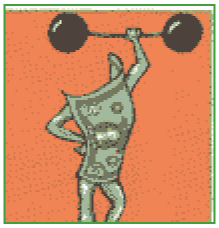
the telecomm analyst by multex.com

Issue # 46

February 13, 2001

Strong Buys



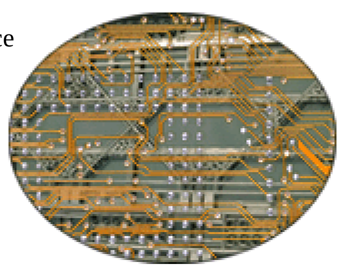
Nortel and JDS Uniphase Swap Lasers

By Paul DeMartino

The Telecomm Analyst[SM] *combed through research submitted to the Multex.com database this week, looking for Strong Buys. In order to be included in this column, a stock must receive a firm's highest rating, and the valuation methodology must be included in the r*eport.

NORTEL NETWORKS (NT): On Feb. 7, Dain Rauscher Wessels reiterated its Strong Buy rating on NORTEL NETWORKS' shares. On Feb. 6, NORTEL announced that it would be acquiring a subsidiary of JDS UNIPHASE (JDSU) located in Zurich, Switzerland and Poughkeepsie, New York. NORTEL will pay $2.5 billion in stock for the deal. Although the price is considered fixed, there is a collar on the deal to protect against volatility; NORTEL will pay no less than 10.9 million shares and no more than 16.4 million.

The facility produces 980 nanometer pump-laser chips. These chips, NORTEL reveals in its press release, are "essential [for] creating the all-optical Internet." Dain Rauscher says, more specifically, that they're used to amplify signals carried long distances.



The firm's opinion is that the price was fair. Strategically, it notes that NORTEL had only one major active optical component missing from its component profile: 980nm pump-laser chips. Now that hole has been patched, Dain Rauscher believes that the company will "expand its internal components business growth profile and merchant market operation." It believes that NORTEL will bundle its optical units together into a single business unit and then spin them off. The firm estimates a value of $10-14 for NORTEL's optical operations now and $17 to $21 in 12 months after a spin off.

It does, however, have two concerns with the deal. First, what is the intellectual property agreement between NORTEL and JDS UNIPHASE? Second, it views the timing of the deal as interesting, considering that JDS UNIPHASE plans on taking a share of NORTEL in the near future. Still, Dain Rauscher believes that the deal as it stands is a net positive for NORTEL. The firm projects share earnings of $0.98 and $1.25 in 2001 and 2002, respectively. Its price target is $100, based on a price-to-earnings ratio. NORTEL shares closed at $32.70 on Feb. 8.

JDS UNIPHASE (JDSU): U.S. Bancorp Piper Jaffray reiterated its Strong Buy on JDS UNIPHASE shares on Feb. 7. The primary reason? They sold their Zurich and Poughkeepsie pump-laser chip subsidiary to NORTEL NETWORKS. (I won't go into the details again.) From JDS UNIPHASE' perspective, the deal cleared the way to Department of Justice approval for its merger with SDL (SDLI). SDL is another optical networking company, whose products include industrial lasers similar to what is now NORTEL's subsidiary. U.S. Bancorp's share earnings estimates are $0.82 and $1.15 in fiscal 2001 and 2002 (ending June) as reported, but the firm points out that JDS UNIPHASE is expected to revise guidance next week. In all, it forecasts that sales will be higher, but EPS will be lower, in part because of the dilutive effects of the deal. U.S. Bancorp's price target on JDS UNIPHASE shares is $82, derived from a price-to-earnings metric. JDSU shares closed at $44.94 on Feb. 8. There were 3602 reports on JDSU downloaded from and 90 reports contributed to the Multex.com database during the week

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The Telecomm Analyst[SM] Magazine by Multex.com
Publisher. . . . . .Eric Lopkin
Managing Editor: . . . . .Paul DeMartino
Web Designer: . . . . .Robin Barrett
Senior Production Assoc.: . .Rika Marubashi
Consulting Editor: . . . . . . .David Allikas

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TTA's premier date: April 4, 2000

of Jan. 29 to Feb. 4.

WEBEX COMMUNICATIONS (WEBX): On Feb. 8, CIBC World Markets reiterated its Strong Buy on WEBEX COMMUNICATIONS. The company's collaboration platform occupies the high end of its market. The firm believes that, while the current softening of the economy will impact high-tech spending, WEBEX' solution offers such compelling savings that it will be less affected than many other companies. And the stock has been under pressure in the past few weeks, down 33% since Jan. 17. CIBC values the stock at $60, using a price-to-sales valuation, and the shares closed at $14.56 on Feb. 8 (down more than 9% for the day). The compelling value simply cements the firm's opinion. CIBC projects losses of $1.89 a share in 2001 and $0.70 in 2002.

The Sell Report

Copper Mountain Networks

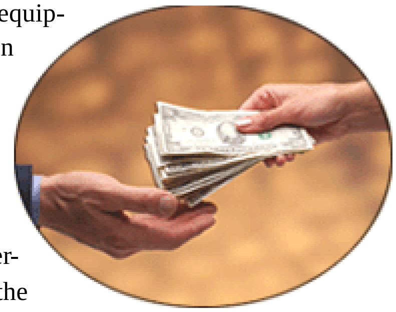
Copper Mountain Is No Place To Climb

By Aram Fuchs

Many economists have been predicting that the economy will stay in its current tailspin for the first couple of quarters. This logic, and Chairman Alan Greenspan's quick reaction to the lull in economic activity by cutting interest rates 100 basis points, has caused the general markets to rally quite strongly in the first part of 2001.

But I wonder if investors have been listening to the same conference calls that I have been. As I'm sure you know, there are many companies that have been downgrading revenue guidance for the first couple of quarters. But what really scares me is that some of these companies have seen their market environment weaken so quickly that they don't feel comfortable giving the vaguest guidance for the second half of the year.

Take, for instance, a company that I wrote about a month ago, COPPER MOUNTAIN NETWORKS (CMTN), a leading DSL equipment provider. It sells equipment to companies that are in the business of selling DSL services to consumers and businesses. Most of its client companies had no problem in raising money through equity and debt offerings in 1998 and 1999. But the sudden shift of investor sentiment away from money-losing companies has caused many of those clients to pull back on orders. In announcing results for the December quarter, which met the reduced expectations COPPER MOUNTAIN gave on Jan. 5, Rick Gilbert, the company's president and chief executive officer, said, "We expect that our challenges will increase in 2001. We expect a substantial sequential decline in revenue in the first quarter of 2001. Unfortunately, because of these rapidly changing conditions, we have very limited visibility on our customers' future buying patterns at this time." Amazingly, the company guided analysts to expect revenue to come in at $8 million to $10 million for the first quarter of 2001, which will be down approximately 75% from the fourth quarter of 2000, as well as being 75% below previous guidance. (The shares of COPPER MOUNTAIN closed at $5.38 on Feb. 7, up from a 52-week low of $4.03 on Dec. 21.)



While the company gave the usual "long-term optimism about our business" sound bite on the call, investors should learn a lot from their experience with COPPER MOUNTAIN over the last several weeks.

1. Revenue guidance from fast-moving technology companies is based on a whole slew of factors that management simply can't control. These include economic conditions, interest rates and stock market volatility. Any or all of these can change dramatically at any time.

2. Analysts, who are both long and short on the stock, use this guidance as a base to figure out more specifically what they think the company can earn. If management cannot even give revenue guidance (let alone something more concrete like earnings guidance) six months out, it becomes a complete guessing game. Investors always assume a certain amount of risk, but they abhor complete guesses.

So what do investors do now? Certainly no investor should be involved with a company whose revenue declined almost 50% sequentially, without any idea of when the company will be able to turn the ship around.

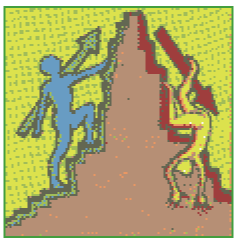
previous next

Run away from the stock and try to climb another mountain where the trail is more clearly marked. The credit crunch storm has created an avalanche on COPPER MOUNTAIN, making it impossible to navigate.

Aram Fuchs is the CEO of Fertilemind.net, an independent Internet equity research and consulting firm. At the time of publication, he did not have any interest in the securities mentioned in this article. Mr. Fuchs frequently buys and sells securities that are the subject of his articles, both before and after publication.

Recent Sell Reports:
February 6: Eating QUALCOMM Crow
January 30: Prodigy Communications : Is Prodigy Growing Into a Prodigy?

Upgrades & Downgrades



Problems At Genuity Pose A Problem For Verizon

By Emily Burg

VERIZON COMMUNICATIONS (VZ): On Feb. 2, analysts at Credit Suisse First Boston downgraded shares of this wireless communications provider to Buy from Strong Buy because of the company's "worrying" fourth quarter earnings report. (CS First Boston may participate or invest in financing transactions for VERIZON, perform services or solicit business from VERIZON and/or have a position or effect transactions in VERIZON shares or options.)

VERIZON reported fourth quarter EPS of $0.77. While in line with the firm's forecast, that number includes a 31% tax rate. This resulted in a non-recurring EPS boost of $0.06 that offset the company's EBITDA (earnings before interest, taxes, depreciation and amortization) results, which was 7.5% below the firm's expectations. Most troubling is decelerating revenue growth: Fourth quarter adjusted revenues were 6.9% higher year-over-year, but lower than the third quarter's 7.3% revenue growth figure. Concurrently, the analysts lowered their five-year EPS growth rate estimate to 12% from 14% to reflect their concerns over auction-related dilution and revenue disappointments at GENUITY (GENU), a VERIZON subsidiary. VERIZON shares closed at $53.15 on Feb. 8.

Although the analysts are confident VERIZON has some of the best assets in the industry, the lowest valuation of its RBOC (regional Bell operating carrier) peers and is worthy of an overweighted, defensive position in an RBOC/ILEC (independent local exchange carrier) portfolio, they are troubled by several issues dogging the company. As such, they feel VERIZON warrants a rating comparable to BELLSOUTH (BLS) and SBC COMMUNICATIONS (SBC), rather than a Strong Buy.

GENUITY (GENU): On Feb. 1, analysts at Credit Suisse First Boston downgraded shares of the Internet infrastructure provider to Hold from Buy, based on the company's disappointing fourth quarter earnings. Also, the firm does not anticipate any catalysts to drive the company's shares higher in the near term. (CS First Boston may participate or invest in financing transactions for GENUITY, perform services or solicit business from GENUITY and/or have a position or effect transactions in GENUITY shares or options.)

GENUITY reported adjusted revenues of $303 million for the fourth quarter, down from $308 million in the third quarter and well below the firm's estimate of $320 million. EBITDA loss was $207 million, versus the firm's expectations of $193 million. Additionally, the company lowered guidance for annual growth for 2001 to 40% from 55% to 65% and is forecasting an EBITDA loss of $650 million and a net income loss between $1.35 and $1.40 per share. CS First Boston analysts decreased their 2001 revenue forecast to $1.4 billion (which implies annual growth of 27%) from just under $1.8 billion, but they maintain their EBITDA loss estimate of $685 million. GENUITY shares closed at $3.78 on Feb. 8, but hit their 52-week low ($3.53) during trading on Feb. 9.

While the firm maintains its belief that the underlying fundamentals of the Internet infrastructure sector are sound, growth rates across the sector are negatively impacted by the dot-com meltdown and the slowing economy.

SAVVIS COMMUNICATIONS (SVVS): Analysts at CIBC World Markets downgraded shares of this data networking and Internet access provider on Feb. 5 to Hold from Buy, following news that Bridge Information Services, one of the company's largest clients, making up 80% of its revenue, has filed for Chapter 11 bankruptcy protection. The firm believes this will seriously complicate SAVVIS' effort to raise further financing. While they think SAVVIS has a solid, attractive business, they feel a Hold rating is more appropriate until its financing situation is clearer. (CIBC World Markets makes a market in the securities of SAVVIS and, within the last three years, managed or co-managed a public offering of securities for SAVVIS.)

Bridge has long been in trouble, and its current crisis is exacerbated by the refusal of Highland Capital (an 8% shareholder in Bridge) to participate in the financial recapitalization of the company that is being lead by private equity firm Welsh, Carson Anderson & Stowe (a major shareholder in both Bridge and SAVVIS).

In a worst-case scenario, if Bridge were to cease paying SAVVIS, the latter's capital requirements would rise about $4 million per month until the company's cash flow reaches break even, which is expected in late 2002. Should that happen, SAVVIS would need to raise upward of $250 million, greater than the $200 million the analysts think it already needs to raise. The shares of SAVVIS closed at $1.63 on Feb. 8, up from the 52-week low of $0.75 it hit on Dec. 20.

Recent Upgrades & Downgrades:
February 6: Ericsson Out of Handsets? Hooray!
January 30: Scientific Atlanta -Scientific Atlanta's Growing Pains

Executives Zero In

Comarco Wireless Technologies

Thomas Franza, President and Chief Executive Officer

Interviewed by George S. Mack

Have you ever had a problem with a call on your cell phone? Stupid question. That's why a wireless carrier needs a way to test its system. COMARCO WIRELESS TECHNOLOGIES (CMRO) fills that bill for companies that might have gremlins lurking around their networks. The Irvine, Calif.-based test-and-measurement company provides engineering products and services that help wireless carriers design, build and optimize the system. Engineers use the company's devices as they drive around the footprint of the network and make measurements to assure that the carrier is delivering the right service to its customers. COMARCO is also coming out with a new line of fixed devices that reside within the network and shoot data back to the carrier via the Internet when asked to do so. In addition, the company sells a retail charger for laptops, cell phones and personal digital assistants through a distributor. Although COMARCO's stock was down 12% last year, shares are up 22% so far this year to Feb. 7. The shares closed at $16.50 on Feb. 7.

[THE TELECOMM ANALYST—GEORGE S. MACK] Your test products are made to check a wireless carrier's last-mile solution, is that right?

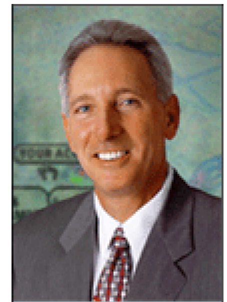
[Thomas Franza] Exactly right.

[GSM] When will your new stationary products be ready for sale?

[TF] They will be online starting early this year.

[GSM] What kind of revenue guidance have you given the Street?

[TF] We have publicly stated that we thought the fourth quarter (ending Jan. 31, 2001) would look pretty much like the third quarter — but maybe a little bit better. The third quarter was an absolute record quarter. The other guidance that exists for fiscal 2002 (ending Jan. 31, 2002) is that we would grow at approximately the industry rate (20% to 25%). So it would be easy to expect that we would grow to about $60 million on the top line (for fiscal 2002)..



Comarco
Thomas Franza

[GSM] Who are your competitors?

[TF] In Europe, our biggest competitor is a large Swiss company called Ascom. It makes similar kinds of products, and it does very well in Europe. In the United States and Asia, our biggest competitor today is Agilent Technologies (A), which has become much more active in this particular space recently.

[GSM] Who would be your competitors in the fixed network devices that you're soon coming out with?

[TF] The only one I know of today would be Acterna (ACTR). That company formed recently — just a year or two ago — through a large merger. ItIt's not very strong in wireless at this point, but it's trying to make its way into this space now.

[GSM] Do you manufacture your own products?

[TF] Yes, we do. We obviously outsource most of the subcomponents, but we do final assembly and testing internally. We are in the process of opening a small Malaysian facility for high volume, low cost manufacturing.

[GSM] You don't want to do any contract manufacturing?

[TF] We're not opposed to it philosophically, but one of the truths of contract manufacturing is that in order to get to the top tier CM companies — like Solectron (SLR) and Flextronics International (FLEX), where you get ultra-reliability and low cost performance — youu've got to have huge volume. At our size, we are down at the second or third tier of contract manufacturing, and some of the big benefits of doing it fade away, because those companies are not as adept in getting the job done. If we could attract a top-tier CM, we would do that.

[GSM] Tell me how you generate revenue.

[TF] We derive revenue in two ways. We actually sell our products, which include hardware and software. But more recently, there has been a strong trend in the wireless industry to outsource a lot of the network engineering to other companies. Carriers have been outsourcing to infrastructure companies like NORTEL NETWORKS (NT), Motorola (MOT), Ericsson (ERICY), etc. And they've also been outsourcing to other third-party companies. So more and more, we're deriving revenues by actually performing the services that our products could have delivered directly to the carriers.

[GSM] How big will services become for you?

[TF] I believe engineering services will probably become the biggest part of our company during the next few years in terms of revenue and profit contribution.

[GSM] In the third quarter, what percentage of your revenue would services have been?

[TF] It was relatively small in the third quarter — less than 10%..

[GSM] Are you trying to get services up to the 60% to 70% range? Is that where you're going with this?

[TF] Three years from now I could easily see us in the 50% to 60% range in service revenue. It's very high value-added, very specialized engineering services. Having the technical knowledge of what makes all these forms of wireless networks work is an essential ingredient. There aren't many companies that can properly deliver these engineering services, so they tend not to be commodities. Our big competitor in this area is a very successful company called Wireless Facilities (WFII). We're looking at that company and its success, and we're pretty well convinced that we'll be able to emulate what it has done — perhaps even more so. Wee're hoping we'll be able to take some market share from WIRELESS FACILITIES.

[GSM] Tom, in the third quarter, you increased your gross margin to 51% from 48% in the third quarter of last fiscal year. Is that where you want to be from now on, or can you do better?

[TF] It's mix dependent. But we've designed all our product businesses to produce at least a 50% gross margin and in most cases more than that. We believe that 50% is the low end of the range, and we think we will probably go as high as 55%. That's what we're internally targeting in all cases.

[GSM] I was thinking about your business and all the different standards your testing equipment must deal with — cellular, PCS, CDMA, TDMA, GSM and other types of networks. Certainly, this makes your life more complicated, but does it help you derive higher margins? I couldnn't figure our whether or not all of these different standards were a help or a drag on you.

[TF] Well, you've got it exactly right. On one hand, it's a curse because it creates an engineering load that sometimes seems extreme, but it's also a huge barrier to entry for other companies. It's probably the single biggest reason that we do have a competitive advantage, which is why the gross margins can remain so high.

[GSM] Back during the third quarter, you bought back 1.45 million shares of your stock. Was that before or after the stock split?

[TF] Actually, that buyback happened before the third quarter. We have been buying back the stock since the split as well. We haven't announced publicly how many shares we've bought back, but it's not in that size range. However, we have been active since the split just recently. We think the stock is really an attractive bargain. We have a very strong balance sheet, and when we believe the stock is undervalued, we're happy to invest our cash, buy back stock and give a tax-free dividend to our shareholders.

[GSM] Your business is very different from most that I see. You're highly specialized, and I'm wondering if there are acquisitions that might make sense for your organization.

[TF] Yes, in fact, as part of our move into engineering services, we did a small acquisition in the third quarter. EDX Engineering is a company that makes specialized software called propagation modeling software. It's a product that's necessary to help carriers' engineering systems, whether they are mobile wireless systems or even fixed wireless systems. We have our eye on some other targets as well that will help support our strategy as we go forward. If we can make a reasonable move that's consistent with our strategy, then we'll obviously move right to it.

[GSM] Tom, how big is this market?

[TF] For combined engineering services — test and measurement with both mobile and fixed wireless companies — itit's much larger than $1 billion dollars a year.

[GSM] How big can you get?

[TF] Well, the next quick increment we'd like to achieve would be $100 million in revenue, with a market cap in the $250 million range. Given the demand for engineering services, we think we can get there pretty quickly. That's the next short-term step. But, quite frankly, if I look at Wireless Facilities, which is in exactly the same space and a little bit more mature than we are, it is on a path this year to achieve $400 million in revenue. I think it is probably on the way to becoming a billion-dollar company. There's clearly a lot of headroom to become much larger. We think we can achieve several hundred million dollars in revenue per year in fairly short order.

Vital Statistics
Comarco (CMRO)

Market Cap:	$116.2 million	
Shares Outstanding:	7.042 million	
Recent Stock Price:	$16.50 (02/07/01)	
52-Week Range:	$33.66 to $12.75	
Price to Estimated (2001) Revenue: 2.4-times		
Price to Estimated (2002) Revenue: 1.9-times		
	EPS	**Revenue in millions**
Years end in January		
2000A:	$0.50	$39.22
2001E:	$0.73	$49.55
2002E:	$0.97	$61.00

Source: Red Chip Review

Recent Executive Zero In's:
February 6: Tvia - Jack Guedj, Ph.D., President
January 30: Electric Fuel: Yehuda Harats, President and Chief Executive Officer

Telecomm Insight

Function Follows Small Form.

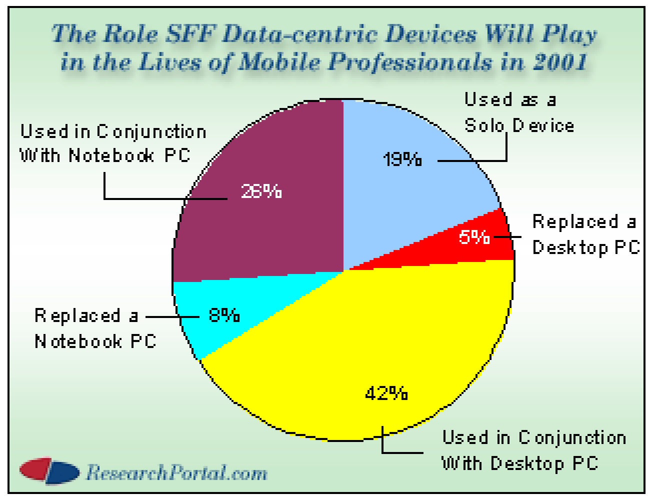
Handhelds are More Likely Than Ever to be Used in Conjunction with a Desktop PC

Mobile professionals of all types are scooping up small form factor devices, and the role that the data-centric SFF device will play in 2001 is showing signs of changing. Will they be used in a stand-alone capacity, or will it be used in conjunction with a desktop or notebook PC? Or will these SFF devices replace a desktop or notebook PC?

Below is a look at how current and future mobile professionals will use their SFF data-centric devices in 2001. (The categories listed are mutually exclusive.) Most mobile professionals — 42% — will use their SFF data-centric devices in conjunction with a PC in 2001, a 4% jump from 1999. This increase is most likely because of the greater availability of viable wireless and wireline connectivity back to corporate or personal data on PCs via LANs, or local area networks. A more complete look at how mobile professionals will use their SFF data-centric devices can be seen in the chart below.w.

The market for handheld devices is broken into two major camps, small form factor data-centric and SFF voice-centric devices. The SFF data-centric camp is made up of handhelds that are primarily used for data purposes. This category contains the popular palm-sized computing devices, as well as the RESEARCH IN MOTION (RIMM) interactive devices. The SFF voice-centric camp is made up of handhelds that are primarily used for voice communications, and include cellular phones and smartphones.

For additional information please click to visit ResearchPortal.com.



Recent Telecomm Insights:
February 6: Wireless Mobile Gaming: Here Comes Mario!
January 30: Linux Makes a Move in the SFF Device Market

The Analyst's Spotlight

Motorola

Jeff Schlesinger, Senior Wireless Technology Analyst, UBS Warburg

Interviewed by Taylor Smith

The Telecomm Analyst[SM] *recently spoke with Jeff Schlesinger, who covers wireless technology companies for UBS Warburg, about MOTOROLA (MOT). The firm's stock recently traded at $19.95, down 68% from its 52-week high in part because of an industry-wide slowdown in the telecommunications sector. The analyst holds no stock in the company, but UBS Warburg has done investment banking work for MOTOROLA.*

[THE TELECOMM ANALYST – TAYLOR SMITH] What has happened recently with MOTOROLA?

[JEFF SCHLESINGER] The company has been hurt by the slowdown in semiconductor sales and the weaker-than-expected performance of the mobile communications business. Additionally, MOTOROLA is currently dealing with internal issues, primarily with its handset and semiconductor businesses.

[TS] What type of internal issues is the company dealing with?

[JS] Essentially, MOTOROLA's management is trying to revamp these different businesses to deal with the changing semiconductor and telecommunications industries. The slowing market has exposed execution problems at MOTOROLA. The company's management came to the conclusion that it has to revamp the business plans for the semiconductor and handset divisions, considering everything from manufacturing to supply chain issues.

[TS] What is your take on management's plans?

[JS] I'm encouraged by the magnitude of the revamping and feel that it's the right response to the problem. But how successful this action will be remains to be seen. The only proof that it's working will be when MOTOROLA starts to ship products with the right cost structure.

[TS] What is your rating on MOTOROLA's stock?

[JS] I currently have a BUY rating on the stock. I see it as dirt cheap relative to the company's value. But the stock isn't going anywhere until the company shows some evidence that this restructuring is working.

Vital Statistics
Jeff Schlesinger
Senior Wireless Technology Analyst
UBS Warburg

Industry covered: Wireless technology

Companies covered: MOTOROLA (MOT), NOKIA (NOK) and ERICSSON (ERICY).

Recent Analyst's Spotlights:
February 6: Lightbridge: Peter Jacobson, Kaufman Brothers
January 30 Scientific-Atlanta : George Hunt, Wachovia Securities

Panning For Gold

XETA Technologies

Keep Hope Alive

By Marc H. Gerstein, Market Guide, Director of Investment Research

Since we started offering stock recommendations on the Market Guide Web site, our selections have posted an average share-price percent change that's lately been hovering around zero. But over comparable holding periods, the S&P 500 is down in the 3% to 4% range, and the Nasdaq index is down about 20%.

XETA TECHNOLOGIES (XETA) is a stock I profiled on Jan. 7, 2000. If you want to know how the shares have done since then, all you need to know is what industry they're in: communications equipment. Yes, you guessed it. XETA is not one of our winners. The shares closed at $10.63 on Feb. 8, 2001. This recommendation, based originally on XETA's appearance in our Accelerating EPS Growth screen, has been plagued by EPS progress that, although great by most standards, was less exciting than what was envisioned early last year, and by investor antipathy toward the communications sector.

One reason why our recommendations performed so much better, on average, than key market indexes despite some disappointments is that our screens pointed us toward good stocks. So far, XETA hasn't merited a place in this group. But there's another important factor: We're not inclined to bail out on what we believe are good companies merely because of early disappointments. Our patience proved well justified on numerous occasions. QUALCOMM (QCOM) is a notable telecom example. XETA, which now appears in our Growth At A Reasonable Price screen, hasn't yet rewarded our patience. But it does offer the characteristics we look for when deciding whether or not to stay on board.

The company achieved a dominant position within its traditional market -- supplying PBX (private branch exchange) systems for the lodging market. It's still an innovator within that field (case in point is its XPANDER product, which allows additional lines to work with existing PBX hardware). But even a year ago, management knew it would have to spread beyond the lodging market in order to attain brisk growth. So, helped by some acquisitions, it embarked on a plan to become a nationwide integrator of voice and data communications for the general commercial market.

Getting from here to there is not a simple task. XETA sees it as a three-part program. The first, which has been pretty much accomplished thanks to the acquisitions, was to establish a basic nationwide presence. Phase two entails offering complex (voice/data) convergence services, and phase three involves consulting services. On a more mundane level, we're talking about a lot of operational tasks, such as beefing up sales and service teams. There are three projects slated for this year that will collectively transform XETA's infrastructure.

Can XETA accomplish its tasks? Realistically, it's hard for non-engineers (i.e., most investors) to assess this issue. But that's also the case for just about all of the other technology companies that garner so much attention from investors.

There is no perfect way to address this. But we can, at least, look at what the company has done in the past and assume that management teams that have proven themselves capable in the past will get the job done in the future. This won't always be so. (That's why investors need to diversify.) But it worked out often enough to play a major role in the success, to date, of the overall portfolio of Market Guide recommendations.

XETA's numbers are obviously impacted by the recently heavy acquisition activity, which brought debt up to about half the company's capital. But profits, interest coverage and cash flows remain substantial. And the trailing 12-month returns on assets, investment and equity, although depressed by recent acquisitions (which aren't yet making optimal contributions to the bottom line), remain well above the industry, sector and S&P 500 averages.

Recent Panning For Gold:
February 6: Sycamore Networks-Sycamore Networks Unlikely To Fall Over
January 30: Sunrise Telecom: Sunrise Can Endure Near-Term Bumps

Top Picks

DC Buzz

On Mergers, the FCC Is Divided

by John Filar Atwood

One of the hot ongoing debates on Capitol Hill and at the FCC is whether the agency is abusing its authority by reviewing the competitive effects of pending mergers. As the size and stakes of the combinations have grown, so has the controversy.

Critics of the FCC, including its own Commissioner Harold Furchtgott-Roth, say that the agency is only supposed to consider the transfer of licenses. Judgments about market impact are beyond its authority, they claim.

Commissioner Gloria Tristani disagrees. With the makeup of the Commission changing at the hands of the new administration, she recently took the opportunity to reiterate her support of careful merger oversight by the agency.

The Commission is required to determine whether the transfer of licenses would be "in the public interest," she said, and courts have held that such an inquiry must include an analysis of the competitive impact on the relevant markets. "I don't deny or apologize for the notion that the FCC has a greater ability to affect carrier behavior in the context of a merger than it does otherwise," she added. "But I would say to those who contend that we are overstepping our authority that we have best served consumers by accepting, where appropriate, pro-competitive proposals agreed to by the merging carriers as conditions of merger approval."

Ms. Tristani believes that the agency can use merger conditions to establish effective oversight mechanisms, such as requiring the carrier to report detailed performance measurements and subjecting it to independent audits. She cited the recent example of SBC COMMUNICATIONS (SBC), which, in accordance with its merger obligations, submitted data showing a failure to meet established performance standards for three consecutive months. The company paid a monetary penalty in an amount that it had agreed to as a condition to the merger.

In her view, by setting a clear performance standard and the amount of the penalty before the merger, the FCC created an incentive for compliance and avoided a lengthy proceeding to determine the appropriate penalty. Ms. Tristani said that the agency's goal has been, and should continue to be, to ensure compliance with commitments designed to facilitate competition and benefit consumers.

New FCC Chairman Named

President Bush has named republican Commissioner Michael K. Powell, son of Secretary of State Colin Powell, as new FCC Chairman. Mr. Powell has been a member of the Commission since November 1997.

He replaces William Kennard, who will serve as a senior fellow of the Aspen Institute Communications and Society Program, advising on leadership, communications policy and program activities.

Mr. Powell has not stated what his policy agenda will be, according to an FCC spokesperson. However, in

previous next

a December speech to the Progress & Freedom Foundation, he suggested some steps the agency might take to develop an agenda that is more reflective of the broadband digital migration. He clearly favors a hands-off approach to regulation and believes that there needs to be greater reliance on competitive markets.

"We have to be careful to see speculative fear and uncertainty in this innovation-driven space for what it is and not prematurely conclude we are seeing a market failure that justifies regulatory intervention," he said. The agency should focus on providing innovation incentives, he added, and should inform its policies by taking the time to learn about innovation theory, economic incentives and other factors that drive the capital markets.

He also believes the regulatory process is too slow for Internet time. "We must strive to complete regulatory reviews expeditiously, particularly license transfer applications in the context of mergers," he said.

Chairman Powell may be joined by some new faces on the Commission. The seat vacated by Mr. Kennard is one of three for which President Bush will be able to submit nominees.

Commissioner Susan Ness's term expired in 1999, and she is currently serving by virtue of a recess appointment by former President Clinton. Mr. Clinton re-nominated Ms. Ness for a second term, but President Bush may supersede that nomination with his own.

In 2000, Mr. Furchtgott-Roth's term expired, so President Bush will need to fill that seat as well.

Mr. Powell and Mr. Furchtgott-Roth are the only Republicans on the Commission. FCC rules state that the five-member Commission may consist of no more than three commissioners from the same party.

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Rants, Raves & Stress

Telecomm Couch

Dealing with Difficult People in the Workplace

George McAuley, M.D. is a psychiatrist in private practice and a medical director of psychiatry in Los Angeles. Mae McAuley, Ph.D. is a clinical psychologist in private practice. The McAuleys work in all areas of psychology and have special expertise in stress disorders. If you have a telecom-psychological question, they will try to answer it in a subsequent issue. E-mail the McAuleys at mae-geomagic@aol.com.

All of us have had people in our lives whom we have labeled "difficult." There are those who don't do what you want them to do and those who do what you don't want them to do.

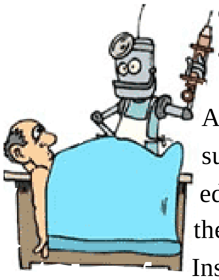
There are four types of employees you never want to come across: the paranoid; the psychopath; the borderline; and the passive-aggressive. They all can present themselves as bright, accomplished, productive and cooperative, but…

We're going to address the latter type because they're the most prevalent. We'll leave the others for future columns.

Passive-aggression is a feature of all the other three, but it is not predominant. There is an overlap of this behavior in all these personality types — it is sort of a spectrum complex — and any one can be more destructive to a corporation or an organization than the other. But generally, the passive-aggressive personality is also, relatively speaking, the most benign.n.

There is consensus in our workaday world that passive-aggressive people are difficult to work with, but not much is known about how to work with them.

We'll start by characterizing them so they become more identifiable. The essential feature is a pervasive pattern of negativistic attitudes, coupled with passive behaviors in social and work situations. These individuals habitually resent, oppose and resist demands to function at a level expected by others. This occurs frequently in work situations and can be very destructive to a corporation or organization. What makes it especially difficult is that the resistance is expressed by "forgetting," procrastinating



or "botching" the job, especially if it is assigned by a person in authority.

A good example would be a manager giving a subordinate a report that is due to be completed the following week. The day arrives and the subordinate has not finished the report. Instead of the employee pointing out in advance of that day that he has not completed the report or that he needs more time, he fabricates some excuse or loses or misplaces the report.

To add to the employer's frustration, these individuals feel cheated, unappreciated and misunderstood. They are blamers who usually bring down morale in the workplace (and at home too!) with their sullen, irritable, negativistic and cynical behavior. They grumble and mumble. It's common to hear such phrases from them as "It doesn't pay to work too hard," and "Good things don't last." Their attitude usually evokes negative and hostile responses from others.

However, underlying their defeatist attitude is a lack of self-confidence, which is hidden by their superficial bravado. Their lack of self-confidence contributes to their withholding and indecisiveness. This is particularly seen in work situations, where these people feel that their assertive responses would not be tolerated. Therefore, they usually do not actively engage in confrontation, but inside they are boiling cauldrons of simmering hostility that occasionally boil over. Perhaps you've been around these people who slam doors and drawers, and when asked "What's wrong?" they typically answer, "Nothing." Another person would ask, "Is everything all right?" and they answer, "Everything is fine."

These are passive-aggressive responses for what they really feel, which is frustrated, furious and insecure. The biggest gun in their armory of responses is silence. Silence is a tool that they have learned to keep their aggression under wraps.

Know anybody who fits this description?

SOLUTIONS:

1. Don't lose your temper with someone like this. You can count on losing. Silence is one of their important weapons. You need to remain calm, objective and relaxed in their presence. Remember that passive-aggressive behavior is immature, regressive and provocative.

2. Get them to set clear goals and limits. Nothing should be left unclear or vague. The best way to encourage them to set goals and commit to an end result is to ask questions that can't be answered with yes or no answers. We suggest that you use questions that begin with who, what, where, when and how. For example, "How do you want to proceed?" "Where shall we go from here?" These are called open-ended questions. Place the ball in their court.

3. Get commitments from them and have them write them down for you. Keep the ball in their court.

4. Don't make promises to them that you can't keep. Be upfront.

5. Praise their successes publicly. Criticize their failures privately.

6. As a last resort, impart negative consequences. Write them up; initiate a grievance procedure; go over their heads to a higher up. Dismissal is a final action.

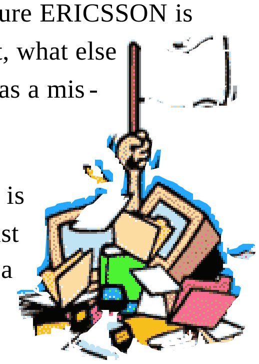
Good luck. This is going to take a lot of your talent and expertise.

Letters To the Editors

Ericsson Located Somewhere In Europe

Konstantine Sofer writes: I hate to be such a stickler for geographic accuracy, but the [the Feb. 6 Upgrades & Downgrades] reeks of geographic ignorance. ERICSSON (ERICY), let it be known, is a Swedish company, not a Finnish one, although Finland, to my recollection, has two official languages—Finnish and Swedish—and 6% of its population are ethnic Swedes. Still, the company in question is based in Stockholm.m.

Stng8035@aol.com writes: Are you sure ERICSSON is a Finnish company? And if you are not, what else in your reports is wrong? I hope this was a mistake...



Spiral1@aol.com writes: ERICSSON is a Swedish company, not Finnish — just like [GENERAL ELECTRIC (GE)] is a U.S. company, not Canadian.

Konstantine, Stng8035 and Spiral1: Thank you (and everyone else who wrote about this) for writing. You are, of course, correct, ERICSSON is a Swedish company (and GE is an American company). We'll try to be more careful in the future. — Paul DeMartino

Tharon Schraeder writes: Until Paul DeMartino experiences SPRINT PCS' (PCS) deplorable customer service he cannot know the frustration one feels in trying to resolve phone problems and service. Each time I dealt with the "customer service" department it was less than satisfactory. I am a premium user of their network. The third attempt with their ridiculous service was enough for me to drop them. When I called SPRINT to cancel my service, the SPRINT rep asked why I was canceling service. When I told her of the ridiculous customer service, nonprofessionalism, and lack of knowledge and authority to satisfy my problems appropriately, her reply was, "We have a lot of people disconnecting service for those very same reasons."

I know figures lie and liars figure but I would really be curious to know Sprint PCS' true churn rates.

Tharon: Thank you for writing. SPRINT PCS stated a churn rate of 2.8% in the fourth quarter of 2000. According to Credit Suisse First Boston industry review dated Feb. 9, that's a sequential decline of .2%. Its losses were constant from the third quarter. — P.D..

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