | 1,538,588 |
| CSG Systems | CSGS | 14.35 | 40.45 | -64.5% | 44.38 | 739,068 |
| Cellular Tech Serv | CTSC | 1.1 | 2.29 | -52.0% | 3.78 | 2,521 |
| Convergys Corp | CVG | 15.07 | 37.49 | -59.8% | 38.5 | 2,610,004 |
| Daleen Technologies | DALN | 0.17 | 0.35 | -51.4% | 0.62 | 4,000 |
| AMDOCS Corp | DOX | 8.55 | 33.97 | -74.8% | 39.25 | 1,903,469 |
| DSET Corporation | DSET | 0.17 | 1.15 | -85.2% | 1.78 | 877 |
| DST Systems | DST | 32.93 | 49.85 | -33.9% | 51.15 | 3,946,373 |
| Evolving Systems Inc | EVOL | 0.64 | 0.79 | -19.0% | 2.75 | 8,510 |
| Fair Isaac | FIC | 38.03 | 41.96 | -9.3% | 45.5 | 1,940,633 |
| Lightbridge | LTBG | 6.76 | 12.15 | -44.4% | 13.95 | 190,578 |
| MDSI Mobile Data Solutions Inc | MDSI | 3.4 | 3.51 | -3.1% | 5.08 | 27,846 |
| Mind CTI | MNDO | 1.25 | 1.67 | -25.1% | 2.05 | 25,033 |
| MetaSolv Software | MSLV | 1.7 | 7.85 | -78.3% | 9.1 | 64,082 |
| Micromuse | MUSE | 2.76 | 15 | -81.6% | 19 | 206,277 |
| Peregrine Software | PRGN | 0.07 | 14.83 | -99.5% | 33.55 | 14,000 |
| Portal Software Inc | PRSF | 0.68 | 2.08 | -67.3% | 3.05 | 120,047 |
| Siebel Systems | SEBL | 7.86 | 27.98 | -71.9% | 38.38 | 3,756,412 |
| TCSI | TCSI | 0.36 | 0.76 | -52.6% | 0.98 | 7,400 |
| Management Network | TMNG | 1.519 | 6.9 | -78.0% | 7.66 | 50,578 |
| T-Netix Inc | TNTX | 2.65 | 3.33 | -20.4% | 4 | 39,835 |
| TTI Team Telecom | TTIL | 6.51 | 25.02 | -74.0% | 35.09 | 76,512 |
| Ulticom | ULCM | 6.13 | 10.06 | -39.1% | 12.69 | 254,370 |
| Veramark Tech | VERA | 0.32 | 0.7 | -54.3% | 2.03 | 2,676 |
| VeriSign | VRSN | 8.71 | 38.04 | -77.1% | 53.45 | 2,061,256 |
| Virtel Corp | VRTL | 0.138 | 0.67 | -79.3% | 3.25 | 4,749 |
| Total Index | | 296.85 | 604.97 | -50.9% | | |

Highlighted stocks are up from year-end 2001.

Fair Isaac acquired HNC Software.

Source: Peter A. Sokoloff & Co. e-mail: psokoloff@sokoloffco.com