



## STOCK WATCH

### AN OVERCORRECTED MARKET

While we're not out of the woods just yet, guarded optimism in vendor circles does appear justified, believes Pete Sokoloff, MD, Peter A. Sokoloff & Co. If only investor psychology caught the positive bug....

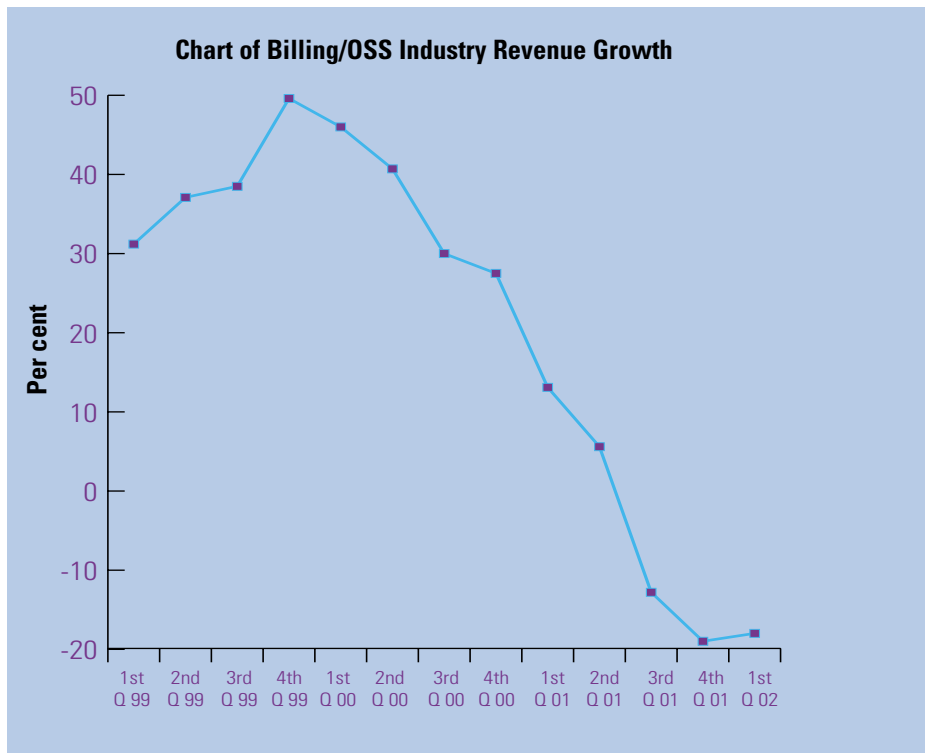
Remember trying to justify stock prices during the market peaks in 1999 and early 2000? It required a suspension of reality about business basics. Hyper inflated stocks were driven up by a bull-on-steroids mentality on both Wall and Main Streets. Today, we have finally reached the polar opposite. There is little business basic rationale for many of the stocks we cover to be trading as low as they actually 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 bottomed out during Q4 last year.

The chart opposite shows total combined Billing/OSS Quarterly Spending which translates out to revenues for the thirty-three public companies included in the Billing/OSS Index. 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 operations, Convergys' call centres, and DST's and ACS' other business lines). The numbers have also been adjusted to subtract additional revenues resulting from replacing Illuminet with VeriSign and Remedy with Peregrine on the list.

#### \$15 billion revenue

We estimate that total Billing/OSS revenues derived by the thirty-three public

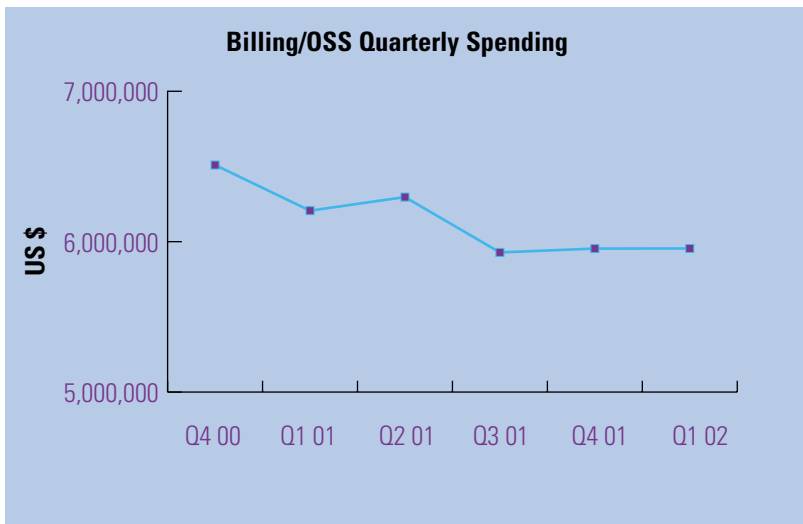


companies is currently at approximately \$2.3 billion per quarter. For those who like to track industry revenues, this would equate to about \$9.2 billion annually. Add private and non-US Exchange public companies and it is easy to agree with analyst reports that suggest a total range for worldwide Billing/OSS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

Industry revenues stopped a precipitous down trend 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 it is the first time in eight consecutive quarters that revenue declines have improved.

For Q2, revenues are continuing to improve for the majority of the companies reporting at the time of writing. Fourteen of the twenty-five companies who have released Q2 numbers are showing Q2 revenue increasing over Q1. The fourteen are highlighted on the Index chart; a comeback is being staged by a mix of companies. Some of them were the first to



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fall, and may now be the first to rise.

The strongest player was practically the last to fall. Amdocs finally interrupted its splendid several-year run and has reported slightly negative growth for Q2. The company immediately announced tough cost cutting measures to reduce expenditures by ten per cent. CEO Dov Baharav and his team expect to sustain some decreasing revenues for the next few quarters. Meanwhile, two of DOX' largest institutional shareholders, Welsh, Carson, Anderson and Stowe, and Southeastern Asset Management of Tennessee are buying up shares in a clear sign that some sophisticated investors continue to have great confidence in the long term value of the company.

#### Investor negativity

While the market for tech stocks like Billing/OSS may be overcorrected, bearish investor sentiment has sent the Billing/OSS Index down by fifty-three per cent in 2002. Traditionally strong, well-managed companies like Amdocs, TMNG and VeriSign have been pummeled below rational levels. Yes, each company has had its share of bad news and cloudy horizons, but, unfortunately, long term investing patience is in short supply and many investors remain nervous around almost any kind of volatility.

If they would turn around and look, instead of showing their backs and running, more investors would notice that some

areas of telecoms are recovering and some Billing/OSS vendors have successfully repositioned themselves for renewed growth. May this optimism also spread to the investor community. 

#### Index of Public Billing & OSS Companies

Company	Ticker	16 August 2002	31 Dec 2001	YTD % Change	52 Week High	Mkt Cap (000s)
Ace Comm	ACEC	0.5988	1.14	-47.5%	1.75	5,579
Affiliated Comp Services	ACS	48.71	106.13	-54.1%	57.05	6,421,829
ADC Telecom	ADCT	1.51	4.6	-67.2%	5.97	1,202,602
American Mgmt. Sys.	AMSY	14.26	18.08	-21.1%	23.33	596,924
Alltel Corp.	AT	42.53	61.73	-31.1%	65.15	13,227,468
Astea International	ATEA	0.6	0.73	-17.8%	1.14	8,761
Boston Comm.	BCGI	8.06	11.35	-29.0%	18.1	138,922
Converse Technology Inc	CMVT	7.91	22.37	-64.6%	30.98	1,479,407
CSG Systems	CSGS	11.38	40.45	-71.9%	49.6	599,635
Cellular Tech Serv	CTSC	1.05	2.29	-54.1%	3.76	2,407
Convergys Corp.	CVG	16.48	37.49	-56.0%	38.5	2,854,237
Daleen Technologies	DALN	0.12	0.35	-65.7%	0.9	2,824
AMDOCS Corp.	DOX	8.17	33.97	-75.9%	41.2	1,818,871
DSET Corporation	DSET	0.18	1.15	-84.3%	1.99	915
DST Systems	DST	34.87	49.85	-30.1%	51.15	4,174,253
Evolving Systems Inc	EVOL	0.26	0.79	-67.1%	3.85	3,456
HNC Software, Inc.	HNCS	16.98	20.6	-17.6%	29.8	611,000
Lightbridge	LTBG	7.14	12.15	-41.2%	13.95	201,741
MDSI Mobile Data Solutions Inc	MDSI	3.19	3.51	-9.1%	5.08	28,270
Mind CTI	MNDO	1.15	1.67	-31.1%	2.4	23,752
MetaSolv Software	MSLV	2.53	7.85	-67.8%	9.1	95,368
Micromuse	MUSE	3.72	15	-75.2%	19	277,891
Peregrine Software	PRGN	0.29	14.83	-98.0%	27.5	55,769
Portal Software Inc.	PRSF	0.39	2.08	-81.3%	3.05	68,847
Siebel Systems	SEBL	8.5	27.98	-69.6%	38.38	4,062,278
TCSI	TCSI	0.32	0.76	-57.9%	0.99	6,650
Management Network	TMNG	1.6	6.9	-76.8%	7.66	53,275
T-Netix Inc.	TNTX	3	3.33	-9.9%	4	45,096
TTI Team Telecom	TTIL	13.679	25.02	-45.3%	35.09	136,881
Ulticom	ULCM	5.92	10.06	-41.2%	17.98	245,064
Veramarq Tech	VERA	0.5	0.7	-28.6%	0.98	4,162
VeriSign	VRSN	6.09	38.04	-84.0%	53.45	1,439,609
Vertel Corp.	VRTL	0.08	0.67	-88.1%	1.19	2,705
<b>Total Index</b>		<b>271.77</b>	<b>583.62</b>	<b>-53.4%</b>		

No stocks are currently up from year-end 2001. Highlighted stocks have shown Q2 revenue increases over Q1.

HNCS price shown is final closing on August 2nd. HNCS has been acquired by Fair Isaacson & Co. (FIC).

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