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### **New Rec: Boston Communications (BCGI: \$17.85) May 8, 2003**

**Position: Sell      Target: \$10      Timing: 2 (1=aggressive; 5=cautious)**

| (in \$MM)      | 1Q03a        | 2Q03e        | 3Q03e        | 4Q03e        | 2003e         | 2004e          |
|----------------|--------------|--------------|--------------|--------------|---------------|----------------|
| <b>Revs</b>    | <b>23.07</b> | <b>23.56</b> | <b>23.79</b> | <b>23.28</b> | <b>93.690</b> | <b>101.827</b> |
| <b>EPS</b>     | <b>0.18</b>  | <b>0.19</b>  | <b>0.18</b>  | <b>0.15</b>  | <b>0.71</b>   | <b>0.71</b>    |
| <b>Y/Y Gro</b> | <b>n/a</b>   | <b>132%</b>  | <b>110%</b>  | <b>45%</b>   | <b>275%</b>   | <b>0%</b>      |
| <b>PE</b>      | <b>n/a</b>   | <b>n/a</b>   | <b>n/a</b>   | <b>n/a</b>   | <b>25.30</b>  | <b>24.97</b>   |
| <b>PSR</b>     | <b>n/a</b>   | <b>n/a</b>   | <b>n/a</b>   | <b>n/a</b>   | <b>3.35</b>   | <b>3.09</b>    |
| <b>Consen</b>  | <b>n/a</b>   | <b>0.19</b>  | <b>0.21</b>  | <b>0.22</b>  | <b>0.79</b>   | <b>1.02</b>    |

**Shares out: 17.6M**

**Mkt. Cap: \$314M**

**FYE: Dec.**

Summary: BCGI's primary business is billing services for prepaid wireless plans. BCGI provides means for wireless carriers to replenish accounts of their prepaid subscribers. In turn, BCGI charges a per-minute fee to the carriers. Currently, BCGI has about twenty wireless carriers on its prepaid service plan, including four

of the largest seven national carriers. However, Verizon and Cingular together account for close to 80% of BCGI's revenue.

We think that the biggest near term risk to the BCGI story is the potential loss of Verizon as a customer. Last quarter Verizon contributed 51% of BCGI's total revenue. The contract with Verizon is due to expire in the latter half of 2003. At best, we think that the contract would be renewed at reduced rates for BCGI. Furthermore, we estimate that contracts with the three other national carriers that BCGI counts among its customers are due to expire in the fall of 2004. Those three contracts account for at least 30% of revenue. Cingular alone among the three is 27% of BCGI revenue, and presents the second biggest risk, after Verizon.

In addition to the obvious problem of high customer concentration, we think that BCGI's business model has other fundamental problems that are not well understood by investors.

First is the issue of how the large carriers view the outsourcing of their billing and how they use the outsourcers. Industry observers tell us that typically large carriers will outsource the billing for a new plan while it is in the testing out stage. That way the carrier does not have to commit the capital or the dedicated staff to a project whose success is not assured. However, if the plan is working, large carriers will want to have complete control over the billing. Industry insiders have told us that if carriers decide to keep the plans beyond two years, there is a decent chance that they would take the billing in-house. This two year test period matches up well with the two year contracts that BCGI has in hand.

Indeed, this is what happened previously to BCGI. In Q1 2001, AT&T decided to use the Convergys' (CVG) prepaid billing platform. At the time AT&T comprised 13% of BCGI's revenue or about \$9.8M in revenue in 2000. As a result of the loss of this account, relatively much smaller than the Verizon account discussed earlier, BCGI shares lost about 40% of their value.

This raises the important issue of the inherent risk in a business model that appears to be built on only the temporary needs of the largest clients. A business model with so much risk would seem to deserve a sizable discount. We do not think that BCGI's share price incorporates an adequate discount.

Then comes the issue of the prepaid wireless business itself. Prepaid wireless plans appear to be neither a particularly good deal for the consumer, nor a particularly good business for the carrier. For the consumer, rates for prepaid minutes are substantially higher than that of contract postpaid plans. Only those consumers who do not qualify for the contract postpaid plans would even consider the prepaid option. For the carrier, prepaid wireless plans have only shown to be

marginally profitable at best. One reason is that the churn has remained in the 30%+ per year range. Then there is the fact that the initial cost of acquiring subscribers is high for the carrier. Further, and perhaps most importantly, the cost of replenishing minutes through merchants and ATM's is very high for the carrier. Merchants can take around 20% of the transaction amount and ATM's around 10% of the transaction amount to replenish minutes.

It is no surprise that growth in prepaid wireless subscribers has disappointed industry analysts. In its 2000 10-K filing, BCGI quotes The Yankee Group's projection that growth in prepaid wireless subscribers would achieve a CAGR of 60%+ in the time period from 1999-2003. The reality is that the CAGR from 1999-2002 was a mere 12%.

The reason for the recent interest in prepaid is because the growth on the postpaid contract side has been slowing. In 2002, several new prepaid plans were launched by wireless carriers in hopes of tapping into a market that was traditionally ignored by the carriers. Of the seven major wireless carriers, five have prepaid plans less than a year old.

BCGI produced good revenue and subscriber growth in 2002, partly because of easy comps in 2001 and partly because of all the activity in launching new prepaid plans that occurred in 2002. As we noted, BCGI allows carriers to test the market without high capital commitments, the key driver to its recent success. However, we also note that BCGI's gross margin on prepaid wireless billing is above 76%, much higher than the margins of similar businesses in the industry. Larger carriers are aware of this and they know that they could keep more profit if they did their own billing. And so, it seems clear that if this were a long term proposition for the carriers, they would force the margins down or go in house. In our view, the high margins that are generated by BCGI are either unsustainable, because in order to keep business long term the margins will have to decline, or the top line will suffer as carriers seek lower cost alternatives. We think that BCGI will face this choice: lower margins and keep some business, or not lower margins and lose a lot of business.

Another problem is that the industry as a whole is moving toward consolidation of postpaid and prepaid billing systems. BCGI's competitors, which offer third-party solutions that carriers often use in-house, all currently offer a hybrid billing system. This brings into question the sustainability of a dedicated prepaid wireless billing service. BCGI seems to have recognized this problem, and recently purchased a platform that can combine prepaid and postpaid billing services. However, the platform that it purchased does not seem appropriate for the large carrier business that is BCGI's current core revenue source.

In addition to the customer concentration risk, the margin risk, and the sustainability of the outsourced prepaid billing service risk, BCGI faces a litigation risk. Freedom Wireless is currently suing BCGI for patent infringement, seeking damages and injunctive relief. The case is in the discovery phase and the lawsuit was filed in 2000.

Despite all of these risks weighing on BCGI and no significant upside that we can see, the stock is currently trading at 4X P/S and 17.5X 2004 EPS, at a premium to its peer group, which trades at an average of 1.75 P/S and 14X 2004 EPS.

Insiders seem less sanguine about the shares of BCGI than investors. Insider selling has been intense. Since February 28, 2003 insiders have sold 303,775 shares in price ranges of \$12.58-\$20 per share. In the past twelve months the insiders have sold a total of 896,745 shares or over 5% of shares outstanding.

In valuing BCGI's shares we have taken into account a variety of scenarios. Call them best case, probable case and worst case. The very best case is that BCGI keeps the Verizon contract in 2003 and beyond with no significant degradation in price, and then also manages to renew the contracts that come up in 2004. In that case, we estimate revenue of \$95.7M in 2003 and \$107M in 2004 versus the "street" estimate of \$99M in 2003 and \$112M in 2004. Our best case EPS estimates are \$0.76 for 2003 and \$0.90 for 2004. The First Call consensus EPS estimates are \$0.79 for 2003 and \$1.02 for 2004. However, we rate the possibility of this scenario actually occurring as being very low, let's say 20%.

On the other end of the spectrum is the worst case. Under this scenario BCGI loses Verizon this year and Cingular next year. In that case, we estimate revenue of \$90M in 2003 and \$63M in 2004 versus the "street" estimate of \$99M in 2003 and \$113M in 2004. Our EPS estimates are \$0.59 for 2003 and -\$0.15 for 2004. We also will assign a 20% probability to this scenario.

And finally we come to the middle scenario, under which BCGI is forced to negotiate lower prices on the Verizon contract, resulting in lower margins. This results in revenues of \$93.7M in 2003 and \$101.8M in 2004, and segment gross margins of 76% in 2003 and 74.25% in 2004. This is in contrast to "street" revenue estimates of \$99 for 2003 and \$112 for 2004 and segment gross margin estimates of 76.3% for 2003 and 77% for 2004. We rate this scenario at 60% probability.

We value BCGI at 14X 2004 EPS in case BCGI keeps Verizon as a customer with basically no change in terms, which computes to \$12.60 per share. We view this outcome as unlikely, however. On the low end, we value BCGI at 2X 2004 revenue of \$63M in case BCGI loses Verizon and Cingular as customers,

which is \$6.50 per share, even though this valuation would probably be too high since BCGI would lose money in 2004, in our opinion. Our most likely case scenario has BCGI earning \$0.71 on revenues of \$101.8. In this case, at 14X EPS, BCGI's value would be \$10 per share, which is our initial target price. This is the "baby bear" scenario, in which the porridge is neither too hot nor too cold, but rather just right.

## Background

BCGI is a service provider for North American wireless carriers. When it was founded in 1988, BCGI was primarily a provider of roaming services. Prepaid wireless billing service was introduced by the company in mid-1994 and has since become its primary line of business. In the U.S. BCGI offers prepaid billing exclusively on an outsourced service bureau basis. Internationally, BCGI instead offers a turnkey prepaid wireless billing solution, which is a product-driven not a service-driven model. The turnkey solution uses the platform acquired in the 1996 purchase of Voice Systems Technology.

In July, 2002 BCGI launched Payment Services, which allows for assisted and self-serve payment transactions, such as recharge of prepaid accounts. According to the 10-K filing, BCGI sets out to "unite wireless carriers with multiple financial and content partners and take financial and operational responsibility for the transactions."

In October, 2002 BCGI acquired Infotech Solutions Corporation. Infotech's product was the Voyager billing and customer care solution for wireless carriers. Infotech's annual revenue was about \$4M.

BCGI reports revenue in three segments: Billing and Transaction Processing Services (BTS), Roaming, and Prepaid Systems. BTS includes revenues from Prepaid Wireless service bureau model, Payment Services, and Voyager. The contribution from each of the three offerings within BTS is not broken out by the company.

The Roaming segment dates back to the early days of the company, but has since become an almost insignificant part of revenue and is steadily declining. Roaming in the context of BCGI's business refers to processing payment from an unregistered subscriber to a carrier who is trying to make a call using the carrier's network.

Prepaid Systems is also a small part of BCGI's revenue and includes sales of turnkey systems internationally within North America.

Recent revenue trends are illustrated in the tables below.

| (\$MM)          | 2000   | 2001   | 2002   |
|-----------------|--------|--------|--------|
| BTS             | 53.221 | 48.746 | 58.864 |
| Roaming         | 17.65  | 11.67  | 6.224  |
| Prepaid systems | 4.699  | 5.867  | 5.772  |
| Total           | 75.57  | 66.283 | 70.86  |

| % Revenue       | 2000 | 2001 | 2002 |
|-----------------|------|------|------|
| BTS             | 70%  | 74%  | 83%  |
| Roaming         | 23%  | 18%  | 9%   |
| Prepaid systems | 6%   | 9%   | 8%   |
| Total           | 100% | 100% | 100% |

| Y/Y             | 2000 | 2001 | 2002 |
|-----------------|------|------|------|
| BTS             | 44%  | -8%  | 21%  |
| Roaming         | -21% | -34% | -47% |
| Prepaid systems | -6%  | 25%  | -2%  |
| Total           | 18%  | -12% | 7%   |

The “street” expects the Roaming business to continue to decline and the Prepaid Systems business to remain flat. Roaming segment carries a low single digit gross margin and Prepaid Systems’ gross margin is in the upper 40%. In contrast, BTS gross margin is in the 70 % range. Roaming and Prepaid Systems have little impact on EPS, which is why we will focus our analysis on the BTS segment.

## Discussion

### 1. Prepaid wireless plans

Prepaid wireless refers to calling plans offered by carriers where usage of the network must be paid for in advance and the cell phone receiver must also be paid for in its entirety before usage can commence. Subscribers charge and recharge their accounts on a per minute basis, usually with minimum charges required. The typical charge per minute is \$0.25, and the account typically must be recharged at least once every 60 days to prevent expiration of unused minutes. No free evening and weekend minutes are included with these plans, as is the case with the more prevalent postpaid plans. Also, prepaid plans do not require contracts, in contrast to most postpaid plans, which require one to two year contracts. Cell phone receiver prices for prepaid plans range from \$50 to \$200.

In contrast with prepaid pricing, the best selling AT&T postpaid plan costs \$39 per month and includes nationwide free nights and weekends along with about 600 peak minutes.

Prepaid plans are aimed at subscribers with poor or non-existent credit histories. The plans also target the youth market. Carriers introduced prepaid plans in hopes of enlarging the cell phone market, as the traditional postpaid plans have, in the opinion of many carriers, nearly saturated their addressable market. However, the competition among prepaid wireless carriers has been intensifying over the last year. In response, some carriers are offering discounts on cell phone purchases or a specified number of free minutes upon purchase of a cell phone. This makes the margins on new subscribers very low for the carriers.

Carriers aim to capture as many high margin minutes as possible to justify keeping the prepaid plans. High margin minutes are those that are recharged by a loyal subscriber. Churn for prepaid plans has hovered around 30% per year, and carriers have not been all that successful in reducing the churn rate.

Industry insiders have told us that carriers in general prefer to get subscribers on their postpaid plan. Indeed, when we called a number of cellular providers' retail outlets, we were discouraged from getting a prepaid plan and directed toward a postpaid plan. This makes us wonder about the future of the prepaid offering in general.

Replenishment or recharging of minutes keeps costs high for carriers and may prevent prepaid rates from ever reaching the levels of postpaid rates. Accounts charged through merchants typically cost the carrier 20% of the transaction amount, recharging through ATMs costs the carrier about 10% of the transaction amount, and recharging online costs about 5% of the amount. If a subscriber spends \$20 per month, the carrier would assume a cost of \$4 through a merchant, \$2 through an ATM, and \$1 if recharging occurred online. These are costs that are not incurred in a postpaid environment.

In a recent Boston Globe article, Michael Seivert, chief marketing officer for AT&T Wireless was quoted as saying "Many customers find current cash-only prepaid services unattractive." Seivert added that the prepaid services are "only marginally profitable" for AT&T. AT&T has in excess of 1MM prepaid wireless subscribers and is closing in on Cingular as the second largest prepaid wireless subscriber base.

AT&T is now launching an alternative to prepaid, which combines the features of prepaid and postpaid. This offering seems much more favorable to the carrier in terms of cost of recharging the account and takes no credit risks. We quote the Boston Globe article describing the plan:

“The AT&T service, marketed as GoPhone, offers a handset for \$90 through 10,000 retail outlets, including 7-Eleven convenience stores and specialty retailers such as CompUSA, Staples, Target, and Tweeter. The plan offers four monthly bundles of prepaid minutes: \$20 for 80 minutes, \$30 for 150 minutes, \$40 for 400 minutes, and \$50 for 550 minutes.

The minutes are on a "use it or lose it" plan and expire at the end of each month. Customers must agree to be billed through a credit or debit card or direct charge to a bank account. They are automatically charged for their next month of service at the end of a month or when they get within \$5 of using up their minutes -- which could happen well before the month is over.”

It is worth noting that AT&T is not using a prepaid billing system for this offering. Instead, AT&T has customized its postpaid billing system to handle the billing for the GoPhone plan. We think that if the AT&T plan turns out to be successful other carriers may follow suit. A Verizon spokesperson commented that Verizon is evaluating the AT&T GoPhone plan, and that Verizon will take a wait-and-see-approach for now.

## 2. High customer concentration

BCGI has a high customer concentration, as shown in the table below. This increases the risk of loss of any large customer's business. According to the most recent 10-K filing, net revenues attributable to BCGI's ten largest customers accounted for approximately 92% of BCGI's total revenues in 2002, 90% of BCGI's total revenues in 2001 and 93% of BCGI's total revenues in 2000.

| (\$MM)   | 1998  | 1999  | 2000  | 2001  | 2002  | 1Q 2003 |
|----------|-------|-------|-------|-------|-------|---------|
| Cingular | 18.14 | 16.05 | 22.67 | 18.56 | 17.72 | 6.23    |
| Verizon  | 16.93 | 19.25 | 20.40 | 21.87 | 34.72 | 11.76   |
| AT&T     | 5.44  | 8.34  | 9.82  | 0.00  | 0.00  | 0.00    |
| Total    | 60.48 | 64.18 | 75.57 | 66.28 | 70.86 | 23.07   |

| % total rev | 1998 | 1999 | 2000 | 2001 | 2002 | 1Q 2003 |
|-------------|------|------|------|------|------|---------|
| Cingular    | 30%  | 25%  | 30%  | 28%  | 25%  | 27%     |
| Verizon     | 28%  | 30%  | 27%  | 33%  | 49%  | 51%     |
| AT&T        | 9%   | 13%  | 13%  | 0%   | 0%   | 0%      |
| Total       | 67%  | 68%  | 70%  | 61%  | 74%  | 78%     |

| Y/Y      | 1999    | 2000   | 2001     | 2002   |
|----------|---------|--------|----------|--------|
| Cingular | -11.57% | 41.29% | -18.14%  | -4.55% |
| Verizon  | 13.70%  | 5.97%  | 7.20%    | 58.74% |
| AT&T     | 53.28%  | 17.75% | -100.00% | 0%     |
| Total    | 6.12%   | 17.75% | -12.29%  | 6.91%  |

We point out that the contract with Verizon, which expires in the latter half

of 2003 is currently under negotiation. Verizon has the largest prepaid subscriber base of all the carriers, about 2MM subscribers. The risk to BCGI is that either the Verizon contract is renewed for a reduced price or that it is not renewed at all. The loss of Verizon would mean loss of about 50% of BCGI's revenue. Industry insiders have told us that Verizon Wireless does its postpaid billing in-house. It is a distinct possibility for prepaid to be made part of that system if Verizon decides to keep its prepaid offering.

Similarly, Cingular also does its own billing for postpaid using the Amdocs solution. Cingular is owned by SBC, which has a stake in Amdocs. Cingular prepaid offerings came from several acquisitions, each of which had a different billing solution. Last fall, Cingular consolidated the billing on the TDMA network by giving BCGI the entire business for now. It is also a distinct possibility for Cingular to move prepaid billing in-house once its contract with BCGI expires (sometime in 2004/2005) or even before. Industry insiders told us that in general the service bureau contracts are not exclusive.

In Q1 2001, BCGI lost AT&T as a customer. At the time AT&T comprised 13% of BCGI's revenue or about \$9.8M in revenue in 2000. AT&T decided to use Convergys' (CVG) platform. Since BCGI does not break down the number of subscribers by carrier, we cannot tell exactly the impact of the loss of AT&T on the subscriber base. In one of BCGI's filings we found a disclosure that 800,000 AT&T customers were moving from the BCGI platform in Q1 2001. The 2001 year end subscriber count was 1.75M versus 2.991M at the end of 2000, which reflects a writedown of 600,000 analog customers and is not related to AT&T. BCGI's total revenue declined 12% Y/Y (from 2000 to 2001). The stock price dropped 32% in one day, from \$25 per share on January 10, 2001 to \$17 per share on January 11, 2001. After four days of heavy volume, the stock price ended up at \$17.19 per share after hitting a low of \$13.75 per share.

### 3. Service bureau for prepaid billing

The primary appeal of the Prepaid Wireless service bureau solution is that it allows a carrier to test pilot a new plan offering quickly and without the capital expenditures that would be required if billing were to be done in-house.

A wireless billing expert outlined for us the stages that a larger carrier typically goes through in launching a new plan. A carrier aims to evaluate the profitability of a plan while minimizing capital spending dollars involved in the launch. According to our source, almost everyone outsources billing at this stage. Our source also said that typically the carrier puts in enough clauses to escape the contract before the contract term expires if it so chooses. Contract terms are most often two years, but can range from one to three years. Within two years, the

carrier typically decides whether to keep the plan. If the plan has been successful, it is common for the carrier to purchase a third party solution and bring the process in-house. This allows for tighter control of the revenue stream, an issue we were told is of importance to the larger carriers. In fact, it is interesting to note that international markets, which are mature prepaid wireless markets almost exclusively run third-party or homegrown billing systems in-house.

Indeed, and in line with what we are told by industry professionals, BCGI's largest current contracts are for plans that have been in existence under two years. The issue is, what will the carriers do when the two year trial is over?

| Plan           | Rollout date |
|----------------|--------------|
| Verizon FreeUP | Fall, 2001   |
| BOOST Mobile   | Fall, 2002   |
| SimpleFreedom  | Fall, 2002   |
| Cingular KIC   | Fall, 2002   |

#### 4. Growth opportunities

There are seven major wireless carriers in the US: Sprint PCS, Verizon, Nextel, Cingular, Alltel, T-Mobile, and AT&T. BCGI counts four of these among its prepaid billing customers. The remaining three are running billing operations in-house, based on third-party software. According to our sources, and BCGI concurs, these three carriers are unlikely to use BCGI's prepaid service in the foreseeable future. We examine the potential for BCGI to penetrate its existing prepaid wireless customer base, to get a greater share of their prepaid business.

##### a. Verizon

BCGI currently has the entire Verizon prepaid billing business. This is the Verizon FreeUP plan, the only prepaid wireless plan offered by Verizon.

##### b. Nextel

Nextel is new to the prepaid wireless market, having just pioneered its first-ever prepaid offering, BOOST Mobile, last September in the California/Nevada market. BCGI services billing for the entire BOOST Mobile plan and is poised to add more business should Nextel decide to go national with the plan.

Based on our research we expect the impact to BCGI's revenue from any possible geographic expansion of the BOOST Mobile plan to be minimal in the foreseeable future. It is not yet clear to Nextel's management whether the program will meet the goals it needs to meet for Nextel to keep the offering. Nextel is

planning to wait until the first anniversary of the rollout of the plan to make a decision as to whether to expand reach. Nextel also commented that if it decides to offer the plan beyond the current region, it would expand it one or two markets at a time, not nationwide.

As of March 31, 2003, BOOST Mobile had 60,000 subscribers (after nearly two quarters in operation). At year end, the BOOST Mobile subscriber figure stood at 20,000. We estimate that the contribution to BCGI revenue in Q1 2003 was an average of 40,000 subscribers averaging 106 minutes per month at \$0.019 per minute. Average monthly usage of 106 minutes and revenue per minute are figures reported by BCGI for all subscribers. This comes out to just above \$240,000 in revenue or 1% of BCGI's total revenue.

We spoke to several retailers in California offering the BOOST Mobile plan. A number of them told us that they were unimpressed with the quality of service. They told us that coverage is not great, that signal is hard to hear, and that the phones themselves are like big bricks, something they thought looked too clunky for the youth market that the plan targets. They do not recommend it. In our view, this plan is not likely to be a major success.

#### c. Cingular

Cingular offers prepaid wireless plans on two networks, TDMA and GSM. After a conversion of about 200,000 subscribers from a competitor's third-party software solution in the fall of 2002, BCGI now gets all of Cingular's TDMA business. The growth opportunity for BCGI within Cingular is to service the GSM network, which the company estimates is about 20%-30% of the total Cingular prepaid subscriber base. Our sources indicate that BCGI has expressed interest in going after the rest of the Cingular business. Based on our conversation with industry insiders we estimate the opportunity for BCGI with Cingular to be the conversion of about 200,000-300,000 additional subscribers. Cingular currently operates its own billing of the GSM offerings using a third-party platform.

#### d. ALLTEL

ALLTEL outsources billing to BCGI for the SimpleFreedom prepaid plan, which is only sold at Walmarts nationwide. For its other prepaid plan, ALLTEL uses BCGI's competitor Verisign. According to our sources BCGI has not expressed interest in going after the rest of ALLTEL's business.

ALLTEL launched the SimpleFreedom plan in September, 2002. We spoke to a few Walmarts across the country about the prepaid wireless plans. We learned that SimpleFreedom is not an exclusive plan sold at Walmart. According to the

sales associates we spoke to, the best selling prepaid plan at Walmart is TracFone. TracFone has the largest digital coverage area in the U.S. The plan also offers various promotions on the cell phone receiver and options to buy minutes which don't expire for twelve months versus two months for most prepaid plans.

## 5. Industry trends

We have spoken to several of BCGI's competitors, which offer both a third-party billing solution and a service bureau outsource model. They told us that the industry trend is moving toward consolidation of postpaid and prepaid billing systems. In fact, vendors like Convergys, Amdocs, CSG Systems (Kenan/Lucent), and others are all now offering an integrated system which handles both prepaid and postpaid billing. Several of our sources were questioning the sustainability of the prepaid billing service niche. One industry insider remarked that in his opinion most carriers will move off dedicated prepaid systems, primarily for cost reduction reasons as well as to have all their customers' records in a single database. This makes good sense. Another source told us that most of the dedicated prepaid billing systems were designed to handle up to a few million subscribers. The postpaid systems need to handle as many as 20MM or even 30MM subscribers. It may be difficult for a niche prepaid billing provider to move into the postpaid billing realm due to scale.

Indeed, BCGI management has expressed its intention to use the platform from the Infotech acquisition to create a hybrid prepaid/postpaid offering. However, management has also stated that the Infotech platform is for Tier 2 and Tier 3 markets. Infotech's annual revenue is about \$4M, and management does not expect much growth from in 2003.

In our opinion, the core BCGI prepaid business for Tier 1 customers could be at risk if the trend toward combining prepaid and postpaid continues. AT&T and is already moving in that direction with its GoPhone plan. The Infotech business could prove to be too small to fill any potential gaps left by losing Tier 1 customers or having to cut prices significantly in order to keep their business.

Although there is no formal definition of Tier 1 carriers, typically they are the largest carriers and they typically own and operate their own physical networks. Sprint, AT&T, Verizon, Cingular, etc. are all considered to be Tier 1 carriers. Tier 2 and Tier 3 carriers tend to be regional and address smaller markets. These carriers also typically do not have their own physical networks.

## 6. Gross margins

BCGI's gross margins are high in the absolute sense, as well as higher than those of the competitors we mentioned, Convergys and Amdocs. This raises further concerns about sustainability of the business model going forward. Clearly, carriers who are allowing BCGI to make these high margins are leaving a lot of money on the table, and they must know it. BCGI's BTS gross margins averaged 69% in 2001, 71% in 2002, and climbed to 76.3% in Q1 2003. Convergys reported margins of 52.4% in 2001 and 53.65% in 2002 for its Information Management Group (IMG) segment. IMG is composed of 60% service bureau, 15%-20% consulting revenue, 5%-10% software license sales, and 15% international (which is mostly license plus some consulting). Amdocs reported gross margin on service revenue of 51% in 2001 and 48% in 2002.

## 7. BCGI business metric trends

Key metrics in analyzing this business are subs (number of subscribers), MOUs (monthly minutes of use per subscriber), average revenue per minute, and churn.

### a. Subscribers

The table below summarizes BCGI's subscriber history.

| (MM)                | 2000  | 2001   | 2002   | 2003e "street" | 2004e "street" |
|---------------------|-------|--------|--------|----------------|----------------|
| Subs                | 2.991 | 1.75*  | 2.89** | 4.08           | 5.28           |
| Sequential net adds | 1.091 | -1.241 | 1.14   | 1.19           | 1.2            |

\* includes the write-off of 600,000 analog customers, without the write-off the net adds would have been -640,000

\*\* includes a conversion of about 200,000 Cingular subs from a competitor, 20,000 subs from the launch of the BOOST Mobile plan, and an unknown number of subs from the launch of the ALLTELL SimpleFreedom plan

Source: BCGI reports, "street" estimates for 2003 and 2004

We estimate that the organic net adds in 2002 were in the range of 800,000-850,000. BCGI defines organic as subs added to currently supported prepaid plans, not through geographic expansion or conversion from competitors. In the remaining three quarters of 2003, net subs are expected to be 711,000. We do not expect much contribution from BOOST Mobile and ALLTEL SimpleFreedom in the absolute sense. The growth will primarily have to come from Verizon and Cingular. We note that the 1.19M "street" total 2003 estimate does not include any additional coverage areas that BCGI could get from Cingular.

In its 2000 10-K filing, BCGI quotes the Yankee Group finding that there were a total of 4.9M wireless prepaid subscribers in the U.S. at the end of 1999.

We found another industry estimate of 6.8M prepaid subscribers at the end of 2002. This represents a CAGR of 12%. BCGI's 2000 10-K filing includes The Yankee Group growth estimate of 60%+ CAGR from 1999 to 2003.

The table below juxtaposes the "street's" BCGI subscriber estimates with our estimate for the total number of prepaid wireless subscribers. Our estimates for 2003 and 2004 market size is derived by extrapolating the 12% CAGR for the next two years. If our estimates are in the ballpark, to achieve the "street" estimates, BCGI would need to capture and hold onto 54% and 62% of total prepaid subscribers in 2003 and 2004, an outcome that we view as unlikely. Indeed, as happened in 2000-2001, if pre-paid subscriber numbers grow and if plans are successful, the likelihood of the carriers taking the billing in-house increases.

| (MM)               | 1999 | 2000e | 2001e | 2002 | 2003e  | 2004e  |
|--------------------|------|-------|-------|------|--------|--------|
| Total prepaid subs | 4.9  | 5.49  | 6.15  | 6.80 | 7.62** | 8.53** |
| Net adds           | -    | 0.59  | 0.66  | 0.65 | 0.82   | 0.91   |
| BCGI subs          | 1.9  | 2.991 | 1.75  | 2.89 | 4.08*  | 5.28*  |
| % Total subs       | 39%  | 55%   | 28%   | 43%  | 54%    | 62%    |

\* "street" estimates

\*\* we assume 12% Y/Y growth in 2003 and 2004

#### b. MOUs/Price

The table below illustrates quarterly trends in MOU, revenue per minute and revenue per subscriber. In 4Q 01 600,000 analog subscribers were written off the system. The analog subscribers were counted in the first nine months of 2001. The analog subscribers had very low monthly usage. Had they been counted in the 4Q 01 numbers, the reported MOU would have been 62 and not 79. The write-off anniversaried in 4Q 02. Subsequently, the growth in revenue per subscriber decelerated.

| □                    | 1Q 01 | 2Q 01 | 3Q 01 | 4Q 01* | 1Q 02 | 2Q 02 | 3Q 02 | 4Q 02 | 1Q 03 |
|----------------------|-------|-------|-------|--------|-------|-------|-------|-------|-------|
| MOU                  | 49    | 57    | 57    | 79     | 87    | 95    | 95    | 105   | 106   |
| Seq. Growth          | -     | 16%   | 0%    | 39%    | 10%   | 9%    | 0%    | 11%   | 1%    |
| Y/Y Growth           | -     | -     | -     | -      | 78%   | 67%   | 67%   | 33%   | 22%   |
| Revenue per min (\$) | 0.032 | 0.030 | 0.027 | 0.025  | 0.024 | 0.023 | 0.021 | 0.020 | 0.019 |
| Seq. Decline         | -     | -6%   | -10%  | -7%    | -4%   | -4%   | -9%   | -5%   | -5%   |
| Y/Y Decline          | -     | -     | -     | -      | -25%  | -23%  | -22%  | -20%  | -21%  |
| Revenue per sub (\$) | 4.70  | 5.13  | 4.62  | 5.93   | 6.26  | 6.56  | 5.99  | 6.30  | 6.04  |
| Seq. Growth          | -     | 9%    | -10%  | 28%    | 6%    | 5%    | -9%   | 5%    | -4%   |
| Y/Y Growth           | -     | -     | -     | -      | 33%   | 28%   | 30%   | 6%    | -4%   |

\* write-off of analog customers happened in 4Q 01

#### c. Churn

Churn among all prepaid carriers averages around 30% per year. BCGI's churn is in the range. The table below gives quarterly churn rates. We note that churn significantly cuts into the carrier's profits. If the churn rates do not come down over time, some carriers are likely to re-evaluate their commitment to the plan.

| □                     | 1Q 01 | 2Q 01 | 3Q 01 | 4Q 01 | 1Q 02 | 2Q 02 | 3Q 02 | 4Q 02 | 1Q 03 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Churn                 | 6.6%  | 6.7%  | 6.8%  | 11.5% | 10.7% | 9.3%  | 9.7%  | 9.2%  | 8.0%  |
| Annualized churn rate | 26.4% | 26.8% | 27.2% | 46.0% | 42.8% | 37.2% | 38.8% | 36.8% | 32.0% |

## 8. Freedom Wireless

In December, 2000 a lawsuit was filed against BCGI and some of its customers by Freedom Wireless. Freedom Wireless claims that BCGI infringes two of its patents and is seeking damages and injunctive relief. The lawsuit is in the discover phase. BCGI recorded legal charges of \$2.6M in 2000, \$3.6M in 2001, \$3.3M in 2002, and expects to record about \$4M in charges in 2003. BCGI is attempting to invalidate the patents due to prior art. BCGI is planning to file for summary judgment in Q2 2003 to get the court to dismiss the case.

## 9. Free cash flow

BCGI's free cash flow results are summarized in the table below.

| (\$MM)        | 1998   | 1999   | 2000   | 2001   | 2002   |
|---------------|--------|--------|--------|--------|--------|
| Cash from ops | 0.12   | 18.053 | 36.045 | 14.826 | 21.561 |
| Capex         | 8.815  | 14.29  | 23.954 | 9.314  | 26.929 |
| Free Cash     | -8.695 | 3.763  | 12.091 | 5.512  | -5.368 |

## 10. Insider selling and option expense

BCGI is a generous issuer of stock options. The table below from the most recent 10-K filing shows the impact on net income and EPS of expensing the options issued in the last three years.

| (\$MM)                  | 2000   | 2001    | 2002   |
|-------------------------|--------|---------|--------|
| Reported NI             | 10.216 | 0.816   | 3.356  |
| Reported EPS            | \$0.58 | \$0.05  | \$0.19 |
| NI after stock options  | 6.74   | -1.498  | 0.929  |
| EPS after stock options | \$0.38 | -\$0.09 | \$0.05 |

As of February 28, 2003, directors and officers as a group owned 11.45% of the company, where 52% of the shares were issuable pursuant to stock options. In the proxy insiders were listed as holding 2,163,378 shares of which 1,126,511 shares were issuable pursuant to stock options.

Since February 28, 2003 insiders have sold 303,775 shares in price ranges of \$12.58-\$20 per share. In the past twelve months the insiders have sold a total of 896,745 shares, or over 5% of shares outstanding.

## 11. Financial projections and valuation

Bulls project BTS revenue of around \$90M in 2003 and above \$106M in 2004. The “street” BTS gross margin estimate is 76.3% in 2003 and 77% in 2004. The First Call consensus EPS estimates are \$0.79 for 2003 and \$1.02 for 2004.

| "street" estimate (\$MM) | 2003e | 2004e |
|--------------------------|-------|-------|
| BTS revenue              | 90    | 106   |
| COGS                     | 21.33 | 24.38 |
| BTS Gross Profit         | 68.67 | 81.62 |

We present our estimates in three scenarios below, a best case, a worst case and a probable scenario. We note that Payment Services was launched in Q2 2002 and that Infotech was acquired during Q4 2002. Infotech’s annual revenue is about \$4M.

### a. Best case scenario

The best case scenario is that BCGI keeps all its accounts in 2003 and 2004 without significant price degradation. We think the probability of this scenario occurring is no better than 20%.

| OWS: best case           | 2003e  | 2004e  |
|--------------------------|--------|--------|
| Prepaid revenue (\$MM)   | 80.36  | 92.07  |
| Rest of BTS (\$MM)       | 7.266  | 7.771  |
| Total BTS revenue (\$MM) | 87.631 | 99.845 |
| COGS (\$MM)              | 20.769 | 23.663 |
| BTS Gross Margin (\$MM)  | 66.86  | 76.18  |
| BTS Gross Margin (%)     | 76.3%  | 76.3%  |

In this case, our estimates for other revenues and expenses are in line with “street” estimates. Our EPS estimate is \$0.76 for 2003 and \$0.90 for 2004 versus consensus of \$0.79 for 2003 and \$1.02 for 2004. The difference is that we think that the revenue per minute of usage is declining faster than the “street” assumes

and we think that gross margins will remain at best flat, while the “street” assumes improved margins.

b. Worst case scenario

The worst case scenario is that BCGI loses Verizon this year and Cingular next year. We think the probability of this scenario occurring is at least 20%.

| OWS: worst case          | 2003e | 2004e |
|--------------------------|-------|-------|
| Prepaid revenue (\$MM)   | 74.81 | 48.10 |
| Rest of BTS (\$MM)       | 7.27  | 7.77  |
| Total BTS revenue (\$MM) | 82.07 | 55.87 |
| COGS (\$MM)              | 20.87 | 17.83 |
| BTS Gross Margin (\$MM)  | 61.20 | 38.04 |
| BTS Gross Margin (%)     | 74.6% | 68.1% |

In this case, our EPS estimate is \$0.59 for 2003 and -\$0.15 for 2004. Our analysis is based on the impact of the loss of the AT&T business in 2001.

c. Probable scenario

This scenario is somewhere in between. In this scenario BCGI is forced to negotiate lower rates on the Verizon contract, which also negatively impacts the margins. We will assign a probability to this scenario of about 60%.

| OWS: probable case       | 2003e | 2004e  |
|--------------------------|-------|--------|
| Prepaid revenue (\$MM)   | 78.40 | 86.90  |
| Rest of BTS (\$MM)       | 7.27  | 7.77   |
| Total BTS revenue (\$MM) | 85.67 | 94.67  |
| COGS (\$MM)              | 20.57 | 24.38  |
| BTS Gross Margin (\$MM)  | 65.10 | 70.29  |
| BTS Gross Margin (%)     | 76.0% | 74.25% |

In this case our EPS estimate is \$0.71 for both 2003 and 2004 versus consensus of \$0.79 for 2003 and \$1.02 for 2004.

We provide detailed financials of our middle scenario. We presented our revenue assumptions earlier. On the expense side, R&D expense is at 12.5% of 2003 revenues and 12.6% of 2004 revenues. The “street” assumes 12.3% of 2003 revenues and 12.1% of 2004 revenues. We project S/M expense at 6.5% and 6.6% of revenue in 2003 and 2004 respectively. The “street” expects the expense to be 6.4% of revenue in 2003 and 6.3% of revenue in 2004. We assume the G&A expense to be 7.5% of revenue in 2003 and 7.3% of revenue in 2004, versus the “street” estimates of 7.5% and 7%.

As of March 31, 2003 BCGI had \$48.6M in cash and equivalents or \$2.65 per share. BCGI has no debt. Currently BCGI is trading at P/S of 4X and 17.5X 2004 EPS. The following table gives peer comparisons. None of the companies listed here represent service bureau pure plays, like BCGI; however, a significant portion of the group's revenues is derived from service.

| Comps   | fwd P/E | P/S  |
|---------|---------|------|
| DOX     | 18.17   | 2.71 |
| CVG     | 13.31   | 1.25 |
| CSGS    | 10.95   | 0.95 |
| PRSF    | n/a     | 2.09 |
| Average | 14.14   | 1.75 |

If BCGI loses Verizon altogether, we value the business at no more than 2X 2004 sales of \$63M or \$6.50 per share. Because the company would be headed for negative EPS in 2004 in the worst case, by our estimates, a P/E is meaningless. If the contract with Verizon stays the same, we value the business at 14X 2004 EPS of \$0.90 or \$12.60 per share. If the middle scenario occurs, the one we consider most probable, we value the business at 14X 2004 EPS of \$0.71 or \$10 per share, which is where we set our target. This will depend on how the contract with Verizon is repriced, assuming it stays at BCGI.

#### Middle Case financial projections:

| (\$MM)            | 2002   | 2003e  | 2004e   | 2005e  |
|-------------------|--------|--------|---------|--------|
| BTS               | 58.864 | 85.669 | 94.667  | 101.29 |
| Roaming           | 6.224  | 3.437  | 2.490   | 2.12   |
| Prepaid systems   | 5.772  | 4.584  | 4.670   | 4.67   |
| Total revenue     | 70.86  | 93.690 | 101.827 | 108.08 |
| BTS COGS          | 16.994 | 20.567 | 24.380  | 27.35  |
| Roaming COGS      | 5.89   | 3.146  | 2.433   | 2.07   |
| Systems COGS      | 2.535  | 2.282  | 2.291   | 2.29   |
| Total COGS        | 25.419 | 25.995 | 29.103  | 31.71  |
| Gross Profit      | 45.441 | 67.695 | 72.724  | 76.37  |
| ER&D              | 9.014  | 11.719 | 12.800  | 13.82  |
| S&M               | 4.447  | 6.117  | 6.750   | 7.36   |
| G&A               | 6.078  | 7.035  | 7.380   | 7.75   |
| Legal             | 4.295  | 3.915  | 4.000   | 4.00   |
| D&A               | 17.558 | 18.892 | 20.500  | 21.53  |
| Operating income  | 4.049  | 20.017 | 21.294  | 21.92  |
| Interest income   | 1.552  | 1.344  | 1.400   | 1.46   |
| Income before tax | 5.601  | 21.361 | 22.694  | 23.37  |
| Tax               | 2.245  | 8.118  | 8.624   | 8.88   |
| Net income        | 3.356  | 13.244 | 14.071  | 14.49  |
| EPS               | 0.19   | 0.71   | 0.71    | 0.71   |
| S/O               | 17.6   | 18.7   | 19.7    | 20.29  |

| Y/Y               | 2002        | 2003e        | 2004e        | 2005e        |
|-------------------|-------------|--------------|--------------|--------------|
| BTS               | 21%         | 46%          | 11%          | 7%           |
| Roaming           | -47%        | -45%         | -28%         | -15%         |
| Prepaid systems   | -2%         | -21%         | 2%           | 0%           |
| Total revenue     | 7%          | 32%          | 9%           | 6%           |
| BTS COGS          | 13%         | 21%          | 19%          | 12%          |
| Roaming COGS      | -41%        | -47%         | -23%         | -15%         |
| Systems COGS      | -11%        | -10%         | 0%           | 0%           |
| Total COGS        | -9%         | 2%           | 12%          | 9%           |
| Gross Profit      | 19%         | 49%          | 7%           | 5%           |
| ER&D              | 13%         | 30%          | 9%           | 8%           |
| S&M               | 1%          | 38%          | 10%          | 9%           |
| G&A               | 0%          | 16%          | 5%           | 5%           |
| Legal             | 7%          | -9%          | 2%           | 0%           |
| D&A               | 11%         | 8%           | 9%           | 5%           |
| Operating income  | 1%          | 394%         | 6%           | 3%           |
| Interest income   | -35%        | -13%         | 4%           | 4%           |
| Income before tax | -13%        | 281%         | 6%           | 3%           |
| Tax               | -12%        | 262%         | 6%           | 3%           |
| Net income        | -13%        | 295%         | 6%           | 3%           |
| EPS               | -13%        | 275%         | 1%           | 0%           |
| S/O               | -1%         | 6%           | 5%           | 3%           |
| <b>% Rev</b>      | <b>2002</b> | <b>2003e</b> | <b>2004e</b> | <b>2005e</b> |
| BTS               | 83%         | 91%          | 93%          | 94%          |
| Roaming           | 9%          | 4%           | 2%           | 2%           |
| Prepaid systems   | 8%          | 5%           | 5%           | 4%           |
| Total revenue     | 100%        | 100%         | 100%         | 100%         |
| BTS COGS          | 24%         | 22%          | 24%          | 25%          |
| Roaming COGS      | 8%          | 3%           | 2%           | 2%           |
| Systems COGS      | 4%          | 2%           | 2%           | 2%           |
| Total COGS        | 36%         | 28%          | 29%          | 29%          |
| Gross Profit      | 64%         | 72%          | 71%          | 71%          |
| ER&D              | 13%         | 13%          | 13%          | 13%          |
| S&M               | 6%          | 7%           | 7%           | 7%           |
| G&A               | 9%          | 8%           | 7%           | 7%           |
| Legal             | 6%          | 4%           | 4%           | 4%           |
| D&A               | 25%         | 20%          | 20%          | 20%          |
| Operating income  | 6%          | 21%          | 21%          | 20%          |
| Interest income   | 2%          | 1%           | 1%           | 1%           |
| Income before tax | 8%          | 23%          | 22%          | 22%          |
| Tax               | 3%          | 9%           | 8%           | 8%           |
| Net income        | 5%          | 14%          | 14%          | 13%          |

| (\$MM)            | 1Q 03 | 2Q 03e | 3Q 03e | 4Q 03e |
|-------------------|-------|--------|--------|--------|
| BTS               | 21.07 | 21.56  | 21.79  | 21.25  |
| Roaming           | 0.94  | 0.90   | 0.85   | 0.75   |
| Prepaid systems   | 1.06  | 1.10   | 1.15   | 1.28   |
| Total revenue     | 23.07 | 23.56  | 23.79  | 23.28  |
| BTS COGS          | 4.99  | 5.11   | 5.16   | 5.31   |
| Roaming COGS      | 0.91  | 0.82   | 0.74   | 0.67   |
| Systems COGS      | 0.57  | 0.56   | 0.58   | 0.58   |
| Total COGS        | 6.47  | 6.49   | 6.48   | 6.55   |
| Gross Profit      | 16.60 | 17.07  | 17.31  | 16.72  |
| ER&D              | 2.87  | 2.85   | 3.00   | 3.00   |
| S&M               | 1.57  | 1.50   | 1.50   | 1.55   |
| G&A               | 1.89  | 1.70   | 1.70   | 1.75   |
| Legal             | 0.92  | 1.00   | 1.00   | 1.00   |
| D&A               | 4.39  | 4.60   | 4.90   | 5.00   |
| Operating income  | 4.97  | 5.42   | 5.21   | 4.42   |
| Interest income   | 0.34  | 0.34   | 0.34   | 0.34   |
| Income before tax | 5.30  | 5.76   | 5.54   | 4.76   |
| Tax               | 2.02  | 2.19   | 2.11   | 1.81   |
| Net income        | 3.29  | 3.57   | 3.44   | 2.95   |
| EPS               | 0.18  | 0.19   | 0.18   | 0.15   |
| S/O               | 18.34 | 18.64  | 18.94  | 19.24  |
| Y/Y               | 1Q 03 | 2Q 03e | 3Q 03e | 4Q 03e |
| BTS               | 74%   | 51%    | 50%    | 19%    |
| Roaming           | -41%  | -47%   | -51%   | -38%   |
| Prepaid systems   | -20%  | -19%   | 8%     | -37%   |
| Total revenue     | 53%   | 36%    | 37%    | 10%    |
| BTS COGS          | 29%   | 25%    | 25%    | 8%     |
| Roaming COGS      | -37%  | -48%   | -56%   | -43%   |
| Systems COGS      | -19%  | -5%    | 31%    | -28%   |
| Total COGS        | 7%    | 3%     | 4%     | -5%    |
| Gross Profit      | 84%   | 54%    | 56%    | 17%    |
| ER&D              | 45%   | 35%    | 31%    | 13%    |
| S&M               | 39%   | 54%    | 54%    | 14%    |
| G&A               | 33%   | 12%    | 19%    | 3%     |
| Legal             | n/a   | n/a    | n/a    | n/a    |
| D&A               | 6%    | 2%     | 15%    | 7%     |
| Operating income  | n/a   | 170%   | 145%   | 55%    |
| Interest income   | -18%  | -16%   | -16%   | -1%    |
| Income before tax | n/a   | 139%   | 119%   | 49%    |
| Tax               | n/a   | 127%   | 108%   | 41%    |
| Net income        | n/a   | 147%   | 127%   | 55%    |
| EPS               | n/a   | 132%   | 110%   | 45%    |
| S/O               | 5%    | 7%     | 8%     | 7%     |

| % Rev             | 1Q 03  | 2Q 03e | 3Q 03e | 4Q 03e |
|-------------------|--------|--------|--------|--------|
| BTS               | 91%    | 92%    | 92%    | 91%    |
| Roaming           | 4%     | 4%     | 4%     | 3%     |
| Prepaid systems   | 5%     | 5%     | 5%     | 5%     |
| Total revenue     | 100%   | 100%   | 100%   | 100%   |
| BTS COGS          | 22%    | 22%    | 22%    | 23%    |
| Roaming COGS      | 4%     | 3%     | 3%     | 3%     |
| Systems COGS      | 2%     | 2%     | 2%     | 2%     |
| Total COGS        | 28%    | 28%    | 27%    | 28%    |
| Gross Profit      | 72%    | 72%    | 73%    | 72%    |
| ER&D              | 12%    | 12%    | 13%    | 13%    |
| S&M               | 7%     | 6%     | 6%     | 7%     |
| G&A               | 8%     | 7%     | 7%     | 8%     |
| Legal             | 4%     | 4%     | 4%     | 4%     |
| D&A               | 19%    | 20%    | 21%    | 21%    |
| Operating income  | 22%    | 23%    | 22%    | 19%    |
| Interest income   | 1%     | 1%     | 1%     | 1%     |
| Income before tax | 23%    | 24%    | 23%    | 20%    |
| Tax               | 9%     | 9%     | 9%     | 8%     |
| Net income        | 14%    | 15%    | 14%    | 13%    |
| (\$MM)            | 1Q 04e | 2Q 04e | 3Q 04e | 4Q 04e |
| BTS               | 24.173 | 23.807 | 23.640 | 23.048 |
| Roaming           | 0.680  | 0.600  | 0.630  | 0.580  |
| Prepaid systems   | 1.100  | 1.100  | 1.170  | 1.300  |
| Total revenue     | 25.953 | 25.507 | 25.440 | 24.928 |
| BTS COGS          | 6.285  | 6.130  | 6.087  | 5.877  |
| Roaming COGS      | 0.664  | 0.586  | 0.616  | 0.567  |
| Systems COGS      | 0.572  | 0.572  | 0.562  | 0.585  |
| Total COGS        | 7.521  | 7.288  | 7.264  | 7.029  |
| Gross Profit      | 18.432 | 18.218 | 18.176 | 17.899 |
| ER&D              | 3.100  | 3.200  | 3.200  | 3.300  |
| S&M               | 1.650  | 1.650  | 1.700  | 1.750  |
| G&A               | 1.800  | 1.820  | 1.860  | 1.900  |
| Legal             | 1.000  | 1.000  | 1.000  | 1.000  |
| D&A               | 5.100  | 5.100  | 5.100  | 5.200  |
| Operating income  | 5.782  | 5.448  | 5.316  | 4.749  |
| Interest income   | 0.350  | 0.350  | 0.350  | 0.350  |
| Income before tax | 6.132  | 5.798  | 5.666  | 5.099  |
| Tax               | 2.330  | 2.203  | 2.153  | 1.938  |
| Net income        | 3.802  | 3.595  | 3.513  | 3.161  |
| EPS               | 0.20   | 0.18   | 0.18   | 0.16   |
| S/O               | 19.4   | 19.6   | 19.8   | 20.0   |

| Y/Y               | 1Q 04e | 2Q 04e | 3Q 04e | 4Q 04e |
|-------------------|--------|--------|--------|--------|
| BTS               | 15%    | 10%    | 9%     | 8%     |
| Roaming           | -27%   | -33%   | -26%   | -23%   |
| Prepaid systems   | 4%     | 0%     | 2%     | 2%     |
| Total revenue     | 13%    | 8%     | 7%     | 7%     |
| BTS COGS          | 26%    | 20%    | 18%    | 11%    |
| Roaming COGS      | -27%   | -29%   | -17%   | -15%   |
| Systems COGS      | 1%     | 2%     | -3%    | 2%     |
| Total COGS        | 16%    | 12%    | 12%    | 7%     |
| Gross Profit      | 11%    | 7%     | 5%     | 7%     |
| ER&D              | 8%     | 12%    | 7%     | 10%    |
| S&M               | 5%     | 10%    | 13%    | 13%    |
| G&A               | -5%    | 7%     | 9%     | 9%     |
| Legal             | 9%     | 0%     | 0%     | 0%     |
| D&A               | 16%    | 11%    | 4%     | 4%     |
| Operating income  | 16%    | 0%     | 2%     | 7%     |
| Interest income   | 4%     | 4%     | 4%     | 4%     |
| Income before tax | 16%    | 1%     | 2%     | 7%     |
| Tax               | 16%    | 1%     | 2%     | 7%     |
| Net income        | 16%    | 1%     | 2%     | 7%     |
| EPS               | 9%     | -4%    | -2%    | 3%     |
| S/O               | 6%     | 5%     | 5%     | 4%     |

| % Rev             | 1Q 04e | 2Q 04e | 3Q 04e | 4Q 04e |
|-------------------|--------|--------|--------|--------|
| BTS               | 93%    | 93%    | 93%    | 92%    |
| Roaming           | 3%     | 2%     | 2%     | 2%     |
| Prepaid systems   | 4%     | 4%     | 5%     | 5%     |
| Total revenue     | 100%   | 100%   | 100%   | 100%   |
| BTS COGS          | 24%    | 24%    | 24%    | 24%    |
| Roaming COGS      | 3%     | 2%     | 2%     | 2%     |
| Systems COGS      | 2%     | 2%     | 2%     | 2%     |
| Total COGS        | 29%    | 29%    | 29%    | 28%    |
| Gross Profit      | 71%    | 71%    | 71%    | 72%    |
| ER&D              | 12%    | 13%    | 13%    | 13%    |
| S&M               | 6%     | 6%     | 7%     | 7%     |
| G&A               | 7%     | 7%     | 7%     | 8%     |
| Legal             | 4%     | 4%     | 4%     | 4%     |
| D&A               | 20%    | 20%    | 20%    | 21%    |
| Operating income  | 22%    | 21%    | 21%    | 19%    |
| Interest income   | 1%     | 1%     | 1%     | 1%     |
| Income before tax | 24%    | 23%    | 22%    | 20%    |
| Tax               | 9%     | 9%     | 8%     | 8%     |
| Net income        | 15%    | 14%    | 14%    | 13%    |