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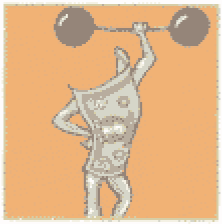
1. Strong Buys



Vodafone Airtouch Looks Good, Even in Pence

By Paul DeMartino

The Telecomm Analyst℠ *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 report.*

KEITHLY INSTRUMENTS (KEI): Pacific Growth Equities reiterated its STRONG BUY on the shares of KEITHLY INSTRUMENTS. The company manufactures precision testing equipment for telecommunications companies and other industries. The brokerage began covering KEITHLY in May, and is already raising its earnings estimates and target price, based on guidance from KEITHLY's management. Furthermore, KEITHLY's shares closed at $49.94 on June 9, 2000, effectively reaching Pacific Growth's original 12-month target price of $50 a share. The firm now projects earnings of $1.23 a share in 2000 and $1.72 a share in 2001. It set a new price target of $74 a share, which is an average of a price-to-earnings valuation, and a price-to-sales valuation. Pacific Growth, notes that this may prove to be conservative – the company's revenue is growing 40% a year, its gross margin is 60%, and its stock trades at a relatively reasonable 40-times 2000 estimated earnings.

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TTA's premier date: April 4, 2000

VODAFONE AIRTOUCH (VOD): Goldman Sachs reiterated its RECOMMENDED LIST rating on VODAFONE on June 6. Its target price is $69 for the American depositary receipts that trade on the New York Stock Exchange. The valuation stems from a discounted-cash-flow valuation, although the firm performed a sum-of-the-parts analysis to get another, slightly lower, valuation. Goldman's report was prompted by two developments. First, VODAFONE announced that it would sell its Orange wireless network to FRANCE TELECOM (FTE) for $40.9 billion in cash, stock and assumed debt. Second, VODAFONE got hammered in the recent tech downturn. The firm identifies one company-specific reason for the drop: the almost prohibitive cost of the licenses to offer third-generation (3G) wireless services. (Goldman Sachs suspects that the weakness in VODAFONE's stock price may have been exacerbated by investors trading out of VODAFONE and into the AT&T WIRELESS (AWE) initial public offering.) The brokerage believes that the sale of Orange will allow VODAFONE to pay down debt and to continue bidding aggressively for the 3G licenses in Europe. The company's improving cash flow picture has led to an attractive buying opportunity, in Goldman's view. The firm forecasts earnings of $0.48 a share in fiscal 2001, which ends in March, and $0.75 a share in fiscal 2002. VODFONE ADRs closed at $47.94 on June 9. Research on VODAFONE was accessed 501 times during the week of May 29 to June 4, and 33 new reports were contributed to

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Multex.com's database.

AT&T (T): On June 9, Credit Suisse First Boston reiterated its STRONG BUY on AT&T. The firm reacted to the FCC's conditional agreement to permit AT&T to merge with MEDIAONE GROUP (UMG). However, the FCC insisted that AT&T sell some assets. The commission wants AT&T to take one of three steps: sell MEDIAONE's interest in Time Warner Entertainment, owned jointly with TIME WARNER (TWX); divest other AT&T programming assets, including Liberty Media and Rainbow; or get rid of about 12% of its other cable interests. Assuming that AT&T agrees, the only obstacle to the merger is approval by TIME WARNER shareholders. Credit Suisse believes that AT&T and AMERICA ONLINE (AOL)-TIME WARNER will eventually agree to some kind of strategic alliance. Based on a sum-of-the-parts valuation, Credit Suisse believes that investors are getting AT&T's long-distance business at virtually no cost. The firm remains bullish on the telephone giant and forecasts earnings of $1.80 a share in 2000 and $1.95 a share in 2001. AT&T closed at $34.38 on June 9. Reports on AT&T were downloaded 1,843 times during the week of May 29 to June 4, and 55 new reports were added.

2. The Sell Report

This Bird Won't Fly

By Aram Fuchs

GLOBALSTAR TELECOMMUNICATIONS (GSTRF) operates a network of 48 low-earth-orbiting (LEO) satellites that offer full commercial wireless service in 38 countries, with plans to expand to 50 countries by the end of June 2000. After spending $1 billion on its network, the company successfully began service in this year's first quarter and customers have responded with a resounding "So what?" We think investors should be equally unimpressed.

Even with the release of the company's first-quarter results, investors have only a few numbers to work with. GLOBALSTAR booked $609,000 in revenue. Before interest, taxes, depreciation and amortization, the company lost $57.1 million. The net loss for the quarter was $216.1 million or $3.53 a share. Perhaps most discouraging, GLOBALSTAR logged only 550,000 billable minutes of usage. Salomon Smith Barney had been estimating 3.7 million billable minutes.

The company didn't release subscriber data. Salomon Smith Barney figures that if users averaged 160 minutes a month, GLOBALSTAR would have signed up only 1,150 subscribers. If average use is 80 minutes a month the subscriber count rises to 2,300. Whatever the real number was, it was low enough to lead Salomon Smith Barney to slash its estimate of year-end 2000 subscribers to 80,000 from 350,000. The brokerage also cut its 2000 revenue estimate to $21 million from $86 million.

GLOBALSTAR's shares closed at $8 on June 9, 2000, giving it a market capitalization of a whopping $775.3 million. Fertilemind.net thinks it will be downhill from here for GLOBALSTAR. The company simply won't be able to generate the revenue needed to cover the immense costs of operating a 48-satellite LEO network. IRIDIUM WORLD COMMUNICATIONS (IRIDQ), a company backed by MOTOROLA (MOT) that had a similar business plan, failed and is being liquidated. IRIDIUM tried to market satellite phone service in the developed world, but the ubiquity of cellular service makes a satellite phone unnecessary for most people in the first world. People in less developed countries, or people traveling to the third world are the only potential market for satellite phones. But, how many people in the third world can afford a $1,000 handset and at least $0.70 a minute in charges for calls?

Still, Bernard L. Schwartz, who is chairman and chief executive officer of both GLOBALSTAR and LORAL (LOR), which owns 42% of GLOBALSTAR, continues to believe that millions of people will be clamoring for this kind of phone network. He has been quoted as saying, "it's frustrating for me to try and describe the [satellite phone] market because it's like trying to describe gravity: even though you can't see it, it exists. You can feel it".

We think the disappointing subscriber growth reported in the first quarter of 2000 indicates that the market for these phones is much smaller than Mr. Schwartz believes. GLOBALSTAR either has to find a way to accelerate subscriber growth, or it must sell substantial amounts of equity in order to finance its large losses.

We don't think management will be able to increase subscribers dramatically, because of the cost advantage and widespread availability of cellular service. We also don't think they will be able to obtain equity at favorable rates because of the terrible fundamentals of the business. Even Schwartz has said that LORAL has no "emotional attachment" to GLOBALSTAR. We recommend that investors be equally cold-hearted. Breaking up is hard to do, but sometimes it's necessary.

Aram Fuchs is the CEO of www.Fertilemind.net, an independent Internet equity research 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.

3 . The D.C. Buzz

Liberty Bells? It's up to Congress

By John Filar Atwood

The telecommunications industry is sharply divided over HR 2420, a bill that would repeal restrictions on regional Bell operating companies' (RBOCs) ability to carry high-speed data traffic beyond the communities they serve.

The Telecommunications Act of 1996 currently prevents the Bells from providing broadband services outside the local area unless they meet a 14-point test designed to ensure that they have opened their markets to competition. BELL ATLANTIC (BEL) of New York is the only RBOC to have met the requirements so far.

The bill's supporters claim that the restrictions have hindered the development of broadband services in the United States. "The shortage of Internet backbone and high-speed local facilities persists, in part, because government restrictions impede investment in new backbone facilities," said Susan Molinari, co-chairperson of iAdvance, a group that advocates more and better Internet access.

She told the House Commerce Committee that the strict 1996 Act regulations have left three major providers, WORLDCOM (WCOM), SPRINT (FON) and CABLE AND WIRELESS (CWP), to dominate the data carrying business. "Perhaps because they control the market, these companies are not deploying Internet backbone to meet growing demand," she said.

Opponents of the proposed legislation say that it would give the Bells an unfair advantage. The bill "would give RBOCs that have not opened their local markets to competition the power to leverage their local monopoly to distort competition," said David Kunkel, vice chairman of PSINET (PSIX).

H. Russell Frisby, Jr., president of the Competitive Telecommunications Association, agreed with Mr. Kunkel, noting that "even with the 1996 Act's market-opening incentives in place, getting timely cooperation from the Bells is problematic." Mr. Kunkel urged the House Committee to let the forces of competition take care of broadband deployment. "The 1996 Act is working as Congress envisioned," he said.

Before hearing the testimony, Representative Thomas Bliley of Virginia said he felt the market was responding adequately to consumer demand for broadband. "Analysts project that over 13 million homes will be subscribing to DSL technologies by 2005, and that revenues will surpass $11 billion by then," he noted.

"As long as the rules of the road are fair and predictable, which they are today, I intend to simply watch and let consumers and the marketplace sort this one out," Mr. Bliley said.

4. Executives Zero In

SanDisk

Dr. Eli Harari, President and CEO

Interviewed by George S. Mack

Future generations will likely hear about the large disks, tapes and cumbersome camera film that had to be lugged around in the 20th century. SANDISK (SNDK) is in the business of developing memory chips that can replace all types of recording media in common use today. The Silicon Valley-based semiconductor company invented CompactFlash memory cards that have now become the de facto standard for digital cameras, and it co-invented MultiMediaCards that are widely used in MP3 portable players as well as other applications such as digital camcorders and PC cards. Rating SANDISK a STRONG BUY, analyst Dan Niles of Robertson Stephens says, "You have to ask yourself what's the potential size of the digital camera market, and what's the potential to replace film with flash memory storage." First quarter revenue from all sources was up 148% while earnings per share were up 200% over the same quarter in 1999. SANDISK has been profitable every quarter since the three quarters before going public in 1995.

[THE TELECOMM ANALYST – GEORGE S. MACK] What do you mean by the term flash memory?

[ELI HARARI] Flash memory is a form of semiconductor memory that is very similar to DRAM [dynamic random access memory] or SRAM [static random access memory], except that it is non-volatile, meaning that you don't need to provide a battery or any kind of power to maintain information written into memory. In that regard, it's completely different from DRAM or SRAM, which require power to be applied to the system at all times. You can write the information into the flash memory chip, and it remains there essentially forever. But you can re-record over it up to about a million times.

[GSM] Which companies are your competitors?

[EH] We are No. 1 in data store flash, and our main competitors are TOSHIBA (TOSBF) at No. 2; HITACHI (HIT), No. 3; and SAMSUNG ELECTRONICS (ASTA) at No. 4.

[GSM] You've got three main competitors, but your patent position earns royalty revenue when they sell a flash memory product.

[EH] Certainly, as far as our intellectual property – our patent position – goes, we do have a very strong position, and our competitors do have to license our technology. We have granted royalty-bearing licenses to TOSHIBA, HITACHI, SAMSUNG, INTEL (INTC) and SHARP (SHCAY) – the main competitors in our market.

[GSM] What percentage of your revenue will come from royalties this year and next?

[EH] Last quarter, it was a little more than $12 million on revenues of $109.4 million, so that would make it around 11%. We expect that ratio to remain more or less the same into the foreseeable future as we increase our product revenue.

[GSM] What is your relationship with SEAGATE TECHNOLOGY (SEG)? It has been involved with your company for a long time, but it has been divesting itself of your stock.

[EH] SEAGATE was a 25% owner of SANDISK in 1993, when it invested $30 million in the company, and had a seat on our board. SEAGATE resigned from the board about eight months ago, and it has been liquidating its ownership. To date, SEAGATE has less than 5% ownership left in SANDISK, and that company has disengaged completely from anything that we do.

[GSM] Has SEAGATE given a reason for this decision?

[EH] I can't speak for SEAGATE, but it has been involved in a privatization effort with partner VERITAS SOFTWARE (VRTS). So the decision to liquidate SANDISK has more to do with the financial relationship between SEAGATE and VERITAS. But I can say that SANDISK has been a fabulous investment for them.

[GSM] In addition to being a competitor, TOSHIBA is a partner in a joint venture with you.

[EH] Our agreement with TOSHIBA is very important and extremely strategic to both companies. We have agreed that the opportunity [in flash memory] is immense – so much so that both companies want to accelerate development and investment. We have felt that there are areas of cooperation, as well as areas of competition, that can benefit the market. We are cooperating in three areas.

[GSM] This sounds interesting. What are the areas?

[EH] The first area is product and technology development. We're talking about very high-density flash memory chips, which we – TOSHIBA's engineering team and ours – have agreed to jointly develop. This includes 512-megabit, one-gigabit and higher-density flash memory chips. When these chips are developed, they are going to be the most advanced of their kind in the world. They will enable new applications, for example, storage of video movies on a small number of chips.

[GSM] Another area?

[EH] The second area is manufacturing. It's very expensive to build a leading-edge wafer fab [manufacturing plant], and frankly, it's equally difficult to fill that fab. The agreement we have is that we will jointly fund new production capacity for flash memory, and we will share the output on a 50%-50% basis. We have formed a joint-venture company to facilitate that, and that company is called FlashVision.

[GSM] What else?

[EH] The third area of cooperation is in establishing industry standards. TOSHIBA and SANDISK, together with MATSUSHITA ELECTRIC INDUSTRIAL (MC), are promoting and developing the market for a new secure digital, or SD, card. Electronic commerce, as well as the distribution of high-value content such as music and movies, requires a very secure environment. Rather than develop separate standards, we have decided to develop a common standard.

[GSM] You were only able to meet 60% of demand for your product in the first quarter. Is this a good thing or a bad thing?

[EH] It's both. It's good, because it says that you have very good visibility of your business. In other words, you're booked up, and you can maintain more stable pricing. It's also bad, because if you're unable to meet the demand, then your competitors have a way to take some of that business from you.

[GSM] I'm noting that your gross margins grew dramatically from 27% in the fourth quarter of last year to 30% in the first quarter. How were you able to achieve that much improvement, and do you expect to similarly improve your margin this coming quarter?

[EH] You're right – it is a dramatic improvement. We're moving toward a more advanced technology, and it has a lower cost per megabyte. In the first quarter, we were successful in moving a big portion of our output from 128 megabit to 256 megabit. This uses a technology that we call D2 (double density) flash technology, which is extremely cost-effective. The second element of that gross margin improvement is that we were able to stabilize the average selling price of our product. Our comfort level is definitely in the 30% to 35% gross margin range.

[GSM] In the past, we've seen price pressures have a dramatic effect on the chip companies. Is this the biggest risk for SANDISK investors?

[EH] I think the market will be there for our products and, if anything, will expand dramatically. I don't really think it's a chip-pricing risk – except in periodic quarters where you may have a supply-demand imbalance. If we have a 30% market share today in a market that's, say, $1.5 billion total this year, and if we want to maintain a 30% market share when the market is $10 billion, we have to grow a substantial amount during the next several years. That requires highly focused management and execution. That's the biggest risk for investors.

Vital Statistics
SANDISK (SNDK)

Market Cap: $4.7B
Shares Outstanding: 66.53M
Recent Stock Price: $67.75 (6/8/00)
52-Week Price Range: $169.62 – $10.31
Price to estimated (2000) sales: 8.23x
Price to estimated (2000) earnings: 82x

EPS
1999A: $0.43
2000E: $0.89
2001E: $1.10

Revenue
1999A: $247M
2000E: $589.1M
2001E: $868.5M

5. Top Company Picks

Silent Running

By Pimm Fox

Researching PRIMUS TELECOMMUNICATIONS (PRTL) is like watching one of those wartime submarine movies – above the water line, everything is calm and uninhabited. But just below the surface is a world teeming with activity – men on a mission.

PRIMUS is a facilities-based provider of voice, data, wireless and Internet service. (Facilities-based means that PRIMUS owns most of the hardware it needs to provide its services.) The company serves 2.1 million customers in the United States, Canada, Australia and the United Kingdom, and plans to move into France and Germany. PRIMUS has focused on the retail business, as opposed to the wholesale transmission business. The company targets the small-to-medium enterprise (SME) market, which generally means companies with less than 500 employees. Its 200-city network that spans 29 countries is on schedule to be completed by the end of 2000. PRIMUS will offer voice-over-Internet-protocol (VOIP) and hopes to leverage this service with existing customers.

What's drawing most of the attention from analysts currently is the company's data strategy. PRIMUS is busy snapping up small Internet service providers around the world to add to its existing portfolio. In March 2000, the company, which already owns significant ISPs in Australia, Canada and Brazil, bought Shore.Net, an ISP and with data facilities in the Boston area. PRIMUS said it hopes to use the acquisition to accelerate its drive to launch its application-service provider (ASP) and e-commerce business in the U.S. In May, PRIMUS bought InterNeXt, a privately held facilities-based ISP in France that caters to the business market. A few days earlier PRIMUS had announced a deal to with a Puerto Rican ISP giving the company a foothold in that market.

As part of its data strategy, PRIMUS will build four or five data centers around the world, the first of which is set to open in London at the end of June 2000. The centers, part of the company's iPrimus data division, will offer e-commerce, Web-hosting and Internet service to the SME market. HEWLETT-PACKARD (HWP) has invested $50 million in the data-center project through a convertible debt arrangement and the centers will use HP technology. By choosing to build smaller centers – 10,000 square feet – PRIMUS is hoping to open them quickly to exploit a first-mover advantage. With the money from HEWLETT-PACKARD, PRIMUS intends to push further into Western Europe, Australia, Japan and Brazil.

Through reselling and packaging PRIMUS easily scales wider Internet services. CRITICAL PATH (CPTH) will offer e-mail services for the PRIMUS applications portal, which is aimed at its residential customers in the U.S. The portal will also include free Internet access provided by 1stUp.com, majority-owned by CGMI (CGMI), and free Internet fax capability from JFAX.COM (JFAX). PRIMUS made a $15 million investment in PILOT NETWORK SERVICES, which will provide Internet security technology for the PRIMUS global network.

PRIMUS hasn't ignored its bread-and-butter telecom business either. In February it acquired closely held LCR Telecom, which brought 10,000 SME customers. For the first quarter, PRIMUS reported that revenue more than doubled to $288.0 million. The company reported earnings before interest taxes, depreciation and amortization of $1.3 million reversing an EBITDA-basis loss of $2.7 million in the 1999 quarter. The company lost $1.14 a share in the first quarter. PRIMUS derived less than 27% of its revenue from the highly competitive wholesale telecommunications transmission market in the latest quarter, down from 43% a year earlier. In addition, PRIMUS carried 42% of its traffic on its own network. So-called on-net traffic is an important margin-enhancing tool for telecom companies and in early 1999, PRIMUS's on-net traffic was a little more than 30%.

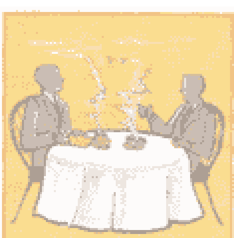
The company's stock got as high as $51.75 in the heady days of March 1999, but it has retreated – along with the rest of the telecom sector – closing at $29.25 on June 9. PRIMUS enjoys a consensus STRONG BUY rating from the six analysts who follow it. Their second-quarter earnings forecast calls for a loss of $1.32 a share. For the full year analysts see a loss of $5.02 a share.

PRIMUS also earns praise from analysts because of its management. Chairman and co-founder Paul K. Singh founded Overseas Telecommunications Inc., a privately held digital network catering to businesses that was acquired by MCI in 1991. Most of the senior executives at PRIMUS have been together since their days at OTI and MCI.

One interesting note: before OTI, Mr. Singh founded Cygnus Satellite, one of the first companies to get a license to launch telecommunications satellites that would compete with INTELSAT, the global cooperative with a monopoly on satellite communications. Cygnus was bought by PANAMSAT (SPOT).

Now, let's see … Cygnus was bought by PANAMSAT. OTI was picked up by MCI, which was in turn acquired by WORLDCOM (WCOM). PRIMUS may be trying to slip through global telecom waters undetected, but with the kind of running speed it has achieved and the kind wake it's kicking up, someone has got to notice.

6. Keyson's Hot Lunch



Part II: Optical Realities

Doug Fairclough, Founder and Chief Investment Strategist of ClearStation

Interviewed by Lauren Keyson

From my office in New York, I continued to speak with Doug Fairclough, who was working out of his home in Marin county near San Francisco.

[LAUREN KEYSON] I noticed in your most recent reports you talked about AETHER SYSTEMS (AETH). Would you consider them telecom? They're a wireless company.

[DOUG FAIRCLOUGH] They are in the wireless space, and I would definitely put wireless in a different category.

There are some telecoms that look good like ADC TELECOMMUNICATIONS (ADCT). The company is seeing its earnings estimates increase. It's an example of a company in the telecom space that is still able to grow in this environment. Similarly, in the optics space, some companies are pre-announcing upside earnings and revenue numbers, which are helping those stocks hold up. In general, the telecom and infrastructure companies have held up well. We've seen a 25% to 30% decline in stock prices. To this point in the correction, telecoms – particularly optics – have outperformed the Nasdaq composite. That indicates that people are still fairly bullish about the prospects for these companies. CISCO SYSTEMS (CSCO) said that it is very optimistic about the future. The company has never been as optimistic as they are right now.

[LK] You were talking about the optic companies. Can you give us your definition of those companies?

[DF] Fiber optics is being used as the physical transport mechanism for the infrastructure that's being laid down to connect people to the Internet. There is still a lot of potential growth for optics companies like SDL INC. (SDLI) and JDS UNIPHASE (JDSU). These companies supply the gear to CISCO and to NORTEL NETWORKS (NT) that goes in the routers and equipment that transfer the data. It's almost the way semiconductor companies provide chips for PCs.

[LK] You really like these optical-infrastructure plays right now?

{DF] Yes. I think that SDL and JDS UNIPHASE are good. There are a few companies like SYCAMORE NETWORKS (SCMR), REDBACK NETWORKS (RBAK), and JUNIPER NETWORKS (JNPR) that have P/Es between 200 and 500 looking at next year, and that just seems excessive. The valuations are still high even though, in some cases, the stock prices have been cut in half. JUNIPER is trading at around $225, and is forecast to earn $0.25 next year. That's a P/E of 900, and they compete with CISCO for high-end routers. JUNIPER actually has an edge because their product is on the market, but are they growing eight times as fast as CISCO? The answer is no.

Valuation is still an issue in the market. Take AETHER, where, best-case, the company pulls in $30 million this year. It will lose $6 to $7 a share and it's a $5 billion company. That suggests that the market itself isn't out of the woods yet. Bear markets are usually long, because it takes a long time to work these valuation issues out. The stocks come down and people think, wow its down 50% from the high. That's because the stocks were coming off highs that were just ludicrous. Even at the marked-down level, some of the valuations still look ludicrous. RED HAT (RHAT) was a $150 stock and now it's a $20 stock. It still looks like the price could be cut in half. So there are just as many opportunities on the short side as there are on the long side.

[LK] What do you think about wireless Internet services like NEXTEL (NXTL)? How are they doing?

[DF] They have their own wireless network. WORLDCOM (WCOM) was going to buy them, but they pulled out within an hour of having the deal signed and done because they thought there were some capacity issues with NEXTEL's network. So

WORLDCOM went with SPRINT (FON), which has network that could definitely handle the millions of customers that WORLDCOM wants to put on a wireless network.

NEXTEL is just surviving alone as a wireless company with their own services. It might survive, but I think it's vulnerable in the long run as all these other companies start adding infrastructure to their own networks. NEXTEL seems limited in how much business it can garner from big corporate customers. WORLDCOM, if it gets SPRINT, can walk in and tell corporations, "We can give you everything." That puts WORLDCOM in a much better competitive position, which is why they're paying $115 billion for SPRINT. WORLDCOM is probably going to have to spin off a lot of business to get the deal approved by the Department of Justice. People are worrying about WORLDCOM having too much of the market in long distance, but long distance is only a nickel a minute and it's under attack from wireless and the Internet.

[LK] What about some of the companies that are in the news? What do you think about NOKIA (NOK)?

[DF] The company looks great. Its stock has been flat, but I think NOKIA is in an excellent position. It's kind of like a CISCO of the wireless space.

{LK] What about VODAFONE AIRTOUCH (VOD)?

[DF] It's more of a SPRINT. VODAFONE is the dominant player over in Europe, so I think it's also in good shape. Most companies that have a dominant market position in a growing market like wireless or phones should do well.

It might be appropriate to mention that some of the component suppliers to telecom equipment manufacturers offer solid opportunities. It's where the growth in telecom equipment manufacturing is. Especially in optics. That's the gear that the SPRINTs and the WORLDCOMs and the AT&Ts are buying to build out their networks. People should be aware of the optics component suppliers as a telecom play. SDL makes optic components and chips that allow the transmission of data over optical wires.

[LK] Do you have a BUY on SDL right now?

[DF] Yes, fiber-optic companies are good buys. Another one is CORNING (GLW). They supply the cable, the optics glass, through which the data travels. I think the company is another excellent telecom growth play.

And if you want a diversified telecommunications portfolio, some of the Baby Bells should be in there. BELL ATLANTIC (BEL) is one. The company has the best-of-class wireless network, so I think it's a good play in wireless. The same goes for SBC COMMUNICATIONS (SBC). It's putting together a broader array of services, including wireless and DSL.

[LK] It's interesting because not a lot of people want to put their money into Baby Bells right now.

[DF] You should have something in your portfolio to temper some of the risk. I would put a Baby Bell in there before putting AT&T or a cable company in there.

Cable has been extremely slow to provide reliable Internet services to the home. Telephone over cable, like AT&T is planning, is also going excruciatingly slow. It's also very costly because you have to have all this specialized gear in your home. People also complain about static over the cable lines. A filter in the cable box may be able to reduce static when you're watching television. But on a phone call, people won't accept static. They're used to SPRINT – you know the pin drop – that's the expectation for phone service. Can AT&T do that over cable? I don't think so.

And the rollout is moving so slowly. AT&T made projections a year ago on the number of homes they would service for voice. The numbers coming in are way below those projections. Furthermore, they're getting crunched on long distance. WORLDCOM is a much more diversified company, in that they have an Internet backbone, and it's looking to get wireless from SPRINT. I would say if the SPRINT deal goes through, you want to buy WORLDCOM, especially at these levels. The company doesn't have the baggage of trying to do things with cable.

Baby Bells, on the other hand, are growing their DSL markets rapidly. I think the market share of DSL going into the home is going to grow and provide stiff competition for cable. That's why you want to own a Baby Bell. Pacific Bell's DSL service rules out here. Tons of people have it. You don't have to add any equipment. They put in a jack with a line that goes to your PC and a line that goes to your phone and you're done. It's seamless, whereas doing it with cable is a nightmare.

That's why I'm more bullish on the Baby Bells and more bearish on AT&T. The Baby Bells have been able to provide Internet connectivity to homes much more effectively than the cable companies. If you look at EXCITE@HOME (ATHM) and how that stock is doing, you get an indication that cable into the home to provide Internet connectivity just doesn't seem to be flying. AT&T made a huge bet on that. They invested hundreds of billions in cable companies. I 'd almost view AT&T as a short, as a way to hedge the rest of your telecom portfolio.

[LK] How do you feel about LUCENT (LU)?

[DF] In terms of their stock price, LUCENT has been on the fence. It took a hit because the company hasn't been able to make the transition quickly enough to supply a broad array of optical gear. NORTEL has been able to take market share away from LUCENT because they have a broader array of optical equipment. That's why I mentioned SDLI and JDSU, which are optical-component suppliers. You almost don't have to care if NORTEL crushes LUCENT or LUCENT crushes NORTEL. The optical-equipment makers are insulated from that because they're just supplying weapons for the war. No matter who wins, they're going to be supplying gear to these companies. It's a good way to play telecom. You don't have to worry about who's going to win; you just have to bet that the overall market is going to grow.

[LK] My last company is QUALCOMM (QCOM).

[DF] I'm bearish on QUALCOMM.

[LK] You are?

[DF] I think CDMA (code-division multiple access) is over-hyped. I think GSM (global system for mobile communications) or TDMA (time-division multiple access), which have 80% of the market, are going to be the winners. There will be a role for QUALCOMM, but if you look toward next generation solutions for transporting data over wireless at high speeds, TDMA is much further along. QUALCOMM isn't participating in many of the industry consortiums that are laying out the standards for the next generation of gear. They're just saying take our CDMA solution or not. It's not really interoperable with other systems. GSM and TDMA are laying out new standards within which they will interoperate with each other. That's a big segment of the market in Europe, and it's also what AT&T is using as their protocol for their large wireless network. That's the best thing about AT&T, their wireless property. But they spun that off.

[LK] People say telecom is not great right now, but it will be in a year so. If you buy now and hang on, you'll do well. Do you agree with that?

[DF] Yes. I think telecom is a good buy-and-hold strategy. I think that's the lens you need to have here if you're buying anything: To buy and hold no matter what happens to the Nasdaq or the economy. That said, I don't think it's time to back up the truck. You can wait and pick your spot.

[LK] One last thing, if someone wants to buy one telecom stock, what would be your No. 1 recommendation?

[DF] I'm more favorable to companies lower down on the chain, from the companies like NORTEL that supply the gear, to the companies like SDL that make components that go into that equipment. But I would have to say WORLDCOM, because I think they have the best, diversified mix of products. A caveat here is that WORLDCOM must somehow pull off the SPRINT merger.

[LK] You think technically and fundamentally WORLDCOM looks good?

[DF] It's more fundamental. If you look at any of these stocks technically, the charts are going to tell you to wait. Fundamentally, I would have to say WORLDCOM. Although, again, I would probably not bite in real life. I would rather buy the equipment manufacturers and the optics components plays, like CORNING or SDL. I think investors really should consider those over the Baby Bells, over AT&T and over WORLDCOM.

7. Telecomm Index 150 Focus

France Telecom

Buying an Expensive Orange

By Emily Burg

FRANCE TELECOM (FTE) finally got its hands on Orange, the United Kingdom's third-largest mobile-phone company. Now the question is, did the French telecommunications giant pay too much. FRANCE TELECOM will shell out $40.9 billion to buy Orange from VODAFONE AIRTOUCH (VOD), in a complex deal that involves cash, stock and assumed debt. In addition, FRANCE TELECOM will be faced with the $6.2-billion tab for Orange's recently acquired license to offer third-generation (3G) wireless services in the U.K. Including the 3G license, the deal works out to about $7,300 for each current Orange subscriber, on a proportional basis. (Amounts have been translated from British pounds at the current exchange rate.)

FRANCE TELECOM plans to combine Orange with its other wireless businesses to create a mobile-phone group dubbed New Orange. FRANCE TELECOM plans to sell part of New Orange in an initial public offering late this year or early in 2001, and will list the shares on the Paris, London and New York stock exchanges.

New Orange, with around 20.2 million subscribers, will be Europe's second-largest wireless company, trailing only VODAFONE, which has 39.1 million customers. New Orange will operate in 16 countries, and expects to have 30 million subscribers by year-end. However, to be seen as a success, New Orange must bid successfully for licenses at universal mobile telecommunications system (UMTS) auctions for 3G services elsewhere in Europe – especially Germany. FRANCE TELECOM must have a 3G presence in the important German market in order to reinvent itself as a serious player in wireless.

That success has proved elusive in the past. FRANCE TELECOM has stood on the sidelines while a frenzy of consolidation and alliance making rocked the European telecommunications sector. In November 1999, it lost the bidding war for E-Plus, Germany's third-largest mobile company, to KPN (KPN), the Netherlands incumbent. Earlier this year, FRANCE TELECOM's Global One alliance ended when its partners, DEUTSCHE TELEKOM (DT) and SPRINT (FON), pursued other deals. FRANCE TELECOM has made a respectable showing on its home turf, but an international strategy is crucial in today's global marketplace.

FRANCE TELECOM's stakes in British cable and telecom company NTL (NTLI) and German mobile company MOBILCOM (MOBG) have done little to convince investors that FRANCE TELECOM has what it takes to be a 21st century company. Even though the company's keen desire to buy Orange was obvious from the start – it even negotiated a 15-day period during which it had the exclusive right to negotiate a purchase of Orange – many analysts weren't convinced that it could close the deal.

In fact, Hans Snook, Orange's chief executive, gave the investment community scant reason to believe that the purchase would happen. A few days before the acquisition was announced, the colorful CEO said that he would leave Orange if FRANCE TELECOM acquired it. On the other hand, Mr. Snook had nothing but nice things to say about Finnish telecom SONERA (SNRA) and KPN. As it happens, Orange is a part of an alliance with SONERA and TELEFONICA (TEF) of Spain that will bid for a UMTS license in Germany. FRANCE TELECOM had intended to partner with MOBILCOM, in which it holds a 28.5% stake, to make its German UMTS bid.

Mr. Snook started Orange in 1994 with backing from Hong Kong billionaire Li Ka-shing and turned it into one of the telecom success stories of the 1990s. FRANCE TELECOM is clearly betting that Mr. Snook can continue his winning ways at the enlarged New Orange.

Vital Statistics
FRANCE TELECOM (FTE)

Recent stock price: $151.94 on 6/8
52-Week Range: $209.94 – $67.00
Market capitalization: $155.7 billion
Shares outstanding: 1.02 billion

8. Analyst Spotlight

Phone.com

Ted Jackson, Senior Equity Analyst, Telecommunications, U.S. Bancorp Piper Jaffray

Interviewed by Deborah Satter

The Telecomm AnalystSM *recently spoke with Ted Jackson, telecommunications analyst for U.S. Bancorp Piper Jaffray. Mr. Jackson gives PHONE.COM (PHCM) a STRONG BUY rating. U.S. Bancorp Piper Jaffray was involved in PHCM's initial public offering and a secondary offering, and Mr. Jackson owns PHONE.COM stock.*

[THE TELECOMM ANALYST – DEBORAH SATTER] What does PHONE.COM do?

[TED JACKSON] It makes software infrastructure and applications for wireless Internet. It makes software that people use to access the Internet via wireless handsets.

[DS] What is PHONE.COM's position in the market?

[TJ] PHONE.COM has defined the market so far. It has relationships with more than 50 wireless carriers, through 30 signed commercial agreements that represent more than half the worldwide subscriber market. It holds about 70% of the market.

[DS] What companies are PHONE.COM's main competitors?

[TJ] NOKIA (NOK), ERICSSON (ERICY) and MOTOROLA (MOT) are PHONE.COM's main competition in the infrastructure market. It is up against COMVERSE TECHNOLOGY (CMVT), INFOSPACE.COM (INSP) and ORACLE (ORCL) at the market level.

[DS] What is your rating on this stock?

[TJ] I have a STRONG BUY rating, with a 12-month price target of $120. My revenue estimate for this fiscal year, ending in June, is $65.2 million. For 2001, revenue should rise to $170 million and then to $360 million to $370 million in 2002. I anticipate a loss per share of $0.59 in 2001. I believe 2002 would be the first time PHONE.COM would be profitable for the entire fiscal year.

[DS] What can we expect from PHONE.COM in the future?

[TJ] Today, there are more wireless handsets than PCs. By 2002, there will be more than a billion wireless subscribers. PHONE.COM should grow tremendously in this environment. It has the advantage of being first into the market and has solid relationships with carriers.

Vital Statistics
Ted Jackson, Senior Equity Analyst,
U.S. Bancorp Piper Jaffray

Industries covered: Telecommunications

Education: BA in history from Tulane; MBA University of Missouri at St. Louis

Companies Covered: CLARENT (CLRN), COMVERSE TECHNOLOGY (CMVT) , SOFTWARE.COM (SWCM), AUDIOCODES (AUDC), NATURAL MICROSYSTEMS (NMSS).

9. Insider Trading Alert

Insiders Are Selling as Prices Fall

By Adelina Coppage
www.insiderSCORES.com

Last year, as many telecom stocks soared, some industry insiders took profits while their companies' shares were trading at record highs. We are still seeing insider selling, even though many telecom stocks have declined significantly from their highs.

LUCENT TECHNOLOGIES (LU) is one such example. After extensive selling in November 1999 (when the stock was trading near its record high), LUCENT executives have been unloading shares again. Now, however, LUCENT shares are well below their December high of $84.19. On April 26 and 27, three company insiders sold a total of 384,870 shares at prices ranging from $63.86 to $64.24 a share. The sellers were: Donald Peterson, chief executive officer of LUCENT's enterprise networks division, 244,870 shares; Richard Rawson, general counsel, 100,000 shares; and James Lusk, an officer, 40,000 shares. At the time of the sales, LUCENT shares had rebounded after trading near their 52-week low. The stock closed at $62.88 on June 8, 2000.

Company insiders at EXODUS COMMUNICATIONS (EXDS) sold again in April, after having been big sellers in February. Between April 25 and 28, three insiders sold a total of 94,800 shares at prices ranging from $73.75 to $85.97 a share. The sellers were: Adam Wegner, general counsel; Peter Howley, a former director; and Sam S. Mohamad, executive vice president for worldwide sales. The sales were made even though EXODUS shares had fallen by half from their record high of $179.63 on March 23, 2000. EXODUS closed at 94.50 on June 8.

NET2PHONE (NTOP) insiders sold in April while the stock was trading more than 40% below its high of $92.63 reached on Sept. 1, 1999. Four executives sold a combined 228,727 shares between April 4 and 14, at $45.00 to $55.50 a share. The sellers included Jonathan Fram, president, who unloaded 171,733 shares, his largest sale on record. Clifford Sobel, chairman, sold 50,000 shares. NET2PHONE closed on June 8 at $35.38.

At VIATEL (VYTL), Francis Mount, chief technology officer and Ellen Rudin, a senior vice president, were sellers after VIATEL shares had fallen 40% since hitting a record high of $75.38 on March 7, 2000. The two executives sold combined 10,800 shares at $42.94 to $43.06 a share. After the sales, VIATEL stock dropped to a 52-week low of $18.56. It has since rebounded, closing at $29.75 on June 8.

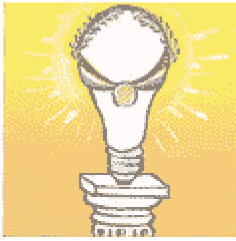
Insider selling that follows a significant downturn in a company's stock price is often construed as a cautionary signal, indicating possible lack of confidence on the part of company insiders. The selling is especially interesting when the stock continues to fall after the insider selling. With the recent market volatility, many investors are doing additional research before deciding where to park their capital. Insider trading analysis can play an important role by providing an indication of insider sentiment regarding a company's prospects.

For the complete version of The Telecomm Analyst Magazine℠, *visit our website at:*

http://www.telecommanalyst.com/000613.asp

You'll find the Telecom Universe link, Top Report Lists and other links. Enjoy!

10. Best & Brightest: Numbers



Qualcomm

A Case of the Asian Flu

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

It seems like only yesterday that QUALCOMM (QCOM), which makes equipment and earns licensing fees based on its proprietary CDMA (code-division multiple access) wireless standard, was the poster child for the new economy's wild stock market rally. Toward the end of 1999, the stock performed so spectacularly that it made investors out of those who didn't even understand the company's business. The first half of 2000 has been less kind to the stock, which became a symbol of excessive Nasdaq valuations and well-deserved corrections.

With all the attention focused, for better or worse, on the stock's roller coaster ride, it's easy to lose sight of the fact that this is a financially strong company that scores well in terms of growth, return on equity, operating margin, and employee productivity. Meanwhile, the stock's recent tumble brought the PEG ratio to about 2.00, based on a P/E using estimated fiscal 2001 earnings. That's definitely not a bargain, but it's reasonable compared with PEG ratios of other marquee new-economy companies.

But before pouring your life savings into QUALCOMM, you need to consider that Wall Street has lately wrestling with two fundamental concerns that amount to a case of Asian flu for the company. In Korea, the government terminated subsidies for cell phone handsets. With service providers no longer able to absorb the cost of phones, consumers, facing higher costs, may be less likely to upgrade. New accounts aren't much of an issue in Korea, since the market is already heavily penetrated. China disappointed many QUALCOMM bulls by deciding not to adopt the CDMA standard right now.

Analysts claim to have factored these events into their forecasts, and therefore, QUALCOMM may meet the Street's current expectations. But it's hard to reliably quantify things like this, so investors have to be alert to the possibility of a negative earnings surprise in the near future.

It's never fun to have the flu; in fact, it feels downright awful. But however bad the flu may be, generally healthy people cope with it, get passed it, and after a short time, it's like the flu never happened. QUALCOMM's Asian flu scenario may chart a similar course.

QUALCOMM's CDMA standard is clearly superior to rivals TDMA (time-division multiple access, used in the U.S.) and GSM (global system for mobile communication, used in Europe). CDMA uses the communication spectrum more efficiently than either of the alternative standards. After having progressed from analog to digital, wireless is now edging into the third generation (3G) that will prominently feature Internet data transmission. Unless some bold new technology suddenly appears, it seems like 3G will amount to a high-bandwidth version of CDMA.

That means when 3G is entrenched, QUALCOMM will be getting royalties from pretty much everyone, as opposed to only getting some of the pie in 2G wireless. It also means that later, if not sooner, Korean consumers and Chinese service providers are going to have to get on the CDMA bandwagon. Correction: Maybe they'll sit back and let wireless Internet technology go forward without their involvement and permanently avoid CDMA. And maybe we'll all go back to black-and-white TV.

11. Wireless Dispatch

Texas Instruments

DSP Chips Fuel Fast Growth

By Randy Myers

It's been a long time since TEXAS INSTRUMENTS (TXN) was a sexy stock. Now TI is back, thanks to exploding demand for the programmable DSP (digital-signal processing) chips that it makes for use in cellular telephones and other cutting-edge applications.

Over the 17 months ended May 31, 2000, TI's stock rose 237.5%. By comparison, shares of industry giant INTEL (INTC) gained 110.3%. And despite the wholesale slaughter in technology stocks during the second quarter of this year, TI shares which closed on June 8 at $81.75 are still much closer to their 52-week high of $99.78 than their 52-week low of $29.16.

TEXAS INTSTRUMENTS holds approximately 60% of the DSP market for wireless handsets, according to Forward Concepts, a market research firm based in Tempe, Ariz. It also produces DSP chips for use in other wireless, networking, industrial and telecom applications. Forward Concepts projects that total shipments of programmable DSP chips will be up 40% this year, compared with a growth rate just over 20% for the overall semiconductor market.

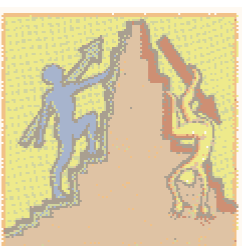
"Even our 40% estimate may prove conservative," notes Will Strauss, president of Forward Concepts. "We'll do a midyear check after the semiconductor companies report their second-quarter results, and the figure might be even higher," he continues. One strong indicator: TI reported that first quarter DSP revenues were up 50% year-over-year and 2% quarter-to-quarter, breaking the historical seasonal pattern of first-quarter revenue declines.

One of the reasons for the growth in DSP sales is the surprising rate at which wireless subscribers are replacing existing handsets with newer, smaller, and better-featured models. Until recently, Forward Concepts figured that the replacement market accounted for 10% to 15% of the total handset market; it concluded last month that replacement sales actually account for about half of total sales. Now the firm estimates that by 2003, the replacement market will account for 65% of cellular handset shipments.

In riding this wave of growth, TI has exceeded Wall Street's earnings expectations in each of the past five quarters. Analysts tracked by Multex.com's database expect the company to earn $0.30 a share in the second quarter, up from $0.23 a share before extraordinary items a year earlier. For all of 2000 the consensus forecast calls for earnings of $1.23 a share, up from $0.92 a share before extraordinary charges in 1999. The consensus rating of the 27 analysts who follow the company is BUY. TEXAS INSTRUMENTS earns a STRONG BUY rating from 13 analysts, and a BUY rating from eight analysts.

Mr. Strauss says other companies that stand to benefit from the growing demand for DSP chips include ANALOG DEVICES (ADI) and LUCENT TECHNOLOGIES (LU). ANALOG DEVICES is doing good business in Asia, according to the analyst, while LUCENT is the biggest seller of DSP chips for cellular phone service base stations – a smaller but higher-margin market.

12. Upgrades & Downgrades



Running an Upgrade up the Tower for SpectraSite

By Shannon Swingle

NET2PHONE (NTOP): On June 1, 2000, Dain Rauscher Wessels upgraded the shares of NET2PHONE to STRONG BUY-AGGRESSIVE from BUY-AGGRESSIVE, recommending that investors buy before the company's expected announcement of new alliances. According to the brokerage, NET2PHONE, a provider of services that enables high-quality and low-cost Internet telephony, is focused on building high-margin revenue by accessing the distribution channels of its large partners – AT&T (T), AMERICA ONLINE (AOL) and YAHOO! (YHOO). In addition, the company has dropped hints about a potential partnership that would allow it to license its proprietary software to equipment companies or third parties. The arrangement could be a very high-margin revenue source, according to Dain Rauscher. The firm also likes the company's fundamentals, noting that it has no debt and more than $575 million in cash. For fiscal 2000, which ends in July, the brokerage sees a loss of $0.81 a share, a little wider than its previous estimate of a loss of $0.77 a share. However, its fiscal 2001 estimate was narrowed to a loss of $0.86 a share from a loss of $1.00 a share. NTOP shares closed at $37.63 on June 9. Research about NTOP was accessed 68 times, and three new documents were added to the Multex.com database during the week of May 22-28.

SPECTRASITE HOLDINGS (SITE): UBS Warburg upgraded its rating on the shares of SPECTRASITE HOLDINGS to BUY from HOLD on May 31, 2000. SPECTRASITE, which owns, leases and manages towers for wireless, paging and mobile radio operators, had seen its stock fall 46% from its March high to $16.50 by the end of May. UBS Warburg feels that too many things are going right for SPECTRASITE to warrant that kind of sell-off. The company's relationship with NEXTEL COMMUNICATIONS (NXTL), which owns 12% of SITE, will allow the company to capture a large amount of new business. Second, SPECTRASITE recently formed a joint venture to provide tower management service in the United Kingdom. The venture has more than 700 sites for current and 3G wireless services. UBS estimates cash flow of $0.39 a share in 2000, and $0.78 a share in 2001. UBS sees revenue of $323 million this year and $429 million in 2001. SITE closed at $22.50 on June 9. Research about SITE was accessed 60 times, and seven new documents were added to the Multex.com database during the week of May 22-28.

QUALCOMM (QCOM): On May 30, 2000, A.G. Edwards upgraded its rating on the shares of QUALCOMM, a top maker of code-division multiple access (CDMA) chipsets. The brokerage moved the rating to BUY-AGGRESSIVE from ACCUMULATE-AGGRESSIVE because it believes the fundamental outlook for the company remains strong, despite reports that China will delay deployment of CDMA technology. A.G. Edwards said "whether China Unicom deploys a CDMA network is immaterial to our near-term estimates for QUALCOMM." Besides, it believes all of the various standards are converging and will be based on CDMA, and that it is only a matter of time before China deploys a CDMA network. (For more on QUALCOMM's outlook see Best & Brightest Numbers.) The brokerage estimates EPS of $1.09 in 2000, rising to $1.45 in 2001. Its price target is $120. QCOM closed at $79.06 on June 9. Research about QCOM was accessed 957 times, and 45 new documents were added to the Multex.com database during the week of May 22-28.

The number of contributed and downloaded documents is based on the number of new documents contributed to Multex.com from brokerage firms worldwide during the week of May 22-28.

13. Consensus Estimates

Analysts Pick McLeodUSA and RF Micro Devices

By Dyan James

The Telecomm Analyst's[SM] *consensus estimates of telecom companies are derived from Multex.com's database of more than 3,500 contributing Wall Street analysts. The following companies generated a number of reports from analysts during the week of May 22-28, 2000, based on our Telecom Industry Index of 150 companies:*

COMCAST (CMCSK): The consensus rating of the 17 analysts following the shares of this cable operator is BUY. While 11 of them rate the stock BUY, four rate it BUY-HOLD, one rates it HOLD, and one has no opinion. A loss of $0.37 a share is projected for 2000, a drop from 1999's earnings of $0.95 a share. For 2001, forecasts call for a loss of $0.36 a share. For the second quarter, analysts expect a loss of $0.06 a share. Research on the company was accessed 285 times this week.

ENERGIS (ENGSY): Seven analysts cover the shares of this provider of telephone and data services. Their consensus rating is BUY-HOLD. Three of the analysts rate it BUY, one rates it BUY-HOLD, one rates it WEAK-HOLD, and two have no opinion. The consensus forecast calls for a loss of $0.99 a share in 2000, compared to a loss of $0.92 a share in 1999. For 2001 a loss of $1.01 a share is forecast. There are no quarterly estimates for the company. This week, research on the company was accessed four times.

MCLEODUSA (MCLD): Eleven analysts follow this facilities-based CLEC and they consider the stock a BUY. Nine analysts give the stock a BUY rating, while two have no opinion. MCLEODUSA is expected to lose $0.82 a share in 2000, compared to a loss of $0.54 a share in 1999. A loss of $0.81 a share is seen for 2001. For the second quarter, the consensus forecast calls for a loss of $0.21 a share. Research on the company was accessed 201 times this week.

RF MICRO DEVICES (RFMD): Eleven analysts cover the shares of RF MICRO DEVICES, which makes integrated circuits for wireless communications. The analysts' consensus rating on the stock is BUY, with nine issuing BUY ratings and two having no opinion. Earnings are expected to rise 43% to $0.83 a share in fiscal 2001, which ends next March. For 2002, analysts forecast earnings of $1.15 a share. The company is expected to report earnings of $0.18 a share in its first quarter. This week, research on the company was accessed 167 times.

SCIENTIFIC-ATLANTA (SFA): This maker of TV set-top boxes used by subscribers to receive cable programming and interactive services, is rated BUY-HOLD by the 16 analysts who cover the company. Seven of the analysts rate the stock BUY, five rate it BUY-HOLD, two rate it HOLD, and two have no opinion. Earnings are forecast to reach $0.82 a share in fiscal 2000, which ends in June, and $1.07 a share in 2001. Analysts expect fourth-quarter earnings of $0.26 a share. Research on the company was accessed 190 times this week.

14. Rants, Raves & Satire

The Telecomm Couch ***Laughs, Advice and Psychology?***

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. Send your questions to: Lkeyson@multex.com.

Imagine this scenario. We are having a therapy session for a group of telecom PDAs (personal digital assistants).

Dr. Mae: Let's go around and introduce ourselves.

Patient No. 1: My name's A.T. Antee.

Patient No. 2: Tyne Warner, here.

Patient No. 3: I'm, uh, Quentin Kahm.

Patient No. 4: Yo, Norm Keeyah.

Patient No. 5: Wally, Wally Kromm.

Patient No. 6: Hi, I'm Charles Skoe.

Dr. Mae: I'm glad you could make this session. I'm Dr. Mae, and this is my co-therapist, Dr. George. We're here to help. Let's start with you, A.T. What brings you here?

A.T. Antee: I'm despondent. All my life I've tried so hard to be better and better. First I had to deal with a breakup that was really painful, and now the new tech upstarts are putting me into the poorhouse. I worry that I'll be on the street.

T. Warner: You think you have problems. I stood up for my beliefs, and look what happened to me. I end up giving the people who are out to get me everything they want, and I lose money. I feel like everyone is against me, even the government. I'm angry, and I won't take it anymore.

N. Keeyah: Come on, you two. Cheer up. If everybody keeps talking to each other all the time, the world will be a better place.

Q. Kahm: That's all well and good for you to say, but I agree with A.T. Antee. I, too, experienced a split of a different kind, and look what has happened – no one understands me. I'm out to go where no one has gone before, and I'm not getting the respect or the money I deserve now.

W. Kromm: All this talk of doom and gloom makes me so nervous, I just can't handle it. It's too much for me. I have a global vision, too, and I need to keep my mind focused on positive thinking.

Dr. Mae: There, there! Let's stop and quiet our minds by doing some deep breathing exercises. Slowly, take a deep breath in as you say to yourself, "When I breathe in, I am master of the universe, and when I breath out, I am invincible. Just breathing in and breathing out."

Don't you feel better?

W. Kromm: No!

Dr. Mae: Maybe you should see Dr. George for some Prozac after our session.

C. Skoe: I can't take it either. I was feeling so good just a couple of months ago. I was euphoric. I was flying high. I was No. 1. Then they pulled the rug out from under me.

Dr. George: You need some help. I'm going to prescribe lithium for this mood swing.

Dr. Mae: Well now, let's observe what's going on here. Every one of you, except N. Keeyah, is upset, anxious, angry and depressed. You were doing so well, and now look at you. You're miserable and performing poorly. You're half of what you once were, and you're looking to blame someone other than yourselves. My advice is to stop the "Pitiful Polly" act, take back responsibility, and don't let your emotions overwhelm your reason. Do what got you to the top and do it better.

N. Keeyah: Good advice. That's what I do.

Group: Would you keep quiet!

Dr. Mae: Whoa, now. Let's stop and examine what is happening here. You're doing it again – blaming instead of accepting responsibility. Remember the words of Mahatma Gandhi: "As long as you are trying your very best, there is no question of failure."

Dr. George: Well, our time is up for this session. Before you leave here, Mr. W. Kromm and Mr. C. Skoe, I would like to talk to you about starting on some medication.

Dr. Mae: Good-bye. At our next session, we will explore your childhood and your relationship with your mother.

Opinion

It's All in the Numbers

By Dennis Lee Askew

The Federal Communication Commission (FCC) the Supreme Court and the Justice Department were all feeling strain of doing telecommunications math last week.

Making numbers 'fair' isn't always an easy thing to do.

FCC Chairman William Kennard recently addressed the shortage of space available on wireless airwaves. Conclusion: Too many carriers filling up a finite spectrum. A "Spectrum Drought" was his perception. Cell phones, TV signals and wireless data transmissions have caused traffic jams in certain urban areas of the U.S. Dropped calls have angered some customers and giants like AT&T (T) have been working diligently to find an answer.

The demand is reaching available capacity and the numbers are beginning to crunch.

Mr. Kennard has a suggestion. Let the companies trade bits and pieces of their airwaves between one another to meet the demand. When a slice becomes available, sell it to a competitor. With ultra-wideband still in the offing, it's not a bad idea.

The Supreme Court has decided to act as the sounding board with regard to the way telecom companies are compensated for providing inexpensive "Universal Service," to rural and low-income Americans. Local companies that provide these services are paid subsidies according to FCC rules that are based on the hypothetical, "forward-looking" costs of building and operating its network.

GTE (GTE), which is being acquired by BELL ATLANTIC (BEL), claims the reimbursement is not adequate and amounts to the confiscation of its property. GTE wants the subsidies to be based on actual historical costs. The Justice department, on behalf of the FCC, argued that under no circumstances would the FCC's rules produce "confiscatory results." The Supreme Court will hear GTE's appeal.

WORLDCOM (WCOM) and AT&T (T), both large national carriers want subsidies for Internet access for schools and libraries that are paid by telecom companies to be based on both in-state and interstate revenue. "Not so fast!" said a recent Supreme Court decision as it rejected the companies' appeal that found that subsidy payments will be based on interstate revenue only.

Big money and high drama are both certainties as a voice cries out from the theatre of the court, "Is there an accountant in the house?"

Letters to the Editor

Finland's Wireless Traders

Pekka Hakulinen writes: Buying NOKIA (NOK) shares (Top Company Picks, The Telecomm Analyst, June 6, 2000) with a push of a button on a handset – NOKIA, ERICSSON (ERICY), SIEMENS (SMAWY), or whatever WAP-enabled cellphone – is already happening here in Finland.

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