SCC

January 15, 2001

David Waddell
Executive Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

RE: Application of SCC Communications Corp. for a Certificate of Public Convenience and Necessity as a Competing Telecommunications Service Provider. Docket No. 01-00050

Dear Mr. Waddell:

SCC Communications Corp. ("SCC" or "Applicant") hereby submits the enclosed Application, seeking authority to operate as a provider of facilities-based and resold telecommunications services within the state of Tennessee. An original and thirteen (13) copies are provided.

Also enclosed is a check in the amount of $25.00 for filing fees. Notice of this filing has been served on interested parties.

Please date-stamp one copy and return it to the undersigned in the postage-paid envelope provided.

If you have any questions concerning this matter, or if you require additional information, please give me a call at (303) 581-5600.

Very Truly Yours,

Rebecca E. Boswell

Rebecca E. Boswell
Regulatory Counsel

SCC Communications Corp.
6285 Lookout Road
Boulder, Colorado 80301-3343
Phone 303.581.5600 Fax 303.581.0900

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN THE MATTER OF THE APPLICATION	)	
OF SCC COMMUNICATIONS CORP. FOR A	)	
CERTIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY TO PROVIDE COMPETING	)	**DOCKET No.** 01-00050
LOCAL TELECOMMUNICATION SERVICES	)	
WITHIN THE STATE OF TENNESSEE	)	

APPLICATION OF SCC COMMUNICATIONS CORP.

I. INTRODUCTION

Pursuant to applicable Tennessee Statutes and the Rules and Regulations of the Tennessee Regulatory Authority and Section 253 of the Federal Telecommunications Act of 1996 ("Act"), SCC Communications Corp. ("SCC") respectfully requests that the Tennessee Regulatory Authority ("TRA") grant to SCC a Certificate of Public Convenience and Necessity, pursuant to 65-4-201 *et. seq.* of the Tennessee Code Annotated and the TRA's Rules and Regulations, authorizing Applicant to provide facilities-based and resold local exchange and intrastate, interexchange (interLATA and intraLATA) telecommunications services as a competitive telecommunications service provider within the State of Tennessee. Specifically, SCC requests authority to aggregate and transport emergency calls with its 9-1-1 SafetyNet[SM] services in the State of Tennessee. In order to aggregate and transport emergency calls, SCC will require the same sort of interconnection and collocation afforded to certified Competitive Local Exchange Carriers ("CLECs"). SCC respectfully requests, therefore, that the TRA find that SCC is entitled to the rights of interconnection, collocation, resale, and access to unbundled network elements enjoyed by CLECs under the Telecommunications Act of 1996. SCC does not provide long distance toll services or local exchange dial tone services, does not intend to provide such services, and does not seek authority to provide such services. SCC is willing and able to comply with all applicable rules and regulations in Tennessee pertaining to the provision of competing local telecommunications services (TCA 65-4-201).

In support of its Application, SCC submits the following:

II. DESCRIPTION OF THE APPLICANT

1. Applicant's legal name is SCC Communications Corp. Applicant's principal place of business is:

   6285 Lookout Road
   Boulder, CO 80301-3343
   Telephone: (303) 581-5600
   FAX Number: (303) 581-0900
   http://www.scc911.com

2. All correspondence, notices, inquires or other communications pertaining to this Application should be addressed to:

   Rebecca E. Boswell
   Regulatory Counsel
   SCC Communications Corp.
   6285 Lookout Road
   Boulder, CO 80301-3343
   Telephone: (303) 581-5600
   FAX Number: (303) 581-0900

3. Questions concerning the ongoing operations of SCC following certification should be directed to:

   Gary A. Klug
   Director – Regulatory Compliance
   SCC Communications Corp.
   6285 Lookout Road
   Boulder, CO 80301-3343
   Telephone: (303) 581-5600
   FAX Number: (303) 581-0900

4. The officers of SCC will be responsible for SCC's operations in Tennessee. SCC's principal officers are:

George Heinrichs	President and Chief Executive Officer
Stephen Meer	Vice President & Chief Technology Officer
Michael Dingman, Jr.	Chief Financial Officer
Larry Jennings	Sr. Vice President Business Operations
Timothy J. Jenkins	Vice President/General Manager, ILEC Business Unit
Mark Scott	Vice President/General Manager, CLEC Business Unit
Terri L. DePuy	Vice President & General Manager, Direct Business Unit

Each of the individuals listed above can be reached at:

SCC Communications Corp.
6285 Lookout Road
Boulder, CO 80301-3343
Telephone: (303) 581-5600
FAX Number: (303) 581-0900

An organization chart depicting SCC's Corporate structure is attached as Exhibit 1.

5. SCC does not have corporate offices in Tennessee at this time. If SCC opens a corporate office in Tennessee in the future, SCC will promptly advice the TRA.

6. SCC understands the importance of effective customer service for local service customers. Accordingly, SCC will maintain the following toll-free customer service telephone number: 1-877-856-7504. Customer assistance will be available twenty-four hours a day, seven days a week. Customers may also contact the company in writing at the headquarters address provided above.

7. The Applicant is a Delaware corporation. A copy of SCC's Certificate of Incorporation is attached hereto as Exhibit 2. SCC Certificate of Authority to Transact Business in Tennessee is attached as Exhibit 3. SCC's Articles of Incorporation are attached hereto as Exhibit 8.

8. SCC is financially qualified to provide the services for which it seeks authorization. In particular, SCC has access to the financing and capital necessary to conduct its telecommunications operations as specified in this Application. In support of SCC's Application, attached hereto as Exhibit 4 is a copy of SCC's most recent audited financial statements and a consolidated five-year projection for SCC's Tennessee operations. Exhibit 4 is offered to demonstrate the financial qualifications of SCC to provide telecommunications services. The capital available to SCC, as evidenced by Exhibit 4, will be available to meet SCC's current and future capital needs as it implements and maintains its network and provides services in Tennessee.

9. SCC is managerially qualified to provide facilities-based and resold local exchange and interexchange telecommunications services in Tennessee. SCC has acquired extensive experience in providing a variety of telecommunications services to customers, and has developed a management team with excellent credentials and experience in the telecommunications industry. A description of the backgrounds and experience of SCC's key personnel, which demonstrates the extensive telecommunications operational and technical expertise of the Applicant, is attached hereto as Exhibit 5.

10. SCC is technically qualified to provide its proposed services in Tennessee. SCC is authorized to provide its telecommunications services in the following jurisdictions: Texas, Colorado, Washington, Montana, the District of Columbia, Alabama, Oregon and Massachusetts. SCC has Applications pending in: California, Connecticut, Florida, Georgia, Indiana, Kentucky, Maryland, Michigan, Minnesota, New Hampshire, New York, New Jersey, North Carolina, South Carolina, Virginia, Louisiana and Pennsylvania. SCC has not been denied authority to provide telecommunications services in any state.

    SCC's network architecture will have a pair of high-quality switches that are nationally deployed. SCC has a pair of Signal Control Points (SCPs) that will be connected to the public switched network. SCC's 9-1-1 SafetyNet^{SM} switches are NEBS compliant, fully redundant and deployed in diversely located mated pairs.

11. Applicant is familiar with and will adhere to all applicable Authority rules, policies and orders governing the provision of local exchange and interexchange telecommunications services. To the extent required by Tennessee law and the Authority's regulations, SCC will provide: (1) consumer access to and support for the Tennessee Relay Center in the same manner as the incumbent local exchange carriers; (2) free blocking for 900 and 976 type services; (3) Lifeline and Link-Up services to qualifying customers; (4) educational discounts; and (5) support for universal service. Applicant has attached hereto a copy of its Small and Minority Owned Telecommunications Business Participation Parity Plan as Exhibit 6. Applicant will not provide local dial-tone or long distance services.

12. Applicant has served notice of this Application upon ILECs certificated in Tennessee, and a copy of the Certificate of Service is attached hereto as Exhibit 7.

III. PROPOSED SERVICES

13. SCC proposes to provide resold and facilities-based local exchange and interexchange services throughout the entire State of Tennessee and, therefore, seeks statewide authority. SCC 9-1-1 SafetyNet^{SM} services are telecommunications services that permit a public safety answering point ("PSAP") designated by the authorized 9-1-1 administrative entity to receive emergency calls placed by dialing the number 9-1-1 or emergency calls originated by personal safety devices terminating at a designated service bureau and requiring public safety assistance. The services include the use of an enhanced coordinate routing data base call management system ("CRDB") and may include the facilities required to transport and deliver the call to the appropriate 9-1-1 selective routing tandem for delivery to the PSAP.

14. SCC 9-1-1 SafetyNet^{SM} Services include LEC Emergency Call Support service, Wireless Service Provider ("WSP") Emergency Call Support service, and Telematics Emergency Call Support ("TECS") service. These services are provided over SCC's Emergency Communications Network ("ECN"), which is a fully redundant, physically diverse system designed to accept traditional and non-traditional emergency calls, determine the appropriate PSAP, and forward the calls to the PSAPs via the traditional 9-1-1 infrastructure.

15. LEC Emergency Call Support service allows a LEC to connect all emergency call traffic to redundant SCC switches with the standard interfaces of CCSS7 ISUP, Feature Group D, Enhanced Multi-frequency, and Centralized Automated Message Accounting ("CAMA") 9-1-1 trunks. The Automatic Number Identification ("ANI") associated with the originating caller is utilized by SCC's ECN call management system to route calls to the appropriate 9-1-1 selective routing tandem. The ECN subsequently delivers the voice call with the appropriate ANI to the 9-1-1 selective routing tandem for ultimate call delivery to the appropriate PSAP. Default routing, as designated by the customer and SCC on an individual case basis, is also provided through the ECN.

16. WSP Emergency Call Support service allows a wireless provider to deliver all emergency call traffic to the appropriate 9-1-1 selective routing tandem. This service may be provided on an unbundled basis. The WSP may: (1) utilize only SCC's CRDB to obtain call routing information; or (2) utilize SCC's CRDB and SCC's ECN to obtain call routing information and SCC transport to deliver calls to the appropriate 9-1-1 selective routing tandem.

17. TECS service can accommodate voice only, data only, or voice and data combined. Upon receiving the initial emergency call, the Telematics service provider will transfer the call to SCC's ECN. The TECS service will access SCC's CRDB component of the service and provide to the Telematics provider call routing information for the call, whether it is a voice only call, a data only call, or a voice and data call. The unique call-processing configuration utilized by the Telematics service provider will determine the combination of 9-1-1 TECS Services necessary for call delivery to the appropriate PSAP.

18. SCC's 9-1-1- SafetyNet^{SM} services are designed to accommodate traditional and non-traditional emergency calls that originate from a variety of platforms, access networks, and service providers. 9-1-1 SafetyNet^{SM} augments the existing 9-1-1 infrastructure to enhance 9-1-1 service for Tennessee consumers and to enable Tennessee's 9-1-1 infrastructure to adapt to and accommodate next-generation communications devices and technologies. 9-

1-1 SafetyNet^{SM} is a solution that will benefit telecommunications providers, the public safety community, and consumers who rely on 9-1-1.

19. SCC will offer its service throughout the State of Tennessee. This will be accomplished through a combination of its own facilities, unbundled network elements, and through the resale of BellSouth services.

20. SCC's deposit requirements, termination policy, and late charge policy are set forth in its tariff.

IV. CONCLUSION

Applicant intends to provide facilities-based and resold local exchange and interexchange telecommunications services. Applicant's proposed telecommunications services will meet the needs of business and individual users in the State of Tennessee. Accordingly, TRA approval of the instant Application will foster competition in the local exchange and interexchange telecommunications markets and generate significant benefits to Tennessee telecommunications services in increased consumer choice; and efficient use of existing communications resources as well as increased diversification and reliability of the supply of communications services. The public will benefit from both directly, through the use of the competitive services to be offered by SCC, and indirectly because SCC's presence will increase the incentives for other telecommunications providers to operate more efficiently, offer more innovative services, reduce their prices, and improve their quality of service. Grant of this Application is therefore in the public interest because it will further enhance the service options available to Tennessee citizens.

WHEREFORE SCC Communications Corp., the Applicant herein, requests that the Authority grant it a Certificate of Public Convenience and Necessity authorizing the Applicant to Provide facilities-based and resold exchange and interexchange telecommunications services throughout the entire State of Tennessee.

Respectfully submitted this 15 day of January, 2001.

SCC Communications Corp.

By: Rebecca E. Boswell

Rebecca E. Boswell
6285 Lookout Road
Boulder, CO 80301-3343
FAX: 303-581-0090
Phone: 303-581-5600

EXHIBITS

Exhibit 1.	Organizational Chart
Exhibit 2	Certificate of Incorporation
Exhibit 3	Certificate of Authority to Transact Business in Tennessee
Exhibit 4	Financial Qualifications
Exhibit 5	Managerial Qualifications
Exhibit 6	Small and Minority Owned Telecommunications Business Participation Plan
Exhibit 7	Certificate of Service and copy of Notice of Application Filed
Exhibit 8	Articles of Incorporation

Verification

STATE OF TENNESSEE

BEFORE THE TENNESSEE REGULATORY AUTHORITY

* * * * *

IN THE MATTER OF THE APPLICATION OF SCC COMMUNICATIONS CORP. FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO PROVIDE COMPETING LOCAL TELECOMMUNICATIONS SERVICES WITHIN THE STATE OF TENNESSEE	))))))	DOCKET NO. _____________

DIRECT TESTIMONY OF GARY A. KLUG

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gary A. Klug. My business address is 6285 Lookout Road, Boulder, Colorado 80301-3343.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR PRESENT POSITION?

A. I am employed by SCC Communications Corp. ("SCC") as the Director of Regulatory Compliance. I am the person authorized by SCC to testify in this proceeding. A copy of my business experience and education background is attached at the end of my pre-filed testimony as Appendix A.

Q. HAVE YOU EXAMINED THE APPLICATION AND CORRESPONDING MATERIALS FILED BY SCC IN THIS PROCEEDING?

A. Yes, I have.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

I am offering testimony in support of SCC's Application for a Certificate of Public Convenience and Necessity to provide local telecommunications services throughout the State of Tennessee. SCC proposes to aggregate and transport emergency local calls with its 9-1-1 SafetyNet^{SM} services throughout the State of Tennessee.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes. I am sponsoring the Application with its Exhibits 1 through 8.

Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes. The statements are true and correct to the best of my knowledge.

Q. ARE YOU KNOWLEDGEABLE ABOUT SCC'S OPERATIONS AND WILL SERVE AS SCC'S REGULATORY AUTHORITY?

A. Yes.

Q. PLEASE SUMMARIZE THE MAIN SUBJECT AREAS ADDRESSED IN YOUR TESTIMONY.

A. My testimony focuses on the following areas of concern to the Tennessee Regulatory Authority ("TRA" or "Commission"):

- A description of the corporate structure of SCC.
- A description of SCC's technical, managerial, and financial qualifications to provide telecommunications services in Tennessee;
- A demonstration of SCC's intent to provide service to customers throughout Tennessee; and

- The benefits to the public and the industry, and a description of the general types of services SCC proposes to offer in Tennessee.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF SCC AND ITS CORPORATE STRUCTURE.

A. SCC is a publicly held corporation incorporated in the State of Delaware. The original Certificate of Incorporation was filed with the Secretary of State of Delaware on September 17, 1993. SCC was granted authority to transact business in Tennessee on April 29, 1994, and SCC is in good standing and authorized to transact business in the State of Tennessee. SCC's Certificate to Conduct Business in Tennessee is attached hereto as Exhibit 3 to the Application. Copies of SCC's Articles of Incorporation are attached as Exhibit 8.

SCC is the leading provider of 9-1-1 data management services to incumbent local exchange carriers, competitive local exchange carriers ("CLECs"), integrated communications providers, and wireless carriers in the United States. SCC currently manages the records for approximately 93.5 million wireline telephone subscribers, including 4.1 million CLEC subscribers, and more than 1.6 million wireless subscribers. SCC currently manages the Master Street Address Guides ("MSAGs") for 28 states, processes more than 140,000 service orders per day, and processes in excess of 50,000 MSAG requests a year. In addition, SCC has been selected by the Texas Commission on State Emergency Communication as the state's designated 9-1-1 management services provider.

SCC's maintains a network of 20 fault-tolerant, geographically diverse Automatic Location Information ("ALI") nodes. SCC also maintains a mated pair of geographically separate Service Control Points that are used to provide 9-1-1 selective routing based on Advanced Intelligent Network technology and Signaling System 7.

A copy of SCC's corporate structure chart is provided as Exhibit 1 to the Application.

Q. IS SCC AUTHORIZED TO PROVIDE SERVICES IN OTHER JURISDICTIONS?

A. Yes. SCC currently is a certificated telecommunications services provider in Texas, Colorado, Montana, Massachusetts, Alabama, Oregon, Illinois, New York, the District of Columbia, and Washington, and SCC is in the process of obtaining authority to provide telecommunications services throughout the United States.

Q. HAS ANY STATE EVER DENIED SCC AUTHORIZATION TO PROVIDE INTRASTATE SERVICE?

A. No.

Q. HAS ANY STATE REVOKED THE CERTIFICATION OF SCC OR ONE OF ITS AFFILIATES?

A. No. Furthermore, SCC does not have any affiliates.

Q. HAS SCC EVER BEEN INVESTIGATED OR SANCTIONED BY ANY REGULATORY AUTHORITY FOR SERVICE BILLING IRREGULARITIES.

A. To the best of my knowledge SCC has never been investigated or sanctioned by any regulatory authority for service billing irregularities.

Q. PLEASE DESCRIBE THE PURPOSE OF SCC'S APPLICATION.

A. SCC seeks a certificate so that it may aggregate and transport emergency local calls with its 9-1-1 SafetyNet^{SM} services in the State of Tennessee. SCC 9-1-1 SafetyNet^{SM} services are telecommunications services that permit a Public Safety Answering Point ("PSAP") designated by the authorized 9-1-1 administrative entity to receive emergency calls placed by dialing the number 9-1-1, emergency calls originated by personal safety devices terminating at a designated service bureau and requiring public safety assistance, and emergency calls from non-traditional sources such as personal data assistants, wireless communications devices, and the Internet. The services include the use of an enhanced coordinate routing call management system and may include the facilities required to transport and deliver the calls to the appropriate 9-1-1 selective routing tandem for delivery to the PSAP.

In order to aggregate and transport emergency local exchange telephone calls, SCC will require the same sort of interconnection and collocation afforded to certificated CLECs. SCC respectfully requests, therefore, that the Commission find that SCC is entitled to the rights of interconnection, collocation, and access to unbundled network elements enjoyed by CLECs under the Telecommunications Act of 1996.

Q. IN YOUR OPINION, DOES SCC POSSESS SUFFICIENT MANAGERIAL, FINANCIAL AND TECHNICAL RESOURCES AND QUALIFICATIONS TO PROVIDE ALL OF THE PROPOSED SERVICES IN TENNESSEE?

A. Yes. The senior management of SCC has considerable experience in public safety and in the telecommunications industry and offers extensive technical and managerial expertise to SCC pertaining to the telecommunications business. A copy of SCC's most recent financial statements have been provided in Exhibit 4 of this Application.

Q. PLEASE DESCRIBE SCC'S MANAGERIAL AND TECHNICAL QUALIFICATIONS TO PROVIDE THE SERVICES DESCRIBED IN SCC'S APPLICATION.

A. SCC currently employs approximately 460 highly-qualified individuals that represent some of the sharpest and most proactive minds in the telecommunications industry. Gathered from the public safety, software development, and telecommunications industries, SCC's team of professionals is at the forefront of industry debate and is uniquely qualified to formulate creative, reliable public safety communications solutions. Exhibit 5 of the Application, attached hereto, details the managerial and technical expertise of SCC's key personnel. SCC is managerially and technically qualified to provide the proposed services in the State of Tennessee. SCC's management personnel are well qualified to execute SCC's business plan, having extensive managerial, financial, and technical telecommunications experience as described in Exhibit 5.

Q. IN YOUR OPINION, DOES SCC HAVE ADEQUATE ACCESS TO THE CAPITAL NECESSARY TO PROVIDE THE PROPOSED SERVICES IN TENNESSEE?

A. Yes. SCC's most recent financial statements are attached hereto as Exhibit 4.

Q. DOES SCC's APPLICATION CONTAIN AN ACCURATE DESCRIPTION OF THE TYPES OF SERVICES THAT SCC WILL OFFER IN TENNESSEE?

A. Yes. The Application accurately describe the types of services that SCC will offer in Tennessee. SCC intends to aggregate and transport emergency calls with its 9-1-1 SafetyNet^{SM} services.

SCC 9-1-1 SafetyNet^{SM} services are telecommunications services that permit a PSAP designated by the authorized 9-1-1 administrative entity to receive emergency calls placed by dialing the number 9-1-1 or emergency calls originated by personal safety devices terminating at a designated service bureau and requiring public safety assistance. The services include the use of an enhanced coordinate routing data base call management system ("CRDB") and may include the facilities required to transport and deliver the call to the appropriate 9-1-1 selective routing tandem for delivery to the PSAP.

SCC 9-1-1 SafetyNet^{SM} Services include LEC emergency call support service, wireless service provider ("WSP") emergency call support service, and telematics emergency call support ("TECS") service. These services are provided over SCC's Emergency Communications Network ("ECN"), which is a fully redundant, physically diverse system designed to accept traditional and non-traditional emergency calls, determine the appropriate PSAP, and forward the calls to the PSAPs via the traditional 9-1-1 infrastructure.

LEC emergency call support service allows a LEC to connect all emergency call traffic to redundant SCC switches with the standard interfaces of CCSS7 ISUP, Feature Group D, Enhanced Multi-frequency, and Centralized Automated Message Accounting ("CAMA") 9-1-1 trunks. The Automatic Number Identification ("ANI") associated with the originating caller is utilized by the SCC ECN call management system to route calls to the appropriate 9-1-1 selective routing tandem. The SCC ECN subsequently delivers the voice call with the appropriate ANI to the 9-1-1 selective routing tandem for ultimate call delivery to the appropriate PSAP. Default routing, as designated by the customer and SCC on an individual case basis, is also provided through the ECN.

WSP emergency call support service allows a wireless provider to deliver all emergency call traffic to the appropriate 9-1-1 selective routing tandem. This service may be provided on an unbundled basis. The WSP may: (1) utilize only SCC's CRDB to obtain call routing information; or (2) utilize SCC's CRDB and SCC's ECN to obtain call routing information and SCC transport to deliver calls to the appropriate 9-1-1 selective routing tandem.

TECS service can accommodate voice only, data only, or voice and data combined. Upon receiving the initial emergency call, the telematics service provider will transfer the call to SCC's ECN. The TECS service will access the SCC's CRDB component of the service and provide to the telematics provider call routing information for the call, whether it is a voice only call, or a data only call, or a voice and data call. The unique call-processing configuration utilized by the telematics service provider will determine the combination of 9-1-1 TECS Services necessary for call delivery to the appropriate PSAP.

Q. DOES SCC PLAN TO OFFER LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES IN AREAS SERVED BY ANY INCUMBENT LOCAL EXCHANGE TELEPHONE COMPANY WITH FEWER THAN 100,000 TOTAL ACCESS LINES?

A. Yes. However, as we have explained in our Application, SCC will not and does not intend to provide local dial-tone telephone exchange service or long distance toll services. SCC's local exchange telephone service offerings provide the transport and switching necessary to deliver local emergency service calls, such as those originated by dialing the digits "9-1-1," to a public agency responsible for rendering assistance to the calling party.

Q. WHAT FACILITIES WILL SCC USE TO PROVIDE THE PROPOSED TELECOMMUNICATIONS SERVICES IN TENNESSEE?

A. SCC's service offerings will be provided through the use of purchased and leased assets, facilities obtained from exchange and interexchange providers, and from access to unbundled network elements and collocation with the incumbent local exchange providers. Specifically, SCC will interconnect its nationally deployed switching network to incumbent 9-1-1 selective routing tandems and rely on SCC's existing information systems to deliver information to PSAPs. At this time, SCC does not intend to install or construct facilities within the State of Tennessee to deliver SCC's proposed services.

Q. WHEN DOES SCC PLAN TO OFFER THE PROPOSED SERVICES IN THE STATE OF TENNESSEE?

A. Before SCC can offer the proposed services in the State of Tennessee, several important developments must occur. Among those developments are the issuance of a certificate by the Tennessee Regulatory Authority, successful negotiation of interconnection agreements with the incumbent carriers, successful installation of any facilities SCC needs in order to offer the services described herein, and completion and filing of a final tariff with the Commission for SCC's services. Each of these activities may be subject to delay and difficulties beyond SCC's control.

Q. IF EACH OF THESE PREREQUISITES WERE TO BE COMPLETED IN A TIMELY FASHION, WITHOUT DELAY, WHEN WOULD SCC COMMENCE OFFERING THE PROPOSED SERVICES IN THE STATE OF TENNESSEE?

A. Upon completion of these prerequisites, SCC intends to offer the proposed services in Tennessee within one year of the Commission's issuance of a certificate to SCC.

Q. DOES SCC INTEND TO COMPLY WITH ALL TRA RULES, STATUTES, AND ORDERS PERTAINING TO THE PROVISION OF TELECOMMUNICATIONS SERVICES IN TENNESSEE, INCLUDING THOSE FOR DISCONNECTION AND RECONNECTION OF SERVICE?

A. Yes.

Q. PLEASE EXPLAIN WHY GRANTING SCC'S APPLICATION IS IN THE PUBLIC INTEREST.

A. For more than thirty years, the existing 9-1-1 infrastructure has performed admirably. However, the introduction and proliferation of portable communications technologies such as wireless telephones, Internet Protocol telephony, personal data assistants, telematics devices in automobiles, and other portable devices places burdens on the existing 9-1-1 infrastructure that severely strain its capability to deliver emergency calls to the appropriate PSAP.

SCC's 9-1-1- SafetyNet services are designed to accommodate traditional and non-traditional emergency calls that originate from a plethora of platforms, access networks, and service providers. 9-1-1 SafetyNet^{SM} augments the existing 9-1-1 infrastructure to enhance 9-1-1 service for Tennessee consumers and to enable Tennessee's 9-1-1 infrastructure to adapt to and accommodate next-generation communications devices and technologies. 9-1-1 SafetyNet^{SM} is a solution that will benefit telecommunications providers, the public safety community, and consumers who rely on 9-1-1.

In addition, by granting this application, the Commission will build upon its well-established policy of promoting competition in the telecommunications marketplace. The Commission has long recognized that increased competition in the telecommunications marketplace will further the public interest by increasing efficiency, stimulating technological innovation, and increasing the range, variety, and utility of services offered to users. SCC plans to contribute to this competitive marketplace in Tennessee by providing its 9-1-1 SafetyNet^{SM} service.

Based on the foregoing, I respectfully request that the Commission approve SCC's Application as serving the public interest.

Q. PLEASE EXPLAIN IN DETAIL SCC'S PROPOSED PROCEDURES FOR RESPONDING TO INFORMATION REQUESTS FROM TRA AND ITS STAFF.

A. I have been designated by SCC as the Director of Regulatory Compliance. Information requests from the TRA and its Staff are to be directed to me. I will oversee the collection and transmittal of the information that will be provided in response to questions from the TRA and its Staff. Where permitted, e-mail responses will be provides and, as necessary, SCC will ship information and responses via FedEx to the TRA and its Staff.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Appendix A
Key Personnel

KEY MEMBER NAME/TITLE:	Gary A. Klug Director – Regulatory Compliance
DEPARTMENT:	Legal and Government Affairs

CURRENT RESPONSIBILITIES/DUTIES AT SCC:
Ensures compliance with rules and regulations of federal and state agencies, including management of compliance filings with state agencies. Evaluates federal and state regulations and sets regulatory policy and strategic direction. Acts as subject-matter expert and participates in local, state and national public safety and 9-1-1 forums.

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:
Mr. Klug has an extensive background in the telecommunications and regulatory fields, holding a variety of positions with several telecommunications providers and also the Colorado PUC.

Degrees: BS & MS – Physics

COMPANY NAME	POSITION HELD	RELATED EXPERIENCE
Colorado PUC	Senior Professional Engineer III (12 years)	Testified in numerous dockets before the PUC; developed the Colorado Rules Prescribing The Provision of Emergency 9-1-1 Services For Emergency Telecommunications Service Providers and Basis Local Exchange Carriers; established the Colorado 9-1-1 Task Force; responsible for membership selections for the 9-1-1 Task Force. Facilitated Colorado 9-1-1 Task Force meetings. Developed Colorado Rules on Interconnection. Advisor to the Colorado Commissioners including dockets on interconnection and collocation.
US West	Staff Manager (3 years)	Responsible for the development of interstate switched access rates and tariffs and repricing of access services.
AT&T	Staff Manager (3 years)	Responsible for development of intrastate private line rates and tariffs and the rate witness for AT&T for the Mountain States Region.
Mountain Bell	Staff Manager/Manager/ Planner/Equipment Engineer (11 years)	Held various positions responsible for basic local exchange service rates and tariffs, rural area service rates and tariffs, measured service rate development, measured service computer model development, as a Planning Engineer developed the plans for the first 4ESS switch in Mountain Bell. Held the position as an Equipment Engineer for the engineering, installation and testing of Step, X-BAR, and ESS switching equipment, test center equipment, power systems, and carrier systems.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN THE MATTER OF THE APPLICATION)
FOR A CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY TO PROVIDE COMPETING) DOCKET NO. ________
LOCAL TELECOMMUNICATIONS SERVICES)
WITHIN THE STATE OF TENNESSEE)

AFFIDAVIT OF GARY A. KLUG

STATE OF COLORADO)
)ss
BOULDER COUNTY)

I, Gary A. Klug, being duly sworn deposes and states:

1. I am the Director – Regulatory Compliance of SCC Communications Corp. ("SCC").

2. I am familiar with SCC's Application for a Certificate of Public Convenience and Necessity to Provide Competing Local Telecommunications Services Within the State of Tennessee and corresponding Exhibits.

3. Being duly sworn, state that the attached direct testimony and exhibits were prepared by me or under my supervision, control, and direction; that the direct testimony and exhibits are true and correct to the best of my information, knowledge, and belief; and that I would given the same testimony orally and would present the same exhibits if asked under oath.

Gary A. Klug
Director – Regulatory Compliance

Subscribed and sworn before me this 15th day of January, 2001, by Gary A. Klug

Laura A M. Lee
~~Commissioner of the Superior Court~~
Notary Public

My Commission Expires 2/10/04

SCC Communications Corp.

Executive Management

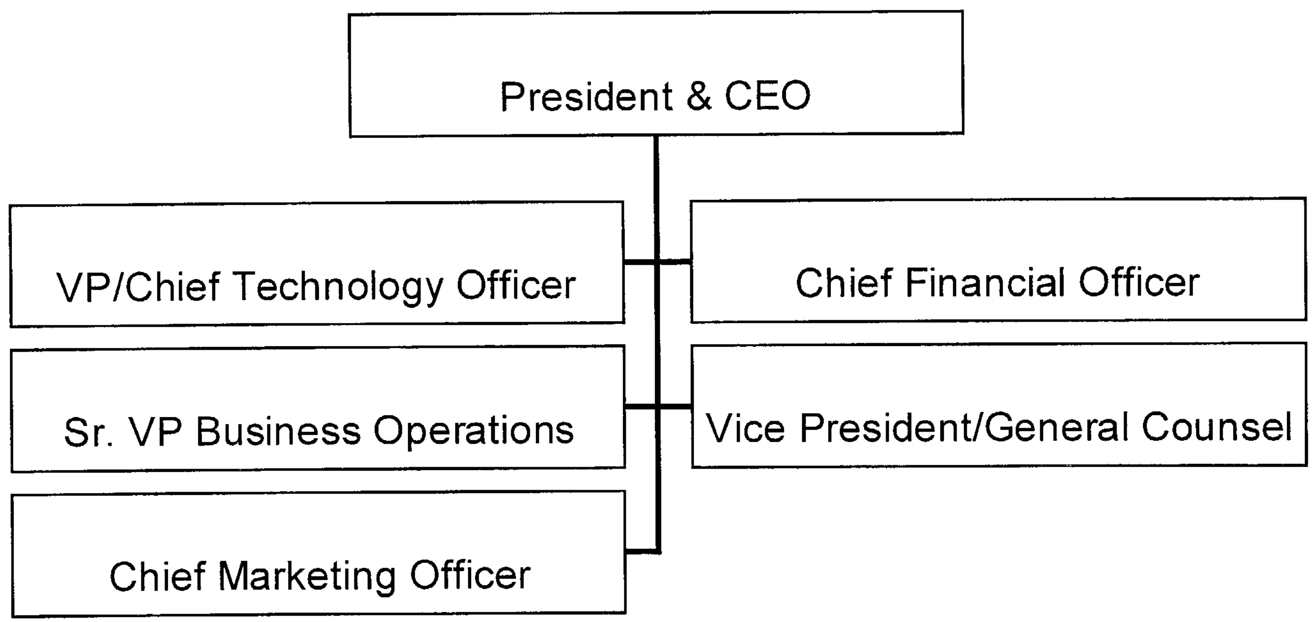


Exhibit 1
Organizational Chart
Consisting of 1 Page
January 16, 2001

SCC Communications Corp.

Executive Management

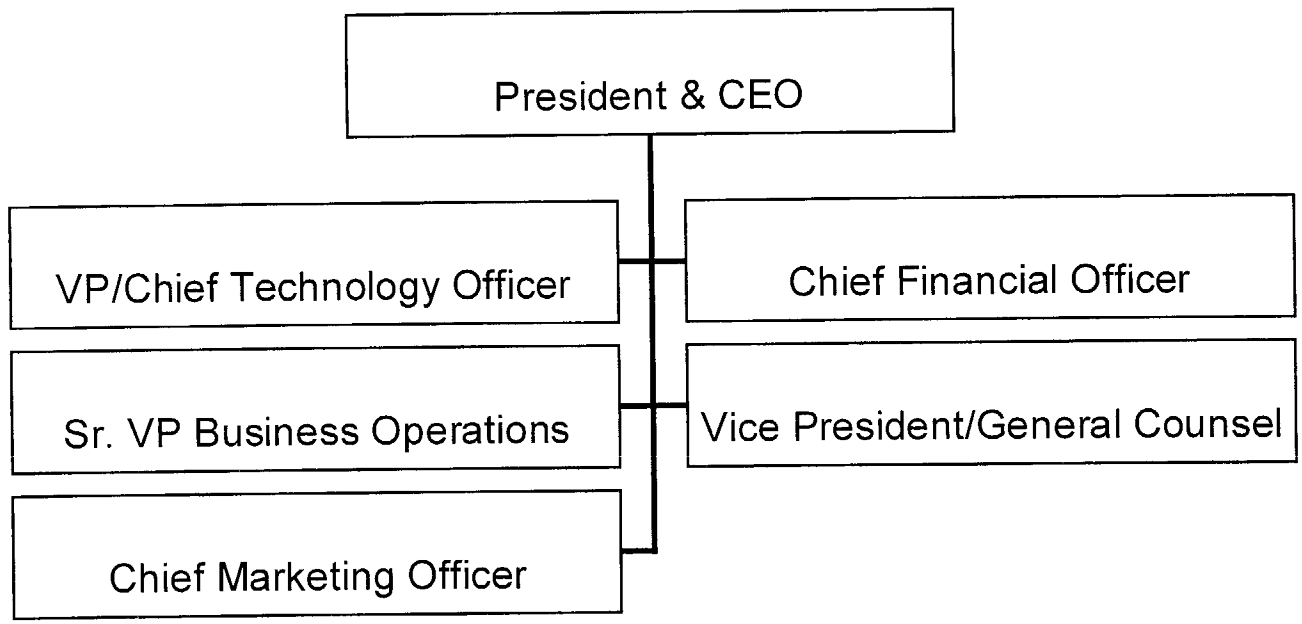


Exhibit 2
Certificate of Incorporation
Consisting of 1 Page
January 16, 2001

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "SCC COMMUNICATIONS CORP.", FILED IN THIS OFFICE ON THE TWENTY-NINTH DAY OF JUNE, A.D. 1998, AT 12 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

Edward J. Freel, Secretary of State

2351472 8100

001340385

AUTHENTICATION: 0540123

DATE: 07-05-00

Exhibit 3
Certificate of Authority To Transact Business in Tennessee
Consisting of 4 Pages
January 16, 2001

ISSUANCE DATE: 09/15/2000
REQUEST NUMBER: 00259512

Secretary of State
Division of Business Services
312 Eighth Avenue North
6th Floor, William R. Snodgrass Tower
Nashville, Tennessee 37243

CHARTER/QUALIFICATION DATE: 05/09/1994
STATUS: ACTIVE
CORPORATE EXPIRATION DATE: PERPETUAL
CONTROL NUMBER: 0279073
JURISDICTION: DELAWARE

TO:
CFS
PMB 333
7051 HIGHWAY 70 S
NASHVILLE, TN 37221

REQUESTED BY:
CFS
PMB 333
7051 HIGHWAY 70 S
NASHVILLE, TN 37221

I, RILEY C DARNELL, SECRETARY OF STATE OF THE STATE OF TENNESSEE DO HEREBY CERTIFY THAT

"SCC COMMUNICATIONS CORP."

WAS INCORPORATED OR QUALIFIED TO DO BUSINESS IN THE STATE OF TENNESSEE ON THE ABOVE DATE, AND THAT THE ATTACHED DOCUMENT(S) WAS/WERE FILED IN OFFICE ON THE DATE(S) AS BELOW INDICATED:

REFERENCE NUMBER	DATE FILED	FILING TYPE	FILING ACTION NAM DUR STK PRN OFC AGT INC MAL FYC
2844-2168	05/09/1994	QUAL-PROFIT	

FOR: REQUEST FOR COPIES

ON DATE: 09/15/00

FEES

RECEIVED: $120.00 $0.00

TOTAL PAYMENT RECEIVED: $120.00

RECEIPT NUMBER: 00002740099
ACCOUNT NUMBER: 00101230

FROM:
CFS
PMB 333
7051 HWY 70 SOUTH
NASHVILLE, TN 37221-0000

THE GREAT SEAL OF THE STATE OF TENNESSEE XVI AGRICULTURE COMMERCE 1796

Riley C Darnell

RILEY C. DARNELL
SECRETARY OF STATE

SS-4458

APPLICATION FOR CERTIFICATE OF AUTHORITY FOR

RECEIVED
STATE OF TENNESSEE

94 MAY -9 PM 1:16

RILEY DARNELL
SECRETARY OF STATE

To the Secretary of State of the State of Tennessee:

Pursuant to the provisions of Section 48-25-103 of the Tennessee Business Corporation Act, the undersigned corporation hereby applies for a certificate of authority to transact business in the State of Tennessee, and for that purpose sets forth:

1. The name of the corporation is SCC Communications Corp.

If different, the name under which the certificate of authority is to be obtained is ______

[NOTE: The Secretary of State of the State of Tennessee may not issue a certificate of authority to a foreign corporation for profit if its name does not comply with the requirements of Section 48-14-101 of the Tennessee Business Corporation Act. If obtaining a certificate of authority under an assumed corporate name, an application must be filed pursuant to Section 48-14-101(d).]

2. The state or country under whose law it is incorporated is Delaware.

3. The date of its incorporation is Sept. 17, 1993 (must be month, day, and year), and the period of duration, if other than perpetual, is perpetual.

4. The complete street address (including zip code) of its principal office is

Street	City	State/Country	Zip Code
6285 Lookout Rd.	Boulder	CO	80301

5. The complete street address (including the county and the zip code) of its registered office in this state is

Street	City/State	County	Zip Code
530 Gay St.	Knoxville, TN	Knox	37902

The name of its registered agent at that office is

CT Corporation System.

6. The names and complete business addresses (including zip code) of its current officers are: (Attach separate sheet if necessary.)

See Attached

7. The names and complete business addresses (including zip code) of its current board of directors are: (Attach separate sheet if necessary.)

See Attached

8. The corporation is a corporation for profit.

9. If the document is not to be effective upon filing by the Secretary of State, the delayed effective date/time is

______ — ______, 19______ (date), ______ (time).

[NOTE: A delayed effective date shall not be later than the 90th day after the date this document is filed by the Secretary of State.]

[NOTE: This application must be accompanied by a certificate of existence (or a document of similar import) duly authenticated by the Secretary of State or other official having custody of corporate records in the state or country under whose law it is incorporated. The certificate shall not bear a date of more than one (1) month prior to the date the application is filed in this state.]

5/4/94
Signature Date

Vice President of Finance CFO
Signer's Capacity Secretary + Treasurer

SCC Communications Corp.
Name of Corporation

Nancy K. Hamilton
Signature

Nancy K. Hamilton
Name (typed or printed)

RECEIVED
STATE OF TENNESSEE
94 MAY -9 PM 1:16
RILEY DARNELL
SECRETARY OF STATE

SCC COMMUNICATIONS CORP.
FEIN#84-0796285
6285 LOOKOUT ROAD
BOULDER, COLORADO 80301-3343

TITLE	NAME & ADDRESS
OFFICERS:	
CEO	ROBERT B. LOUTHAN SCC COMMUNICATIONS CORP. 6285 LOOKOUT ROAD BOULDER, CO 80301-3343
PRESIDENT	GEORGE K. HEINRICHS SCC COMMUNICATIONS CORP. 6285 LOOKOUT ROAD BOULDER, CO 80301-3343
VICE PRESIDENT OF FINANCE, SECRETARY & TREASURER	NANCY K. HAMILTON SCC COMMUNICATIONS CORP. 6285 LOOKOUT ROAD BOULDER, CO 80301-3343
ASSISTANT SECRETARY	EVE CHILDRESS SCC COMMUNICATIONS CORP. 6285 LOOKOUT ROAD BOULDER, CO 80301-3343
DIRECTORS:	
DIRECTOR	ROBERT B. LOUTHAN SCC COMMUNICATIONS CORP. 6285 LOOKOUT ROAD BOULDER, CO 80301-3343
DIRECTOR	GEORGE K. HEINRICHS SCC COMMUNICATIONS CORP. 6285 LOOKOUT ROAD BOULDER, CO 80301-3343
DIRECTOR	JOHN G. HILL HILL, CARMAN & WASHING 885 ARAPAHOE BOULDER, CO 80302
DIRECTOR	THOMAS W. TOUTON AMERITECH DEVELOPMENT CORP. 225 WEST RANDOLPH, HQ 18C CHICAGO, IL 60606
DIRECTOR	DAVID KRONFELD BOSTON CAPITAL VENTURES 205 N. MICHIGAN AVE, SUITE 3911 CHICAGO, IL 60601

2344 2170

State of Delaware

Office of the Secretary of State

RECEIVED
STATE OF TENNESSEE
94 MAY -9 PM 1:16
RILEY DARNELL
SECRETARY OF STATE

I, WILLIAM T. QUILLEN, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "SCC COMMUNICATIONS CORP." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWENTY-NINTH DAY OF APRIL, A.D. 1994.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

William T. Quillen

William T. Quillen, Secretary of State

2351472 8300

944075260

AUTHENTICATION: 7104733

DATE: 04-29-94

Exhibit 4
Financial Qualifications
Consisting of 113 pages
January 16, 2001

SCC™

1999 ANNUAL REPORT

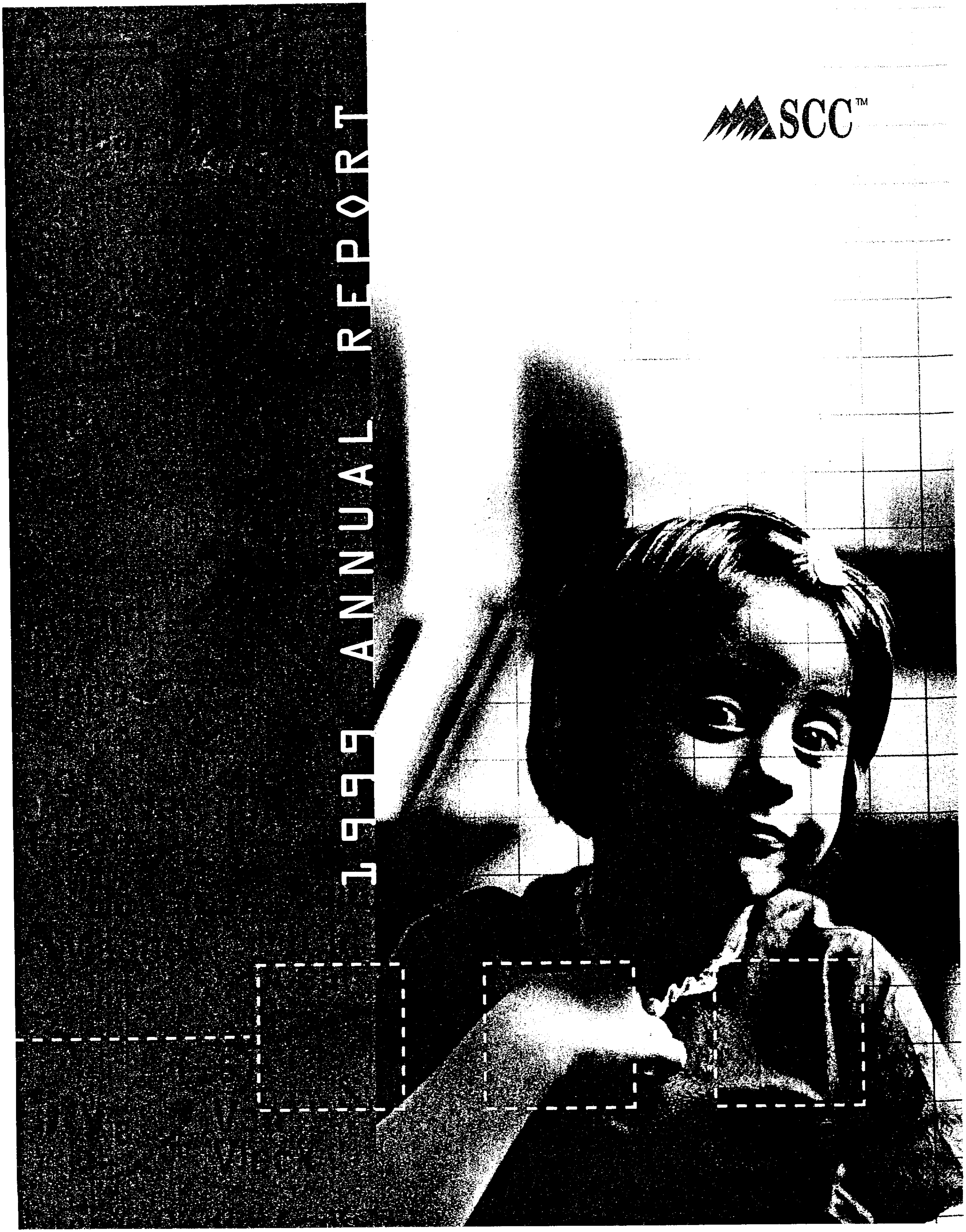
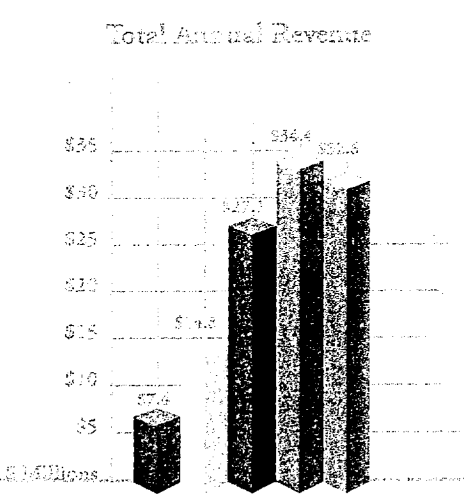


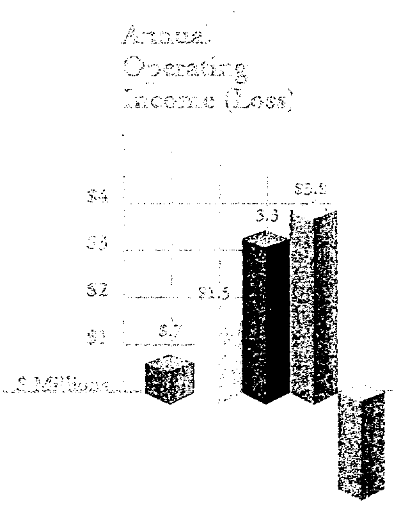
Table of Contents

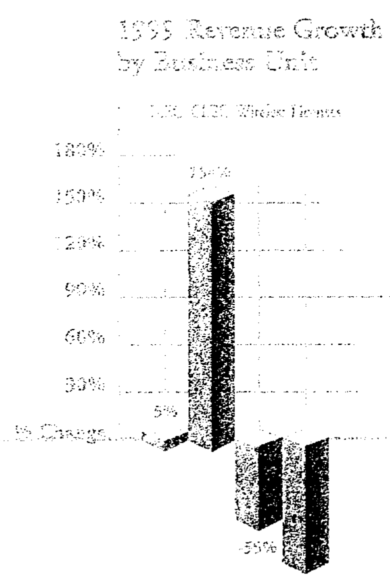
Financial Highlights

(dollars in thousands, except per share data)	December 31, 1999	1998	1997	1996	1995
Total revenue	32,584	34,449	27,072	14,802	7,413
Income (loss) from operations	(2,137)	3,795	3,334	1,473	686
Net income (loss)	$ (1,288)	$ 2,971	$ 1,875	$ 375	$(1,444)
Net income (loss) per share:					
Basic	$ (0.12)	$ 0.39	$ 0.61	$ (0.17)	$ (1.07)
Diluted	$ (0.12)	$ 0.29	$ 0.21	$ 0.05	$ (1.07)
Cash and cash equivalents	$ 8,354	$ 10,266	$ 2,503	$ 32	$ 1,004
Short and long-term investments in marketable securities	13,158	9,815	—	—	—
Working capital (deficit)	18,014	17,678	(2,670)	(7,345)	(8,135)
Total assets	41,780	45,095	21,106	18,482	11,755
Long-term debt	2,038	2,791	6,891	3,318	1,934
Total stockholders' equity (deficit)	32,935	33,591	(11,867)	(13,068)	(4,614)

1995
1996
1997
1998
1999







Dear Shareholders,

1999 was a successful year for SCC, a year of investing for the future. In 1999, we restructured the company into functional business units, added a number of new products and services, and put the building blocks in place that will not only drive SCC into the future as the leader in 9-1-1 but will also position our company for expansion into other markets.

During 1999, we realized that in order to provide a full range of services to a diverse set of clients, many of whom are competitors with one another, SCC would need to reshape its approach to the marketplace. In addition, SCC's management recognized that while some areas of the core business were experiencing heavy investments, other segments of our business were doing very well, and there were a number of new markets set to explode. It was difficult for our shareholders to distinguish among our various business units. To empower our teams to focus on specific customer and market demands, SCC announced a new vertical arrangement consisting of four distinct business units, as well as several enterprise-wide support groups.

The business units are Incumbent Local Exchange Carriers (ILEC), Wireless Operations, Competitive Local Exchange Carriers (CLEC), and Direct (encompassing the State of Texas and other government entities). Our support groups include Software Engineering, Computer Operations, and Executive/Administrative Services. The focus facilitated by the creation of individual business units is already delivering positive results. The new structure allows managers to concentrate more on growing their revenue and market share. They are defining and delivering the highest levels of customer service possible and improving SCC's operational effectiveness.

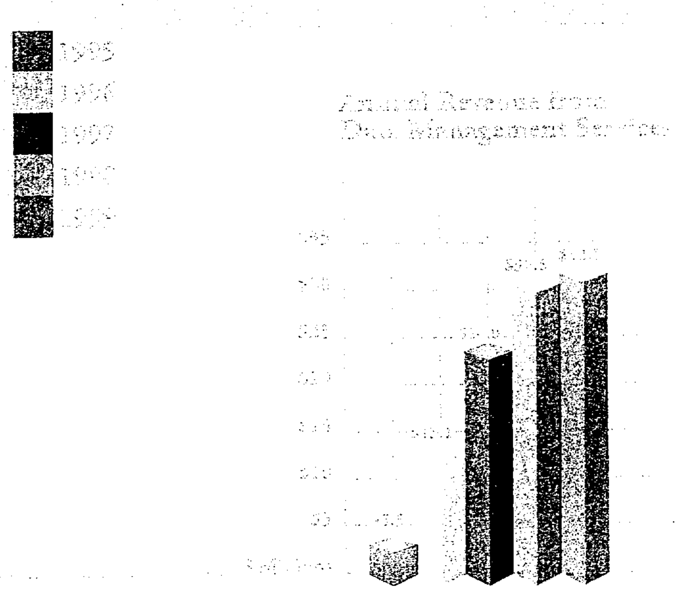
Financial Results *The ILEC business unit,* which serves clients who have long been the backbone of SCC's business model, once again showed reliable and steady growth in 1999. We continue to look for ways to strengthen our relationships with our ILEC clients, and we are focusing on the research, development, and marketing of products and services to meet their changing needs and to expand the breadth of services we offer.

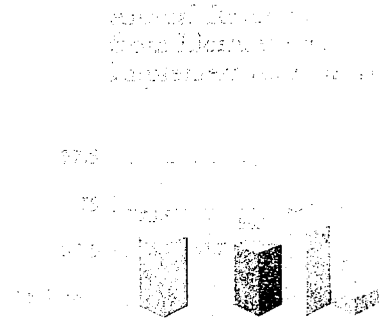
The CLEC business unit more than tripled in 1999, exceeding the one-million subscriber mark in January, the two-million mark in June, and the three-million mark in December. Our CLEC customers rely on SCC to provide the training and expertise they need to get up and running quickly. SCC focuses on the technical issues of building an accurate data source, thereby allowing the CLEC to concentrate on the all-important element of customer service.

The Wireless business unit was our highest strategic priority during 1999, with ongoing expenses of about $5 million. Our early endeavors with a number of wireless carriers to create solutions that meet government 9-1-1 requirements, thereby speeding our customers into the market, have resulted in solid market share. While the early adopter base is smaller than we would have liked, signals from the industry and our customers indicate that an accelerated rollout is imminent.

A major hurdle was eliminated in October 1999 when Congress passed and President Clinton signed the Wireless Communications and Public Safety Act of 1999, giving wireless carriers the same liability protection for 9-1-1 as wireline carriers. As a result, carriers have been able to simplify their contracts with Public Safety Answering Points (PSAPs) and eliminate a significant number of indemnification provisions that were holding up deployment. With these issues put to rest, the wireless carriers are now focusing on rolling out their next-generation services. These factors work together to drive demand for SCC's wireless solutions.

The Direct business unit's biggest accomplishment in 1999 was the successful pilot of a 9-1-1 solution for which a state government contracted directly with SCC for services. This contract with the State of Texas represents a major opportunity for SCC because it demonstrates that our 9-1-1 services can be sold directly to state and local governments, in addition to telecommunications carriers. Due to the strategic importance of our new direct offerings, we invested approximately $1.2 million to lay the foundation in Texas.





Letter to Shareholders

This included opening an office in Austin, Texas, to supplement our data management capabilities in Boulder, Colorado. It also included support for an extensive pilot of 40,000 telephone records and 17,000 service orders. There are between 11 and 12 million records in Texas, and entities representing more than six million have committed to transferring their records to SCC. To date, we have transitioned more than three million records and expect to complete the cutover of the initial six million records by the end of the year. We are working toward gaining management of the remaining six million in the near future. Therefore, the success of our investment is significant.

In addition to the strategic initiatives in each business unit, the Direct and ILEC business units teamed up to create new services, the first of which is our Emergency Warning and Evacuation℠ (EWE℠) service. EWE performs high-volume outbound telephone calling to targeted areas warning citizens of impending danger. By the end of 1999, we had completed testing of the product and signed a contract with a major ILEC to market the product under the name Emergency Preparedness Network (EPN). Several customers are now live on this product, and we are in contract negotiations in several other jurisdictions.

We made a strategic decision going into 1999 to focus our business on our data management services model and did not expend any significant efforts on selling our license model. As a result, our revenue from licenses and implementation services decreased by about $5.4 million. We remain committed to the recurring and long-term nature of our contracts under the services model. However, we may pursue certain license opportunities, such as in international markets, as we go forward.

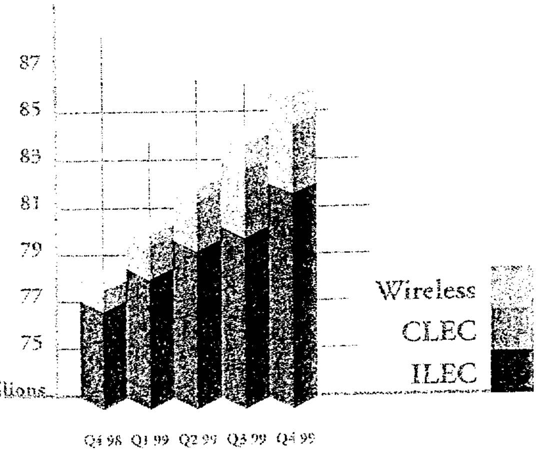
Investment Strategy and Growth SCC is the undisputed leader in the delivery of mission-critical transactions to telecommunications carriers and public safety agencies—at present. But the use of wireless devices is growing at a phenomenal rate. Cars can phone for help. You can call your cousin from your PC—or your wristwatch! These innovative and exciting technologies have opened the door to the development of applications not previously possible, and they introduce 9-1-1 challenges that represent significant opportunities for SCC.

One such challenge lies in the fact that wireless callers roam, and the tether to a specific address does not exist. A national-scale solution is not in place to deliver the wireless call and location information through the 9-1-1 network and to route the roamer's calls to the appropriate answering point. Due to SCC's database assets and working relationships with the ILECs, CLECs, wireless carriers and public safety agencies, we are in a unique position to be the backbone for all 9-1-1 call routing and call and data delivery on a national scale. SCC will capitalize on this opportunity. Our 2000 strategy calls for investment of about $10 million in the research, development, marketing, and implementation necessary to create the next generation of 9-1-1 supporting infrastructure, as well as, opening the door to broad sets of new applications and services.

We're excited about the progress we've made and the opportunity that lies ahead. SCC has the vision, technology, and experience necessary to take public safety telecommunications into the 21st Century. We have built the complex infrastructure needed to support such a claim. Keeping pace isn't enough. SCC will continue to revolutionize the way 9-1-1 is done.

I thank our employees for their continued dedication and our shareholders for their support.

Subscribers by Business Unit



George K. Heinrichs,

President and Chief Executive Officer

The SCC Contribution

It's Sunday morning and your five-year-old impatiently runs into your bedroom to awaken you. She shakes you and calls your name, but you don't respond. She soon realizes that something is wrong and dials 9-1-1. As the calltaker answers, she identifies the problem but is unable to describe her address or location. The calltaker stays on the line and moments later, sirens can be heard. You're treated for severe allergies to new prescription pills and will go home that evening—thanks to enhanced 9-1-1.

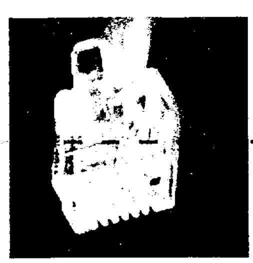
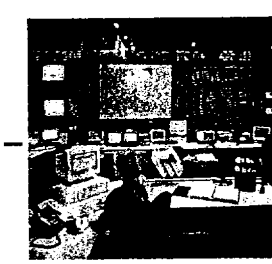
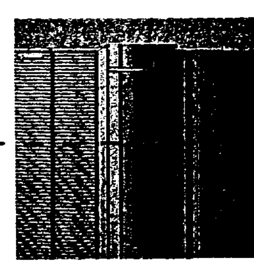
Dialing 9-1-1 has become an instinct for Americans in need. A service most of us give little thought to, 9-1-1 involves a multitude of routing, mapping, and database functions that must be carefully timed and painstakingly accurate. Whether you call 9-1-1 from Montana or Florida, your call is answered by a calltaker in your area. Your address is displayed on the computer screen, and help can be dispatched without a word. All this—the call routing and transmission of the caller's information—happens in mere seconds and is facilitated by the systems and data that SCC maintains.

Investing in Safety

Early on in the development of enhanced 9-1-1, forward-looking designers understood the significance of pre-locating the 9-1-1 caller. It requires a series of mapping, routing, and database activities to provide data containing the phone number of the caller followed by the voice portion of the 9-1-1 call. Every physical location with a telephone number is mapped for accurate call routing. This allows the call to be directed to the calltaker in their area. During a 9-1-1 call, the telephone number triggers the display of attending information on the calltaker's computer screen—that is, the street address of the caller and the identification of the emergency response unit assigned to that street address. The calltaker instantly knows which response unit to send and where. Coaxing location information from an often hysterical caller in the midst of an emergency no longer delays the response. Lives are saved.

At the center of the inner workings of 9-1-1—from caller, to phone network, to calltaker, to response team—is the database that contains the attending information. The information contained in this database must be updated daily. And it must be constantly available. SCC is committed to making this data as accurate as possible.

Americans are constantly moving to new locations, adding new phone lines, and changing service providers. This creates the need to change the 9-1-1 database telephone subscriber record. The accuracy of the Master Street Address Guide (MSAG) is key to the proper routing of 9-1-1 calls. Over 100 SCC data analysts and supervisors work with our clients' local jurisdictions to ensure the accuracy and timeliness of updates. These data analysts provide support to more than 1,600 MSAG coordinators representing over 2,000 Public Safety Answering Points (PSAPs) in 29 states. The SCC data analysts handle tens-of-thousands of MSAG requests (either adds, changes, or deletes) annually. We manage over 90 million subscriber records. Our investment in safety saves lives and creates value to shareholders.



Seamless Performance
than
9-1-1 calls are made
in the United


Boundless Opportunity
774

The SCC Contribution

It has been raining for days. Nearby dams are swollen. Experts predict that, in less than an hour, the Mason Dam will break, flooding a residential area of more than 16,000 residents. County emergency coordinators activate their Emergency Warning and Evacuation plan.

While fixing dinner, you receive a phone call containing a message informing you of a potential danger due to flooding from the Mason Dam. You are asked to evacuate immediately and seek shelter at Penrose Arena. You and your family are safe. SCC's Emergency Warning and Evacuation allows emergency coordinators to launch an emergency warning and notify thousands of residents within minutes. The residents contacted are only those in danger, thus eliminating the confusion common to sirens and broadcast warnings.

ILEC and Direct

Our ILEC business unit is focused on supporting our strong incumbent local exchange carriers. These customers, comprised primarily of Regional Bell Operating Companies, represented 82% of SCC's total revenue in 1999. Our ILECs characterize the backbone of SCC's revenue and we continue to look for ways to meet and exceed their expectations. Notably, the ILEC business unit saw a 6.5% increase in subscribers in 1999.

A significant development in wireline services was the rollout of Emergency Warning and Evacuation℠ (EWE℠) service in the fourth quarter of 1999. EWE is an advanced telephone-based emergency warning service. This service allows county and city agencies to deliver vital emergency information to their citizens through a high-capacity telephone system. Flash floods, wildfires, chemical spills, and hostage situations are all examples of incidents in which EWE can be used to advise people of the level of danger and the best action to take. SCC signed a contract with a major ILEC to co-market this product under the name Emergency Preparedness Network and currently has several sites live.

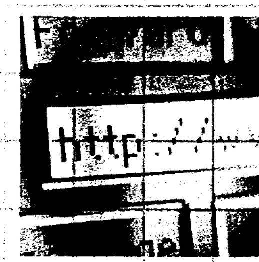
In 1998, the Direct business unit signed a contract with the State of Texas. This was the first time that a state government chose an alternative provider for 9-1-1 data management. A pilot test period was conducted in Texas in 1999 to demonstrate SCC's ability to independently manage the enhanced 9-1-1 database.

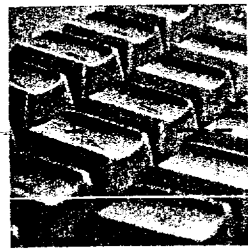
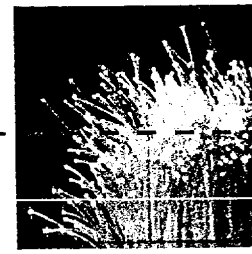
Due to the success of the pilot test, six million subscribers made a commitment to transition to SCC and, as of the end of the first quarter, approximately three million Texas-based records have been transitioned to our database. These records are now generating revenue for SCC. The rest of the committed six million Texas records will be transitioned during 2000. Sales efforts continue to bring the remainder of the approximately 12 million available subscribers in the State of Texas to SCC.

SCC opened an office in Austin, Texas, in 1999. This facility will supplement our customer service and support capabilities.

SCC is extremely proud of our partnership with the state of Texas. Our accomplishment there serves as a model for other states interested in providing reliable, technologically advanced alternatives for public safety services.

SCC manages over 90 million subscriber records[2]



The SCC Contribution

You sit down to dinner and the phone rings. It's a telephone provider offering you lower rates. Sounds great, so you make the switch and keep your original telephone number. While this appears simple, the ability to keep your existing telephone number when switching providers has become one of the most significant challenges to accurately maintaining the 9-1-1 database.

Established as part of the Telecommunications Reform Act of 1996, Local Number Portability (LNP) requires a series of precisely timed transactions between telephone providers and the 9-1-1 database. A lapse between these transactions could result in missing information during a 9-1-1 call.

In January of 2000, SCC launched a new service initiative: LNP2000℠. Directed by a team of specially trained senior analysts, LNP2000 has resulted in substantial improvements in service order timing and administrative processing. LNP2000 is another example of SCC's efforts to reduce the time and level of resources local service providers must expend.

CLEC

Our Competitive Local Exchange Carrier (CLEC) business unit continues to be the fastest-growing sector of our business with its TelConnect℠ service offerings. CLEC business represented 12% of SCC's total revenue in 1999. CLEC records increased 244% in 1999 as we executed 11 new CLEC contracts. CLEC subscriber growth expanded from 900,000 in the beginning of 1999 to over 3.1 million at the end of the year.

SCC's CLEC business unit established its Alliance Program in 1999. This program creates strategic partnerships with other businesses and vendors to develop and sell high-quality 9-1-1 Operations Support Systems℠ (9-1-1 OSS℠) for the CLEC market. Our alliances allow us to deploy cost-effective solutions to the market more rapidly.

Among the goals for 2000 is the development of a series of products to increase automation, resulting in the delivery of more cost-effective solutions. The plan also focuses on increasing the awareness of SCC and its value in the marketplace. These goals will be accomplished by continuing to provide an unsurpassed level of customer service, expanding the line of products and services offered by SCC, and establishing partnerships with more OSS vendors.


Investment in Safety
business
by 2003


100% Reliability

Wireless

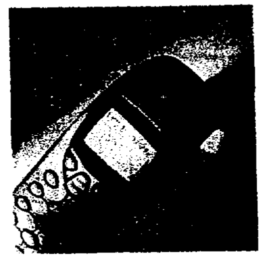
Just as the traditional dial tone providers, emergency services suppliers, and their vendors had enhanced 9-1-1 down to a fine science, along comes wireless. Not far behind was the Federal Communications Commission (FCC) mandate requiring the wireless industry to support enhanced 9-1-1 and provide location information to calltakers.

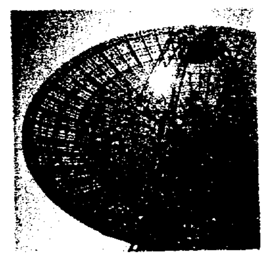
The mandates issued by the FCC in 1996 are referred to as Phase I and Phase II. Phase I location data was to be available as of April 1998 and was to identify the cell sector and callback number of the 9-1-1 caller to the calltaker. Funding for the PSAPs and liability issues for the wireless carriers have significantly slowed Phase I implementation. However, passage of the Wireless Communications and Public Safety Act of 1999 has re-energized deployment efforts, which we hope will bring direct and positive results for our wireless business unit.

The FCC's Phase II implementation schedule has been set for October 1, 2001 and requires wireless carriers to provide more precise caller location information. Through strategic alliances, SCC is well positioned as a leading provider of Phase I and Phase II service to wireless carriers with its 9-1-1Connect℠ service offerings.

Despite delays and roadblocks experienced in rolling out Phase I, the Wireless business unit accounted for 5% of SCC's total revenue for 1999. The Wireless group announced an increase of 100% in its subscriber base for Phase I services during 1999, bringing total live subscribers to 726,000. The group has carriers representing 27.1 million subscribers under contract.

Continued rollout of Phase I is a priority for SCC's Wireless business unit in 2000, and our strategy for the deployment of our Phase II solution is aggressive. The result is an innovative solution for Phase I and Phase II wireless services, as well as the positioning of SCC as a leading provider of wireless services.





Approximately 98,000 9-1-1 wireless calls are made daily[4]

The SCC Contribution

You're fly fishing in the streams of the Colorado River, and nothing could be better. You glance over at your friend a few yards behind you and notice that he has collapsed. As you approach, you realize that he is having a heart attack. You grab your wireless phone and dial 9-1-1. You almost establish your location with the calltaker when the call drops, and your connection is lost. With SCC's 911Connect service, the 9-1-1 calltaker has your cell phone number and is able to call you back. Emergency assistance is on the way.

Surveys show 64% of people who buy wireless phones rank safety as their number one priority.[5] SCC understands this importance and is here to provide Phase I and Phase II service to wireless carriers nationwide.

Emergency roadside assistance services are expected to generate nearly 2.9 billion in annual service revenue [6]

Building the Future

9-1-1 systems were originally designed in the 1970s to support telephones from a fixed location. Calls were delivered and information provided based on a regional or local 9-1-1 system of mapping and call routing. Today, new technologies are introduced that allow mobility; phones are no longer fixed. These technologies include wireless phones, telematics devices in automobiles, and IP telephony. Many provide public safety capability but require a nationwide 9-1-1 system. Routing calls from such devices to the answering point responsible for handling the emergency and delivering the call through the 9-1-1 network present significant challenges that had not been addressed from a national perspective.

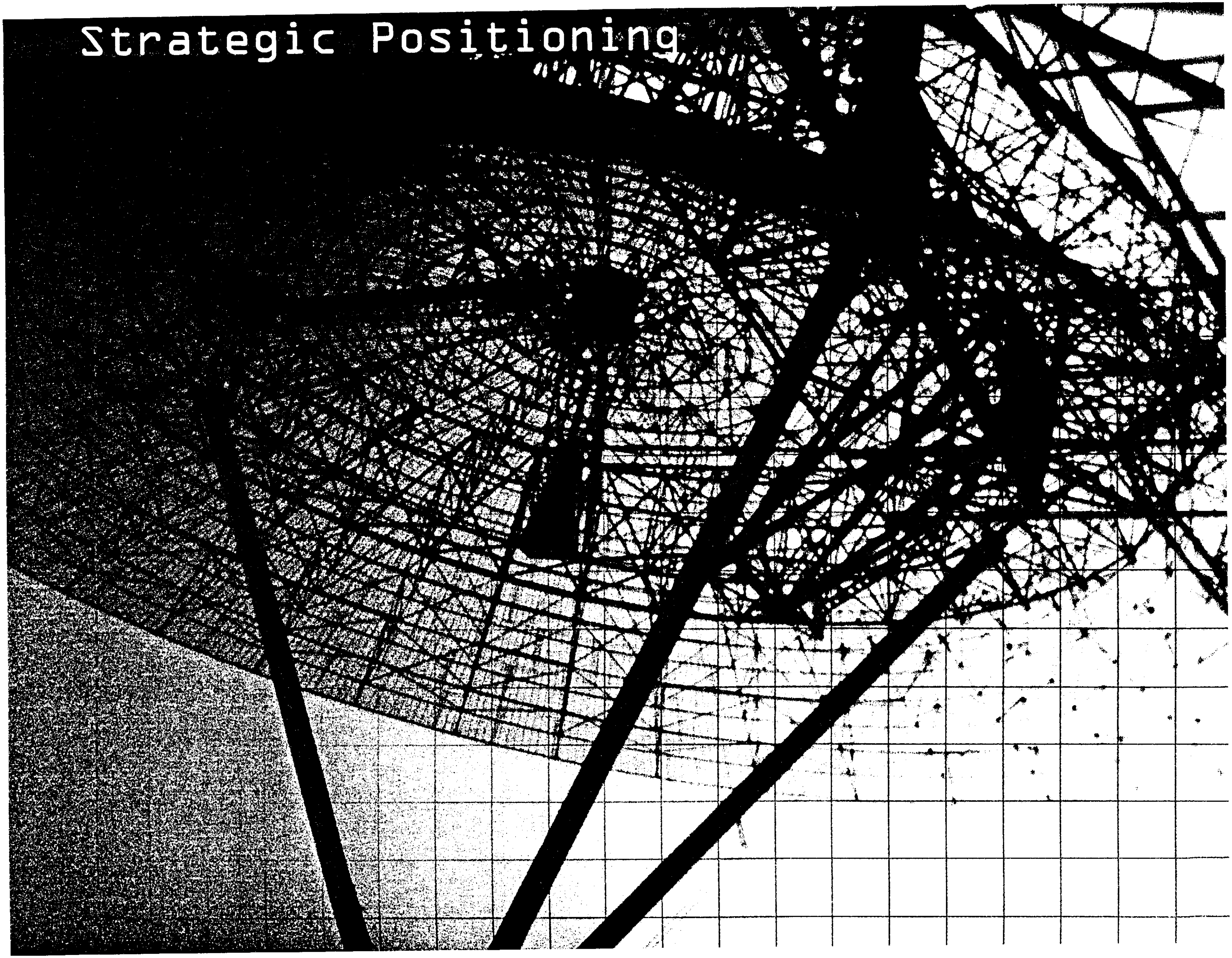
SCC recently announced the launch of a revolutionary technology solution for wireless carriers and other non-traditional telecommunications service providers. This new service initiative is the first step toward addressing the challenges and limitations of the nation's aging 9-1-1 system. This offering will provide the ability to properly route and deliver 9-1-1 calls and data throughout the United States. The existing 9-1-1 system that was deployed in local and regional segments is a configuration that seriously limits the ability to efficiently transfer calls outside those boundaries. With the increasing mobility of 9-1-1 callers, this capability is essential on a national scale.

This initiative, 9-1-1 SafetyNet℠, will process thousands of boundary updates and new addresses daily. It is designed to easily integrate with the existing 9-1-1 systems and is capable of providing high-speed delivery of voice and data together with automatic call routing information without human intervention. 9-1-1 SafetyNet℠ was created to meet today's call volumes and network complexities.

9-1-1 SafetyNet will provide a method for a telematics provider to accurately and automatically determine the correct source for emergency services for a stranded motorist, whether the motorist is in Albuquerque or Orlando. Many technologies exist that can determine the exact location of a 9-1-1 caller, but they all need services like SCC's 9-1-1 SafetyNet to determine the proper routing of the call and to deliver the call and data through the 9-1-1 network in seconds, not minutes. 9-1-1 SafetyNet sorts out the confusion of overlapping and multi-jurisdictional locations.

As our society becomes more mobile and the volume of non-traditional subscribers increases, the need for a reliable, state-of-the-art method for providing emergency services will become more critical. SCC's 9-1-1 SafetyNet is a service designed to meet this need for the next generation in service.

Strategic Positioning



Selected Financial Data

The following selected financial data are qualified by reference to and should be read in conjunction with our financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein. The statement of operations data for the years ended December 31, 1999, 1998 and 1997 and the balance sheet data at December 31, 1999 and 1998 are derived from, and are qualified by reference to, the audited financial statements and notes included herein. The statement of operations data for the years ended December 31, 1996 and 1995 and the balance sheet data at December 31, 1997, 1996 and 1995 are derived from audited financial statements not included in this Annual Report.

	December 31,				
(dollars in thousands, except per share data)	1999	1998	1997	1996	1995
Revenue:					
Data management services	$ 32,096	$ 30,610	$ 24,005	$ 13,165	$ 3,531
Licenses and implementation services	488	3,839	3,067	1,637	3,882
Total revenue	32,584	34,449	27,072	14,802	7,413
Costs and expenses:					
Cost of data management services	24,338	20,740	15,378	7,996	2,840
Cost of licenses and implementation services	138	836	1,283	596	1,041
Sales and marketing	5,314	4,119	3,850	3,204	2,016
General and administrative	4,931	4,959	3,227	1,533	830
Total costs and expenses	34,721	30,654	23,738	13,329	6,727
Income (loss) from operations	(2,137)	3,795	3,334	1,473	686
Other income (expense), net	607	(294)	(879)	(527)	(368)
Income (loss) from continuing operations before income taxes	(1,530)	3,501	2,455	946	318
Provision (benefit) for income taxes	(468)	(379)	(2,328)	9	16
Net income (loss) from continuing operations before extraordinary item	(1,062)	3,880	4,783	937	302
Loss from operations of discontinued division, net of tax	(226)	—	(876)	(562)	(1,746)
Loss from disposal of discontinued division, net of tax	—	—	(2,032)	—	—
Net income (loss) before extraordinary item	(1,288)	3,880	1,875	375	(1,444)
Loss from early extinguishment of debt, net of tax	—	(909)	—	—	—
Net income (loss)	**$ (1,288)**	**$ 2,971**	**$ 1,875**	**$ 375**	**$(1,444)**
Net income (loss) from continuing operations before extraordinary item per share:					
Basic	**$ (0.10)**	**$ 0.53**	**$ 2.17**	**$ 0.15**	**$ (0.02)**
Diluted	**$ (0.10)**	**$ 0.38**	**$ 0.54**	**$ 0.11**	**$ (0.02)**
Net income (loss) per share:					
Basic	**$ (0.12)**	**$ 0.39**	**$ 0.61**	**$ (0.17)**	**$ (1.07)**
Diluted	**$ (0.12)**	**$ 0.29**	**$ 0.21**	**$ 0.05**	**$ (1.07)**
Cash and cash equivalents	$ 8,354	$ 10,266	$ 2,503	$ 32	$ 1,004
Short and long-term investments in marketable securities	13,158	9,815	—	—	—
Working capital (deficit)	18,014	17,678	(2,670)	(7,345)	(8,135)
Total assets	41,780	45,095	21,106	18,482	11,755
Long-term debt	2,038	2,791	6,891	3,318	1,934
Total stockholders' equity (deficit)	32,935	33,591	(11,867)	(13,068)	(4,614)

See Note 2 of Notes to Financial Statements for an explanation of the determination of the shares used in computing net income (loss) per share.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, (1) lengthy sales cycles associated with our services and products, (2) our reliance on large contracts from a limited number of significant customers, (3) rate of adoption of 9-1-1 technology by wireless carriers, (4) continuing rapid change in the telecommunications industry that may affect us and our customers, (5) continuing demand for our services and products, and (6) additional factors described in our Annual Report on Form 10-K for the year ended December 31, 1999.

Overview

Prior to 1995, substantially all of our revenue was derived from the sale of software licenses and related implementation services to ILECs and public safety agencies. During 1994, we began investing in infrastructure to provide our 9-1-1 OSS℠ solution to telephone operating companies seeking to outsource such operations. We signed our first 9-1-1 data management services contract in August 1994 and continue to add to the number of records under management. We began to recognize revenue from wireless carriers in the third quarter of 1997, and continue to increase the number of live wireless subscribers managed. In addition, we signed a contract with the General Services Commission of the State of Texas in November 1998, representing the first time that a state agency has endeavored to centralize 9-1-1 OSS and data management services with a neutral third party.

Our data management services revenue is derived from contracts with ILECs, CLECs, wireless carriers and a state agency pursuant to which we provide an outsourcing solution for our customers' 9-1-1 data management. Revenue included in data management services generally includes a non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are recognized on the percentage-of-completion method over the period required to perform the tasks necessary to prepare for the processing of customer data. Our contracts also separately allow for a monthly service fee based on the number of subscriber records under management, which is recognized in the period in which the services are rendered. Data management services revenue also may include revenue from enhanced products and services, which may include non-recurring and/or monthly fees which are separately stated in the contract and are recognized in the period in which the services are performed. Related costs are expensed as they are incurred. Data management services revenue comprised 99% of our total revenue in 1999 and 89% in each of the years ended December 31, 1998 and 1997.

Our licenses and implementation services revenue is derived from contracts with ILECs pursuant to which we provide a 9-1-1 software license or related products and services such as implementation, training, software enhancements and interfaces to our customers' systems. Licenses and implementation services revenue is recognized using the percentage-of-completion method. The related costs include third-party licenses, direct labor and related expenses, and are expensed as incurred. Subsequent to system installation, we provide our customers with maintenance services that are recognized ratably over the related contract period on a straight-line basis. Our licenses and implementation services revenue is derived from a limited number of customers and consequently the concentration of customers can result in quarterly fluctuations based on the timing of the signing of new contracts and completion of existing contracts. Margins on such contracts also may fluctuate based on the elements included in the contract. We completed the licenses and implementation services contracts we had in place in 1998 and did not sign additional contracts due to our focus on our longer term services contracts. We do not expect to generate significant revenue from licenses and implementation services during 2000. Licenses and implementation services revenue comprised 1% of our total revenue in 1999 and 11% in each of the years ended December 31, 1998 and 1997.

During the year ended December 31, 1999, we recognized approximately 81% of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our total revenue. During the year ended December 31, 1998, we recognized approximately 73% of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our total revenue. During the year ended December 31, 1997, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our total revenue.

In the third quarter of 1998, one of our licenses and implementation services customers, Bell Atlantic, who had merged with Nynex, announced their decision to standardize their 9-1-1 hardware and software platform utilizing non-SCC systems that had been used by Nynex prior to the merger. In the fourth quarter of 1998, we entered into a Termination, Settlement and Release Agreement with Bell Atlantic, under which Bell Atlantic paid us for work that had been performed prior to cancellation of the contract. This transition occurred over the course of 1999, during which time we continued to support the systems installed in Bell Atlantic and cooperated fully to ensure a smooth transition of these systems. Bell Atlantic comprised approximately 8% of our total revenue in 1998.

As of December 31, 1999, we had net operating loss carry forwards of $11.2 million available to offset future net income for U.S. federal income tax purposes. We reversed $1.7 million of the valuation allowance on our deferred tax assets in the year ended December 31, 1998 and recorded an additional income tax benefit of $468,000 from continuing operations in the year ended December 31, 1999, as we believe that it is more likely than not that such tax benefits will be realized. Of the $912,000 tax benefit recorded in 1998, $533,000 related to the extraordinary loss from early extinguishment of debt. We expect to incur losses in the near term related to development costs for new commercial products and future taxable income may not be sufficient to realize additional deferred tax assets that will be created by the projected net operating losses. Consequently, we presently expect our statement of operations will not reflect tax benefits for projected operating losses to be incurred during 2000.

In June 1997, we sold the net assets of our Premise Products Division. The sale of our Premise Products Division resulted in a net loss from the sale of $2.0 million. Net losses from operations of this division totaled $876,000 and $226,000 in 1997 and 1999, respectively, and are presented in our financial statements as loss from operations of discontinued division. The loss from discontinued operations in 1999 resulted from final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

In June and July 1998, we completed an initial public offering of our common stock, which generated proceeds of $26.0 million, net of the underwriter's discount and other offering costs and including the exercise of the underwriters' over allotment option. See Note 2 to the accompanying financial statements and "Liquidity and Capital Resources."

Historically, substantially all of our revenue has been generated from sales to customers in the United States. However, we have generated revenue in Canada and intend to enter additional international markets, which may require significant management attention and financial resources. International sales are subject to a variety of risks.

Our quarterly and annual operating results have varied significantly in the past. The variation in operating results will likely continue and may intensify. We believe that period to period comparisons of results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Our operating results may continue to fluctuate as a result of many factors, including the length of the sales cycles for new or existing customers, the size, timing or duration of significant customer contracts, fluctuations in number of subscriber records under management, timing or duration of service offerings, rate of adoption of wireless services by Public Safety Answering Points, efforts expended to accelerate the introduction of certain new products, our ability to hire, train and retain qualified personnel, increased competition, changes in operating expenses, changes in our strategy, the financial performance of our customers, changes in telecommunications legislation and regulations that may affect the competitive environment for our services, and general economic factors. Our contracts for 9-1-1 OSS services generally include a separate non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data, and therefore, we may recognize significantly increased revenue for a short period of time upon commencing services for a new customer.

Our expense levels are based in significant part on our expectations regarding future revenue. Our revenue is difficult to forecast because the market for our services is evolving rapidly and the length of our sales cycle, the size and timing of significant customer contracts and license fees and the timing of recognition of non-recurring initial fees vary substantially among customers. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenue. Any significant shortfall could therefore have a material adverse effect on our business, financial condition and results of operations. We will incur expenses of approximately $10 million in 2000 for research, development and marketing to expand our product offerings. In addition, we hired additional employees in 1999, 1998 and 1997, and expect to continue hiring additional employees during 2000. We also began leasing office space in Texas in December 1999, from which we will perform some of our operations. We cannot assure you that we can report operating profits or that our investments in research and development will generate future revenue. Failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Results of Operations

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Revenue

Total Revenue. Total revenue decreased 5%, from $34.4 million in 1998 to $32.6 million in 1999.

Data Management Services Revenue. Revenue from data management services increased 5%, from $30.6 million in 1998 to $32.1 million in 1999, representing approximately 89% and 99% of total revenue, respectively. Data management services revenue increased due to an increase in the number of records under management for ILEC and CLEC customers caused by customer growth and the signing of additional CLEC contracts. These increases were offset by monthly minimum fees from a wireless carrier in 1998 that expired at the end of 1998 and a decrease in non-recurring fees related to wireless and wireline services.

Licenses and Implementation Services. Revenue from licenses and implementation services decreased 87%, from $3.8 million in 1998 to $488,000 in 1999, as we had no licenses and implementation services contracts in process in 1999 other than warranty contracts.

Costs and Expenses

Cost of Data Management Services. Cost of data management services consists primarily of labor and costs of interconnection with customers' systems and our infrastructure. Cost of data management services increased 17%, from $20.7 million in 1998 to $24.3 million in 1999, representing 60% and 75% of total revenue, respectively, and 68% and 76% of data management services revenue, respectively. The dollar increase was due to the pilot phase and start of implementation of our contract with the State of Texas, increased depreciation expense and telephone lines to accommodate growth in our wireless and wireline operations, and additional headcount and related costs incurred to accommodate growth for both wireline and wireless services. The percentage increase occurred primarily because the rollout of our wireless and enhanced services has been slower than anticipated, although we have built the infrastructure to service the anticipated demand, and the infrastructure required to begin the State of Texas contract before significant revenue was generated. In addition, in 1998, we received monthly minimum fees from a wireless customer which expired at the end of 1998.

Cost of Licenses and Implementation Services. Cost of licenses and implementation services consists primarily of labor, license fees for third party software and related expenses. Cost of licenses and implementation services decreased 83%, from $836,000 in 1998 to $139,000 in 1999, representing 2% and 0.4% of total revenue, respectively, and 22% and 28% of licenses and implementation services revenue, respectively. The dollar decrease occurred because we had no licenses and implementation services contracts in process during 1999 other than warranty contracts.

Sales and Marketing. Sales and marketing expenses consist primarily of expenses related to salaries and commissions, travel, trade shows and sales collateral. Sales and marketing expenses increased 29%, from $4.1 million in 1998 to $5.3 million in 1999, representing 12% and 16% of total revenue, respectively. The dollar increase was due to the addition of marketing personnel, the creation of a government affairs department to interpret and influence legislation primarily related to our wireless operations and related legal expenses, addition of sales staff for enhanced services and an increase in tradeshow expenses.

General and Administrative. General and administrative expenses consist primarily of expenses related to our information systems, finance, human resources, legal, executive and financial planning departments. General and administrative expenses decreased 1%, from $5.0 million in 1998 to $4.9 million in 1999, representing 14% and 15% of total revenue, respectively. We experienced decreases due to a decrease in expenses related to the resignations of our chief operating officer and chief financial officer. These decreases were partially offset by:

- the addition of information technology personnel and related expenses;
- increased legal and accounting costs related to quarterly and annual reporting requirements as we became a publicly traded company in June 1998;

- increased legal staffing and other fees related to regulatory and legislative issues concerning the implementation of our services in Texas; and
- the creation of an investor relations department.

Other Income (Expense), Net. Net other income (expense) consists primarily of interest expense from our borrowings and leases for capital equipment, offset by interest income earned on our cash and investment balances. Net other expense was $294,000 in 1998 compared to net other income of $607,000 in 1999, representing (1)% and 2% of total revenue for such periods, respectively. The dollar increase in net other income was primarily due to a decrease in interest expense related to the repayment of certain bank debt outstanding through the second quarter of 1998 and repayment of certain capital leases and an increase in interest earned from the investment of funds received from our initial public offering in June and July of 1998.

Benefit for Income Taxes. Our income tax benefit from continuing operations increased from $379,000 in 1998 to $468,000 in 1999. In 1998, we reversed a portion of our valuation allowance and in 1999 recorded an income tax benefit related to our deferred tax assets as we believe that it is more likely than not that the tax assets will be realized.

Loss from Operations of Discontinued Division. We recorded a charge of $226,000 in 1999, net of the related tax benefit, related to the final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

Loss from Early Extinguishment of Debt. We recorded a charge of $909,000 in 1998, net of the related tax benefit, related to the write-off of the remaining debt discount and other costs associated with the early extinguishment of our bank debt.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Revenue

Total Revenue. Total revenue increased 27%, from $27.1 million in 1997 to $34.4 million in 1998.

Data Management Services Revenue. Revenue from data management services increased 28%, from $24.0 million in 1997 to $30.6 million in 1998, representing approximately 89% of total revenue in both periods. The increase resulted primarily from increases in:

- monthly fees from wireline customers due to an increase in the number of subscribers under management;
- non-recurring and monthly fees from wireless customers, as we did not begin to earn revenue from wireless customers until the third quarter of 1997 and signed several new contracts in 1998;
- non-recurring fees from enhanced services; and
- non-recurring fees from new wireline customers that were transitioned to our systems.

Licenses and Implementation Services. Revenue from licenses and implementation services increased 25%, from $3.1 million in 1997 to $3.8 million in 1998, due to increased work performed on contracts that began in 1997 and were completed or terminated during 1998.

Costs and Expenses

Cost of Data Management Services. Cost of data management services increased 35%, from $15.4 million in 1997 to $20.7 million in 1998, representing 57% and 60% of total revenue, respectively, and 64% and 68% of data management services revenue, respectively. The dollar increase was due to the addition of personnel and equipment and expansion of facilities to accommodate growth in our wireless and wireline operations.

Cost of Licenses and Implementation Services. Cost of licenses and implementation services decreased 35%, from $1.3 million in 1997 to $836,000 in 1998, representing 5% and 2% of total revenue, respectively, and 42% and 22% of licenses and implementation services revenue, respectively. The decrease in dollars and as a percent of licenses and implementation services revenue was primarily due to the reversal of accrued third party software fees that will not be required and an increase in warranty revenue, both of which resulted from the cancellation of our contract with Bell Atlantic.

Sales and Marketing. Sales and marketing expenses increased 7%, from $3.9 million in 1997 to $4.1 million in 1998, representing 14% and 12% of total revenue, respectively. The increase was primarily due to salaries and related costs of hiring additional sales and marketing personnel during 1998 and public relations costs incurred in 1998. These increases were partially offset by decreases in sales commissions, as well as the transfer of a vice president to a general and administrative position.

General and Administrative. General and administrative expenses increased 54%, from $3.2 million in 1997 to $5.0 million in 1998, representing 12% and 14% of total revenue, respectively. The dollar increase was due to:

- the reassignment of certain continuing resources, infrastructure and related general and administrative expenses applicable to continuing operations;
- addition of personnel and computer equipment in the accounting, information systems, legal and human resources departments to support our growth;
- the transfer of a marketing vice president to a general and administrative position; and
- strategic consulting costs incurred in 1998.

The increases were partially offset by a decrease in executive bonuses.

Other Expenses, Net. Other expenses decreased 67%, from $879,000 in 1997 to $294,000 in 1998, representing 3% and 1% of total revenue, respectively. The dollar decrease was primarily due to the repayment of certain bank debt and capital leases during 1998 and interest earned from the investment of funds from our initial public offering in June and July of 1998.

Income Tax Benefit. The income tax benefit of $379,000 in 1998 consists of the reversal of a portion of our valuation allowance on our deferred tax assets, compared to a reversal of valuation allowance of $2.4 million in 1997. We did not record a state income tax provision in 1998 primarily due to the utilization of state net operating loss carry forwards. In 1997, we recorded a state provision of $172,000 as more business was conducted in states where net operating loss carryforwards were not available.

Loss from Sale and Operations of Discontinued Division. In 1997, we recorded a charge of $2.9 million, net of the related tax effect, related to the sale of the net assets of our Premise Products Division.

Loss from Early Extinguishment of Debt. We recorded a charge of $909,000 in 1998, net of the related tax benefit, related to the write-off of the remaining debt discount and other costs associated with the early extinguishment of our bank debt.

Liquidity and Capital Resources

Since our inception we have funded our operations with cash provided by operations, supplemented by equity and debt financing and leases on capital equipment. As of December 31, 1999, we had $21.5 million in cash and cash equivalents and investments in marketable securities.

In June 1998, we completed an initial public offering of 2,100,000 shares of our common stock, which generated proceeds of $22.5 million to us, net of the underwriter's discount and other offering costs. We used approximately $4.4 million of the proceeds to repay our bank loans and $160,000 for the related prepayment penalty. In July 1998, the underwriters of our initial public offering exercised their over-allotment option. Under the over-allotment option, we sold an additional 315,000 shares of our common stock, generating net proceeds of $3.5 million.

In addition to the $4.4 million of debt repaid with the proceeds of the initial public offering, we repaid $5.6 million and $1.9 million of other bank debt and capital lease obligations during 1998 and 1999, respectively. Additionally, we used $3.4 million and $2.5 million during 1998 and 1999, respectively, for the purchase of capital assets and software development. We anticipate that our level of spending for capital expenditures in 1999 will continue during 2000, although we currently have no material commitments for capital expenditures.

We have a line of credit with a bank equal to $2.0 million, which is available to meet operating needs. The interest rate on amounts borrowed under the line of credit is equal to the bank's prime rate or the one, two or three month Libor rate plus 2.25% per annum. The line of credit matures April 15, 2000 and is collateralized by certain of our assets. As of December 31, 1999, no borrowings were outstanding on the line of credit.

We also have a $2.0 million capital lease line with a bank which is available to meet capital acquisition needs that arise from normal business operations. The interest rate on capital leased under the lease line is equal to the bank's cost of funds at the time of each lease. Separate lease schedules are signed from time to time. Each lease schedule is collateralized by the assets that are being leased. Each lease has its own termination date, typically 36 months. As of December 31, 1999, $582,000 was outstanding on the capital lease line.

We have announced plans to incur research, development and marketing expenses of approximately $10 million to expand our product offerings. This will require approximately $13 million in cash due to the capital expenditure requirements. We may also increase our capital lease line to finance this initiative. We believe that our remaining net proceeds from our initial public offering, cash generated from operations and lease financing will be sufficient to fund our anticipated working capital needs, research and development initiative, capital expenditures and any potential future acquisitions through at least the next twelve months. In the event our plans or assumptions change or prove to be inaccurate, or if we consummate any unplanned acquisitions of businesses or assets, we may be required to seek additional sources of capital. Sources of additional capital may include public and private equity and debt financings, sales of nonstrategic assets and other financing arrangements.

Year 2000 Capability

Many currently installed computer and software products were coded to accept only two digit entries in the date code field. These date code fields need to accept four digit entries to distinguish twenty-first century dates from twentieth century dates. We use off-the-shelf and custom software developed internally and by third parties for our production, information technology (IT) and non-IT systems.
We programmed and tested our systems and installed all upgrades necessary to make them Year 2000 compliant.
We spent about $400,000 to make our systems Year 2000 compliant. As a result of our Year 2000 readiness efforts, our production systems, IT systems and non-IT systems successfully distinguished twenty-first century dates from twentieth century dates on January 1, 2000 without any system failures. However, we are continuing to monitor our systems throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.
Despite the fact that many companies' software and computer systems are currently processing twenty-first century dates correctly, these companies, including us, could experience latent Year 2000 problems.

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 and No. 137

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An amendment of FASB Statement No. 133." SFAS No. 137 delays the effective date of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. We do not typically enter into arrangements that would fall under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not significantly affect our financial condition and results of operations.

Statement of Position 98-9

In December 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 amends certain paragraphs of Statement of Position 97-2, "Software Revenue Recognition," to require the application of a residual method of accounting for software revenue when certain conditions exist. SOP 98-9 also amends Statement of Position 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2" to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. Earlier adoption is permitted; however, retroactive application is prohibited. We believe SOP 98-9 will not materially impact our financial statements.

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition." SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 101 must be applied to financial statements no later than the second fiscal quarter of 2000. We are currently reviewing SAB 101 to determine what impact, if any, the adoption of SAB 101 will have on our financial position and results of operations.

Balance Sheets *(dollars in thousands)*

	December 31, 1999	1998
Current assets:		
Cash and cash equivalents	$ 8,354	$ 10,266
Short-term investments in marketable securities	12,165	7,761
Accounts receivable, net of allowance of approximately $58 and $50 in 1999 and 1998, respectively, for doubtful accounts	2,255	4,820
Unbilled revenue	846	1,035
Prepaids and other	548	484
Deferred income taxes — current portion	653	2,025
Total current assets	24,821	26,391
Property and equipment, at cost:		
Computer hardware and equipment	25,411	23,687
Furniture and fixtures	933	800
Leasehold improvements	915	920
	27,259	25,407
Less — Accumulated depreciation	(15,753)	(11,056)
Total property and equipment	11,506	14,351
Other assets	86	112
Long-term investments in marketable securities	993	2,054
Deferred income taxes — noncurrent	3,423	1,504
Software development costs, net of accumulated amortization of $575 and $346 in 1999 and 1998, respectively	951	683
	$ 41,780	**$45,095**
Current liabilities:		
Accounts payable	$ 752	$ 1,211
Payroll-related accruals	786	734
Other accrued liabilities	1,641	2,546
Property and other taxes	792	696
Current portion of capital lease obligations (Note 5)	1,971	1,618
Deferred contract revenue	865	1,908
Total current liabilities	6,807	8,713
Long-term debt:		
Capital lease obligations, net of current portion (Note 5)	2,038	2,791
Total liabilities	8,845	11,504
Commitments and contingencies (Notes 7 and 11)		
Stockholders' Equity (Note 4):		
Preferred stock, $.001 par value; 15,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.001 par value; 30,000,000 shares authorized; 11,104,111 and 10,886,353 shares issued at December 31, 1999 and 1998, respectively	11	10
Additional paid-in capital	43,925	43,320
Stock subscriptions receivable	(33)	(59)
Accumulated deficit	(10,968)	(9,680)
Total stockholders' equity	32,935	33,591
	$ 41,780	**$45,095**

The accompanying Notes to Financial Statements are an integral part of these balance sheets.

Statements of Operations

Statements of Operations *(dollars in thousands, except per share data)*	Year Ended December 31, 1999	1998	1997
Revenue:			
Data management services	$ 32,096	$ 30,610	$24,005
Licenses and implementation services	488	3,839	3,067
Total revenue	32,584	34,449	27,072
Cost and expenses:			
Cost of data management services	24,338	20,740	15,378
Cost of licenses and implementation services	138	836	1,283
Sales and marketing	5,314	4,119	3,850
General and administrative	4,931	4,959	3,227
Total costs and expenses	34,721	30,654	23,738
Income (loss) from operations	(2,137)	3,795	3,334
Other income (expense):			
Interest and other income	1,095	654	88
Interest and other expense	(488)	(948)	(967)
Income (loss) from continuing operations before income taxes and extraordinary item	(1,530)	3,501	2,455
Benefit for income taxes (Note 6)	(468)	(379)	(2,328)
Net income (loss) from continuing operations before extraordinary item	(1,062)	3,880	4,783
Discontinued operations (Note 3):			
Loss from operations of discontinued division, net of tax	(226)	—	(876)
Loss from disposal of discontinued division, net of tax	—	—	(2,032)
Net income (loss) before extraordinary item	(1,288)	3,880	1,875
Extraordinary loss from early extinguishment of debt, net of tax	—	(909)	—
Net income (loss)	$ (1,288)	**$ 2,971**	**$ 1,875**
Dividends accrued on Series D, E and F mandatorily redeemable convertible preferred stock	—	(355)	(740)
Common stock warrant put price adjustment	—	(77)	(8)
Net income (loss) applicable to common stock	$ (1,288)	**$ 2,539**	**$ 1,127**
Net income (loss) per share from continuing operations before extraordinary item (Note 2):			
Basic	$ (0.10)	**$ 0.53**	**$ 2.17**
Diluted	$ (0.10)	**$ 0.38**	**$ 0.54**
Net income (loss) per share before extraordinary item (Note 2):			
Basic	$ (0.12)	**$ 0.53**	**$ 0.61**
Diluted	$ (0.12)	**$ 0.38**	**$ 0.21**
Net income (loss) per share (Note 2):			
Basic	$ (0.12)	**$ 0.39**	**$ 0.61**
Diluted	$ (0.12)	**$ 0.29**	**$ 0.21**
Shares used in computing net income (loss) per share (Note 2):			
Basic	10,989,091	**6,433,564**	**1,857,413**
Diluted	10,989,091	**10,334,556**	**8,788,816**

The accompanying Notes to Financial Statements are an integral part of these statements.

Statements of Stockholders' Equity (Deficit)

(dollars in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Stock Subscriptions Receivable	Treasury Stock		Accumulated Deficit	Total Stockholders' Equity (deficit)
BALANCES, at December 31, 1996	1,840,899	$ 2	$ 298	$ (19)	(36,250)	$ (3)	$ (13,346)	$ (13,068)
Dividends accrued on Series D, E and F Convertible Preferred Stock	—	—	—	—	—	—	(740)	(740)
Exercise of stock options, including options exercised in exchange for notes receivable	153,382	—	154	(80)	—	—	—	74
Common stock warrant put price adjustment (Note 4)	—	—	—	—	—	—	(8)	(8)
Net income	—	—	—	—	—	—	1,875	1,875
BALANCES, at December 31, 1997	1,994,281	2	452	(99)	(36,250)	(3)	(12,219)	(11,867)
Dividends accrued on Series D, E and F Convertible Preferred Stock	—	—	—	—	—	—	(355)	(355)
Issuance of common stock through Initial Public Offering, net of issuance costs of $964	2,415,000	2	25,985	—	—	—	—	25,987
Conversion of preferred stock into common stock	6,188,575	6	14,938	—	—	—	—	14,944
Conversion of common stock warrants	195,148	—	1,549	—	—	—	—	1,549
Issuance of common stock under Employee Stock Purchase Plan	61,105	—	243	—	—	—	—	243
Exercise of stock options	68,494	—	39	—	—	—	—	39
Common stock warrant put price adjustment	—	—	—	—	—	—	(77)	(77)
Stock subscription payments received	—	—	—	40	—	—	—	40
Tax benefit related to disqualifying dispositions of common stock	—	—	117	—	—	—	—	117
Retirement of treasury stock	(36,250)	—	(3)	—	36,250	3	—	—
Net income	—	—	—	—	—	—	2,971	2,971
BALANCES, at December 31, 1998	10,886,353	10	43,320	(59)	—	—	(9,680)	33,591
Issuance of common stock under Employee Stock Purchase Plan	38,679	—	145	—	—	—	—	145
Exercise of stock options	179,079	1	460	—	—	—	—	461
Stock subscription payments received	—	—	—	26	—	—	—	26
Net loss	—	—	—	—	—	—	(1,288)	(1,288)
BALANCES, at December 31, 1999	**11,104,111**	**$11**	**$43,925**	**$ (33)**	**—**	**$ —**	**$ (10,968)**	**$ 32,935**

The accompanying Notes to Financial Statements are an integral part of these statements.

Statements of Cash Flows

Statements of Cash Flows *(dollars in thousands)*	Year Ended December 31, 1999	1998	1997
Cash flows from operating activities:			
Net income (loss)	$ (1,288)	$ 2,971	$ 1,875
Adjustments to reconcile net income to net cash provided by operating activities —			
Amortization and depreciation	5,117	4,315	3,534
Amortization and write-off of note payable discount	—	1,430	33
Accretion of investments in marketable securities	(284)	(316)	—
(Gain) loss on disposal of assets	53	—	(40)
Loss on disposal of discontinued division	—	—	2,032
Provision for estimated losses on contracts	—	7	(196)
Provision for doubtful accounts	8	—	25
Deferred income tax benefit	(547)	(912)	(2,500)
Change in —			
Accounts receivable	2,557	(2,492)	(977)
Unbilled revenue	189	(39)	(190)
Prepaids and other	(38)	(286)	(202)
Accounts payable	(29)	246	236
Accrued liabilities	(433)	150	1,337
Deferred contract revenue	(1,043)	(705)	303
Decrease in current assets and liabilities from discontinued operations	—	—	110
Net cash provided by operating activities	4,262	4,369	5,380
Cash flows from investing activities:			
Acquisition of property and equipment	(1,961)	(2,995)	(2,646)
Proceeds from sale of net assets	—	—	603
Purchase of investments in marketable securities	(14,559)	(14,446)	—
Sale of investments in marketable securities	11,500	4,947	—
Software development costs	(497)	(397)	(142)
Net cash used in investing activities	(5,517)	(12,891)	(2,185)
Cash flows from financing activities:			
Proceeds from issuance of notes payable	—	—	4,275
Principal payments on notes payable	—	(4,986)	(1,439)
Principal payments on capital lease obligations	(1,870)	(5,038)	(3,634)
Proceeds from equipment financing	581	—	—
Exercise of stock options	461	39	74
Stock subscription payments received	26	40	—
Purchases through employee stock purchase plan	145	243	—
Proceeds from initial public offering and overallotment, net of underwriters' discount	—	26,951	—
Costs related to initial public offering	—	(964)	—
Net cash provided by (used in) financing activities	(657)	16,285	(724)
Net increase (decrease) in cash and cash equivalents	(1,912)	7,763	2,471
Cash and cash equivalents, beginning of period	10,266	2,503	32
Cash and cash equivalents, end of period	**$ 8,354**	**$10,266**	**$ 2,503**
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	**$ 439**	**$ 801**	**$ 942**
Cash paid during the period for taxes	**$ 459**	**$ 95**	**$ 18**
Supplemental schedule of noncash financing and investing activities:			
Dividends accrued on Series D, E and F Convertible Preferred Stock	**$ —**	**$ 355**	**$ 740**
Common stock issued to employees in exchange for employee notes receivable	**$ —**	**$ —**	**$ 80**
Property acquired with capital leases	**$ 889**	**$ 3,488**	**$ 3,074**
Conversion of preferred stock	**$ —**	**$14,943**	**$ —**
Conversion of warrants	**$ —**	**$ 1,549**	**$ —**
Retirement of treasury stock	**$ —**	**$ 3**	**$ —**

The accompanying Notes to Financial Statements are an integral part of these statements.

Notes to Financial Statements

(1) Organization, Business and Liquidity

SCC Communications Corp. (the "Company") is a Delaware corporation. The Company is the leading provider of 9-1-1 operations support systems services to incumbent local exchange carriers ("ILECs"), competitive local exchange carriers ("CLECs"), wireless carriers and state and local governments in the United States. The Company manages the data which enables 9-1-1 calls to be routed to the appropriate public safety agency with accurate and timely information about the caller's identification and location. In addition, the Company licenses its 9-1-1 software to carriers that wish to manage the delivery of 9-1-1 data management services in-house.

(2) Summary of Significant Accounting Policies

Operating Cycle

Assets and liabilities related to contracts are included in current assets and liabilities in the accompanying balance sheets since they will be liquidated in the normal course of contract completion, although this may require more than one year.

Property and Equipment

Depreciation of property and equipment is computed using the straight-line method over estimated useful lives of three to five years for computer hardware and equipment, seven years for furniture and fixtures and the life of the lease for leasehold improvements. The costs of repairs and maintenance are expensed while enhancements to existing assets are capitalized. Depreciation expense totaled approximately $4,888,000, $4,174,000 and $3,399,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Software Development Costs

The Company expenses the costs of developing computer software until technological feasibility is established and capitalizes all costs incurred from that time until the software is available for general customer release. Technological feasibility for the Company's computer software products is based upon the earlier of the achievement of (a) a detailed program design free of high-risk development issues or (b) completion of a working model. Costs of major enhancements to existing products with a wide market are capitalized while routine maintenance of existing products is charged to expense as incurred. The establishment of technological feasibility and the ongoing assessment of the recoverability of capitalized computer software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technology.

Capitalized software costs are amortized on a product-by-product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenue for a product compares to the total of current and anticipated future gross revenue for that product, or (b) the straight-line method over the remaining estimated economic life of the product which is typically five years. Amortization expense related to capitalized software costs totaled approximately $229,000, $145,000 and $107,000 for the years ended December 31, 1999, 1998 and 1997, respectively, and is included in cost of data management services and licenses and implementation services in the statements of operations.

Revenue Recognition

The Company reports revenue based on its two segments, data management services and licenses and implementation services.

Revenue from data management services generally consists of a non-recurring fee and monthly recurring revenue. Revenue included in data management services generally includes a non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to the Company's systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are recognized on the percentage-of-completion method over the period required to perform the tasks necessary to prepare for the processing of customer data. The Company's contracts also separately allow for a monthly service fee based on the number of subscriber records under management, which is recognized in the period in which the services are rendered. Data management services revenue also may include revenue from enhanced products and services, which may include non-recurring and/or monthly fees which are separately stated in the contract and are recognized in the period in which the services are performed.

Revenue related to software license fees and implementation of the Company's 9-1-1 systems at customer sites is recognized using the percentage-of-completion method because the Company's software requires significant modification for each customer. Such contracts include a license fee for the use of the Company's software and service fees for the installation and customization of the system. The Company's costs to install its systems include direct labor, third-party license fees and miscellaneous expenses. Such costs are included in cost of licenses and implementation services.

In applying the percentage-of-completion method, revenue and related costs are recognized based on the percentage that labor hours incurred to date compared to total estimated labor hours. Revenue recognized in excess of amounts billed is reflected as unbilled revenue and amounts billed in excess of revenue recognized are reflected as deferred contract revenue in the accompanying balance sheets. The Company recognizes any known or anticipated loss on contracts in process when such losses are determined to exist.

Revenue from licenses and implementation services includes customer support revenue which is recognized ratably over the related contract period on a straight-line basis. Costs related to customer support revenue are included in cost of licenses and implementation services in the accompanying statements of operations.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and investments in high-grade treasury bonds and commercial paper. The Company maintains its cash balances in the form of bank demand deposits, money market accounts, treasury bonds and commercial paper with original maturities less than ninety days. The Company's deposits and investments are with financial institutions that management believes are creditworthy and investments are high-grade. The Company's accounts receivable are from customers that are generally telecommunications service providers; accordingly, the Company's accounts receivable are concentrated in the telecommunications industry. The Company's principal customers (Note 10) accounted for 71% and 30% of the Company's accounts receivable as of December 31, 1999 and 1998, respectively. The Company has no significant financial instruments with off-balance sheet risk of accounting loss, such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

Research and Development

Research and development efforts consist of salaries, supplies and other related costs. These costs are expensed as incurred and totaled approximately $1,740,000, $1,376,000 and $738,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These costs are included in cost of data management services and licenses and implementation services in the accompanying statements of operations and do not include development costs incurred as part of the efforts performed under licenses and implementation services contracts with the Company's customers.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include highly liquid investments with original maturities of 90 days or less.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Market Value of Financial Instruments

Financial instruments include cash and cash equivalents, corporate debt securities, accounts receivable and debt obligations. The carrying amounts for cash and cash equivalents and accounts receivable approximate fair market value because of the short maturity of these instruments. The fair value of notes are estimated based on current rates available for debt with similar maturities and securities, and at December 31, 1999 and 1998, approximates the carrying value.

Investments in Marketable Securities

The Company's investments in corporate debt securities are classified as held-to-maturity and are carried at the amortized cost basis. The investments had the following values at December 31, 1999 and 1998, respectively:

	Amortized/ Accreted Cost	Accrued Interest	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Corporate Debt Securities, maturing within one year	$ 7,761,000	$(237,000)	$13,000	$(2,000)	$7,535,000
Corporate Debt Securities, maturing after one year through five years	2,054,000	(33,000)	3,000	—	2,024,000
Balances at December 31, 1998	**$ 9,815,000**	**$ (270,000)**	**$16,000**	**$ (2,000)**	**$ 9,559,000**
Corporate Debt Securities, maturing within one year	$ 12,165,000	$ —	$ —	$ (10,000)	$ 12,155,000
Corporate Debt Securities, maturing after one year through five years	993,000	—	—	(2,000)	991,000
Balances at December 31, 1999	**$ 13,158,000**	**$ —**	**$ —**	**$ (12,000)**	**$ 13,146,000**

Income Taxes

The Company follows Statement of Financial Accounting Standards No. 109 ("SFAS 109"), which requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax basis of assets and liabilities. SFAS 109 also requires recognition of deferred tax assets for the expected future tax effects of loss carryforwards and tax credit carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, on a more likely than not basis, are not expected to be realized (Note 6).

Stock Based Compensation Plans

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB Opinion No. 25") in accounting for its stock option and other stock-based compensation plans for employees and directors. The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," for such options and stock-based plans for employees and directors (Note 4).

Impairment of Long-Lived Assets
The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from future undiscounted cash flows. Impairment losses are recorded for the excess, if any, of the carrying value over the fair value of the long-lived assets.

Earnings Per Share
The Company presents basic and diluted earnings or loss per share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings Per Share" ("SFAS 128"), which establishes standards for computing and presenting basic and diluted earnings per share. Under this statement, basic income (loss) per share is determined by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted income (loss) per share includes the effects of potentially issuable common stock, but only if dilutive (i.e., a loss per share is never reduced). The treasury stock method, using the average price of the Company's common stock for the period, is applied to determine dilution from options and warrants. The if-converted method is used for convertible securities. Potentially dilutive common stock options that were excluded from the calculation of diluted income per share because their effect is antidilutive totaled 1,085,747, 51,000 and 298,017 in 1999, 1998 and 1997, respectively.

A reconciliation of the numerators and denominators used in computing per share net income from continuing operations is as follows:

	Year Ended December 31,		
	1999	1998	1997
Numerator:			
Net income (loss) from continuing operations before extraordinary item (numerator for diluted loss per share)	$(1,062,000)	$3,880,000	$4,783,000
Dividends on Convertible Preferred Stock	—	(355,000)	(740,000)
Common stock warrant put price adjustment	—	(77,000)	(8,000)
Numerator for basic income (loss) per share from continuing operations before extraordinary item	**$ (1,062,000)**	**$ 3,448,000**	**$4,035,000**
Denominator for basic income (loss) per share:			
Weighted average common shares outstanding	**10,989,091**	**6,433,564**	**1,857,413**
Denominator for diluted income (loss) per share:			
Convertible Preferred Stock	—	3,051,900	6,188,575
Weighted average common shares outstanding	10,989,091	6,433,564	1,857,413
Options issued to employees	—	752,863	720,605
Putable common stock warrant	—	96,229	22,223
Denominator for diluted income (loss) per share	**10,989,091**	**10,334,556**	**8,788,816**

Income (loss) per common share was computed as follows:

Basic income (loss) per share:			
Income (loss) per share from continuing operations before extraordinary item	$ (0.10)	$ 0.53	$ 2.17
Loss per share from discontinued operations	(0.02)	—	(1.56)
Loss per share from extraordinary item	—	(0.14)	—
Basic income (loss) per share	**$ (0.12)**	**$ 0.39**	**$ 0.61**
Diluted income (loss) per share:			
Income (loss) per share from continuing operations	$ (0.10)	$ 0.38	$ 0.54
Loss per share from discontinued operations	(0.02)	—	(0.33)
Loss per share from extraordinary item	—	(0.09)	—
Diluted income (loss) per share	**$ (0.12)**	**$ 0.29**	**$ 0.21**

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 and No. 137

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An amendment of FASB Statement No. 133" ("SFAS No. 137"). SFAS No. 137 delays the effective date of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. The Company does not typically enter into arrangements that would fall under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not significantly affect its financial condition and results of operations.

Statement of Position 98-9

In December 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-9 ("SOP 98-9"), "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 amends certain paragraphs of Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition," to require the application of a residual method of accounting for software revenue when certain conditions exist. SOP 98-9 also amends Statement of Position 98-4 ("SOP 98-4"), "Deferral of the Effective Date of a Provision of SOP 97-2" to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. Earlier adoption is permitted; however, retroactive application is prohibited. The Company believes SOP 98-9 will not materially impact its financial statements.

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB 101"). SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 101 must be applied to financial statements no later than the second fiscal quarter of 2000. The Company is currently reviewing SAB 101 to determine what impact, if any, the adoption of SAB 101 will have on its financial position and results of operations.

(3) Discontinued Operations

On June 30, 1997, the Company sold the net assets of its Premise Products Division. The sale resulted in a net loss of $2,032,000. The net losses of this division are included in the statements of operations as loss from operations of discontinued division. Revenue from the division for the six months ended June 30, 1997 was $5,785,000. Net losses from operations of this division totaled $226,000 and $876,000 in 1999 and 1997, respectively, and are presented in the Company's financial statements as loss from operations of discontinued division. The loss from discontinued operations in 1999 resulted from final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

(4) Stockholders' Equity (Deficit)

Common Stock and Preferred Stock

In March 1998, the Company's Board of Directors authorized an increase in common stock to 30,000,000 shares and authorized 15,000,000 shares of undesignated preferred stock. In 1998 the Company also retired 36,250 shares of treasury stock.

Mandatorily Redeemable Convertible Preferred Stock

In connection with the Company's initial public offering in June 1998, the Company's mandatorily redeemable convertible preferred stock was converted on a one-for-one basis to common stock. Activity for 1997, 1998 and 1999 is as follows:

Shares Issued and Outstanding

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Total
BALANCES, at December 31, 1996 and 1997	1,515,152	1,010,101	442,328	912,123	1,083,381	1,225,490	6,188,575
Conversion of preferred stock to common stock	(1,515,152)	(1,010,101)	(442,328)	(912,123)	(1,083,381)	(1,225,490)	(6,188,575)
BALANCES, at December 31, 1998 and 1999	—	—	—	—	—	—	—

The activity related to the liquidation or redemption value of Series A through Series F Convertible Preferred Stock for the periods ended December 31, 1997, 1998 and 1999 is as follows:

	Liquidation or Redemption Value						
BALANCES, at December 31,1996	$1,500,000	$1,000,000	$730,000	$2,242,000	$3,044,000	$5,333,000	$13,849,000
Dividends accrued on Series D, E and F Convertible Preferred Stock	—	—	—	129,000	211,000	400,000	740,000
BALANCES, at December 31,1997	1,500,000	1,000,000	730,000	2,371,000	3,255,000	5,733,000	14,589,000
Dividends accrued on Series D, E and F Convertible Preferred Stock	—	—	—	62,000	101,000	192,000	355,000
Conversion of Series A-F Convertible Preferred Stock to Common Stock	(1,500,000)	(1,000,000)	(730,000)	(2,433,000)	(3,356,000)	(5,925,000)	(14,944,000)
BALANCES, at December 31, 1998 and 1999	$ —	$ —	$ —	—	$ —	$ —	$ —

Until the mandatorily redeemable convertible preferred stock was converted, dividends of 8% per year were accrued that would be due upon liquidation or redemption.

Putable Common Stock Warrant

In November 1997, the Company borrowed $4,000,000 from Banc One Capital Partners II, LLC (the "Lender") (Note 5). In connection with the loan, the Lender received a warrant to purchase 195,148 shares of the Company's common stock for $100. In June 1998, the Lender exercised this warrant. Because of the put feature of the warrant, the Company recorded an amount equal to the number of shares under the warrant times the difference between the current market value, as defined, and the market value of the shares at the time the warrant was issued. This amount was recorded as an increase in the value of the putable common stock warrant and charged to accumulated deficit in the accompanying financial statements through the time that the warrant was exercised. The amount recorded was $77,000 and $8,000 in 1998 and 1997, respectively.

Stock Subscriptions Receivable

In September 1997, in connection with the sale of the Company's Premise Products Division, several former employees of the Company signed full recourse promissory notes to the Company to exercise their vested stock options. The notes accrue interest at 6.07% per annum. The Company extended the due date on the notes to March 20, 1999 and is pursuing collection of the note that remains unpaid.

Stock Option Plan

The Company adopted the 1998 Stock Incentive Plan ("1998 Plan") effective June 23, 1998, which is a successor to the Company's 1990 Option Plan. As of December 31, 1999, a total of 3,257,647 shares have been authorized for issuance under the 1998 Plan, including shares authorized under the 1990 Option Plan. The shares reserved for issuance will increase automatically on the first trading day of each calendar year, beginning with the 1999 calendar year, by 3% of the number of shares of common stock outstanding on the last trading day of the immediately preceding calendar year. The share reserve was increased by 326,590 shares under this provision in 1999. The 1998 Plan allows for issuances of options to officers, non-employee Board members and consultants, as provided for under the terms of the 1998 Plan.

Employee Stock Purchase Plan

On March 18, 1998, the Company adopted an employee stock purchase plan ("ESPP") under which eligible employees may contribute up to 10% of their salaries through payroll deductions to purchase shares of the Company's common stock. The first offering period of the ESPP began March 1, 1998 and ended on December 31, 1998. Thereafter, offering periods will be successive six month periods. At the end of each offering period, amounts contributed by employees will be used to purchase shares of the Company's common stock at a price equal to 85% of the lower of the closing price of the common stock on the first day or last day of the offering period. The Company's Board of Directors has authorized the issuance of up to 200,000 shares under the ESPP and may terminate the ESPP at any time. At March 1 of each year, the shares available under the ESPP will be restored to 200,000, although the Company's Board of Directors may elect to restore a lesser number of shares. The Company issued 38,679 and 61,105 shares under the ESPP in 1999 and 1998, respectively.

Statement of Financial Accounting Standards No. 123 ("SFAS 123")

SFAS 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, provided that pro forma disclosures are made of net income or loss assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has computed the fair values of all options granted under the 1998 Plan, which succeeds the 1990 Option Plan, during 1999, 1998 and 1997, using the Black-Scholes pricing model and the following weighted average assumptions:

	1999	1998	1997
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

To estimate lives of options for this valuation, it was assumed options will be exercised upon becoming fully vested. All options are initially assumed to vest. Cumulative compensation costs recognized in pro forma net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of pro forma compensation expense in the period of forfeiture. Because the Company's common stock was not yet publicly traded, the expected market volatility was assumed to be zero in 1997. In 1998 and 1999, the Company's common stock was not yet traded for an extended period of time, thus the expected market volatility was based on the stock prices of companies whose operations are similar to the Company's.

Actual volatility of the Company's common stock may vary. Fair value computations are highly sensitive to the volatility factor assumed; the greater the volatility, the higher the computed fair value of options granted.

The total fair value of options granted under the 1998 Option Plan and the ESPP was computed to be approximately $2,630,000, $1,406,000 and $499,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These amounts are amortized ratably over the vesting periods of the options or recognized at date of grant if no vesting period is required. Pro forma stock-based compensation, net of the effect of forfeitures, was $496,000, $417,000 and $232,000 for 1999, 1998 and 1997, respectively.

A summary of stock options under the 1998 Plan and the ESPP as of December 31, 1999, 1998 and 1997 and changes during the years then ended are presented below:

	1999		1998		1997	
	[illegible]	[illegible]	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
[illegible]	1,339,880	$ 3.62	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	740,364	5.15	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(179,079)	2.56	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(245,301)	5.43	[illegible]	[illegible]	[illegible]	[illegible]
Outstanding at end of year	**1,655,864**	**$ 4.15**	1,339,880	$ 3.62	[illegible]	[illegible]
Weighted average fair value of options granted	$ 3.38		[illegible]		[illegible]	

The following table summarizes information about the options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	[illegible]	[illegible]	[illegible]	Number Exercisable at 12/31/99	Weighted Average Exercise Price
[illegible]	184,509	1.19 years	$ .18	[illegible]	[illegible]
[illegible]	334,217	5.33 years	1.98	[illegible]	[illegible]
[illegible]	679,103	9.13 years	4.39	[illegible]	[illegible]
[illegible]	425,351	8.13 years	6.59	[illegible]	[illegible]
[illegible]	32,684	8.30 years	11.93	[illegible]	[illegible]
	1,655,864	**7.21 years**	**$ 4.15**	[illegible]	[illegible]

If the Company had accounted for its stock-based compensation plan in accordance with SFAS 123, the Company's net income from continuing operations would have been reported as follows:

	1999	1998	1997
Net income (loss) from continuing operations before extraordinary item:			
As reported	$ (1,062,000)	$ 3,880,000	$ 4,783,000
Pro forma	$ (1,373,000)	$ 3,619,000	$ 4,638,000
Basic net income (loss) per share from continuing operations before extraordinary item:			
As reported	$ (0.10)	$ 0.53	$ 2.17
Pro forma	$ (0.12)	$ 0.50	$ 2.09
Diluted net income (loss) per share from continuing operations before extraordinary item:			
As reported	$ (0.10)	$ 0.38	$ 0.54
Pro forma	$ (0.12)	$ 0.35	$ 0.53

(5) Long-term debt

At December 31, 1999 and 1998, long-term debt consisted of the following:

	December 31, 1999	1998
Capitalized lease obligations for equipment due on various dates through December 1, 2002, minimum monthly payments in varying amounts, currently approximately $189,000 including imputed interest ranging from 7.75% to 9.50% per annum, collateralized by the related assets with a net book value of $3,838,000 and $4,273,000, respectively	$ 4,009,000	$ 4,409,000
Less — Current portion	(1,971,000)	(1,618,000)
	$ 2,038,000	$ 2,791,000

The Company prepaid its $4,000,000 note payable to Banc One Capital Partners II, LLC on June 30, 1998 and incurred a prepayment premium equal to 4% of the amount, totaling $160,000. In addition, the Company wrote-off the remaining debt discount related to the note payable of $1,282,000. The prepayment penalty and write-off of the debt discount totaling $1,442,000 were recorded as an extraordinary item, net of the related income tax benefit of $533,000.

Debt maturities of long-term debt as of December 31, 1999, are as follows:

	Capital Leases
2000	$2,250,000
2001	1,633,000
2002	537,000
	4,420,000
Less — Amount related to interest	(411,000)
Principal portion of future obligations	4,009,000
Less — Current portion	(1,971,000)
	$2,038,000

(6) Income Taxes

The Company has operated in three countries, the United States, Canada and Australia. For income tax return reporting purposes, the Company has approximately $11,200,000 of net operating loss carryforwards and approximately $723,000 of tax credit carryforwards available to offset future federal taxable income or federal tax liabilities in the United States. The research and development credit and net operating loss carryforwards expire at various dates through 2019.

The Tax Reform Act of 1986 contains provisions which may limit the net operating loss and credit carryforwards available to be used in any given year upon the occurrence of certain events including significant changes in ownership of the Company. In accordance with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), a greater than 50% change in ownership of a company within a three-year period results in an annual limitation on the Company's ability to utilize its net operating loss carryforwards from tax periods prior to the ownership change.

Deferred income tax assets and liabilities at December 31, 1999 and 1998, were as follows:

	December 31, 1999	December 31, 1998
Current		
Accrued liabilities and other	$ 640,000	$ 852,000
Deferred revenue	70,000	200,000
Net operating loss carryforwards	—	1,179,000
Less — Valuation allowance	(57,000)	(206,000)
	653,000	2,025,000
Noncurrent		
Depreciation differences	(1,057,000)	(901,000)
Net operating loss carryforwards	4,150,000	1,974,000
Tax credit carryforwards	723,000	675,000
Less — Valuation allowance	(393,000)	(244,000)
	3,423,000	1,504,000
	$ 4,076,000	**$ 3,529,000**

The Company recorded an income tax benefit of $568,000 in 1999 as it believes that it is more likely than not that the net operating loss generated will be utilized against future earnings. As of December 31, 1998, the Company reversed $1,689,000 of the valuation allowance on part of its deferred tax assets, as the Company believes it is more likely than not that such tax benefits will be realized. Approximately $533,000 of the income tax benefit in 1998 was allocated to the extraordinary loss on early extinguishment of debt.

Management believes the remaining tax assets of $450,000 as of December 31, 1999 relate to tax credits that do not satisfy the realization criteria set forth in SFAS No. 109 and has recorded a valuation allowance for such net tax assets.

	December 31, 1999	December 31, 1998	December 31, 1997
The components of the benefit for income taxes attributable to income from operations as of December 31, 1999, 1998 and 1997, were as follows:			
Current provision — state	$ —	$ —	$ 172,000
Deferred benefit, federal and state	(468,000)	(912,000)	(2,500,000)
Income tax benefit	**$ (468,000)**	**$ (912,000)**	**$ (2,328,000)**
The components of the provision (benefit) for income taxes attributable to income from discontinued operations as of December 31, 1999, 1998 and 1997, were as follows:			
Current provision — Foreign	**$ —**	**$ —**	**$ 100,000**
Deferred benefit — Federal	**$ (100,000)**	**$ —**	**$ —**
A reconciliation of income tax benefit computed by applying the federal income tax rate of 34% to income from continuing operations before income taxes as of December 31, 1999, 1998 and 1997, is as follows:			
Computed normal tax (benefit) provision	$ (631,000)	$ 700,000	$ 835,000
Tax effect of permanent differences and other	124,000	9,000	34,000
State tax, net of federal tax impact	(61,000)	68,000	113,000
Change in valuation allowance attributable to continuing operations	—	(1,689,000)	(3,310,000)
Income tax benefit	**$ (568,000)**	**$ (912,000)**	**$ (2,328,000)**
The benefit for income taxes is attributable to continuing operations and discontinued operations in 1999, 1998 and 1997 is as follows:			
Provision (benefit) attributable to continuing operations	$(468,000)	$ 777,000	$ 982,000
Change in valuation allowance attributable to continuing operations	—	(1,689,000)	(3,310,000)
Net benefit attributable to continuing operations	(468,000)	(912,000)	(2,328,000)
Benefit attributable to discontinued operations	(100,000)	—	(797,000)
Change in valuation allowance attributable to discontinued operations	—	—	897,000
Net provision attributable to discontinued operations	(100,000)	—	100,000
Total income tax benefit	**$ (568,000)**	**$ (912,000)**	**$ (2,228,000)**

(7) Commitments

The Company leases its office and research facilities and certain equipment under operating lease agreements which expire through November 2003. Rent expense for the years ended December 31, 1999, 1998 and 1997 was approximately $1,370,000, $1,030,000 and $718,000, respectively. Future minimum lease obligations under these agreements are as follows:

2000	$1,580,000
2001	1,553,000
2002	1,552,000
2003	36,000
Total	**$4,721,000**

(8) Employee Benefit Plan

The Company has a 401(k) plan under which eligible employees may defer up to 15% of their compensation. The Company may make matching contributions and discretionary contributions if approved by the Board of Directors. For 1998 and 1997, no employer matching or discretionary contributions were made to the 401(k) plan. However, in February 1999, the Company's Board of Directors approved a matching contribution for employees, which was effective April 1, 1999. The Company matches 50% of employee contributions up to 6% of the employee's salary, not to exceed $1,000 in 1999 and 2000, respectively. Matching contributions will vest 35%, 70% and 100% for one, two and three years of service, respectively.

(9) Related Party Transaction

The Company provides data management and certain consulting services to and leases equipment from entities in which a stockholder of the Company has an ownership interest. A representative of the stockholder was a member of the Company's Board of Directors until December 2, 1999. The Company received net proceeds of approximately $6,979,000, $6,735,000 and $6,959,000 in 1999, 1998 and 1997, respectively, pursuant to these agreements. Amounts due to the stockholder under the capital lease agreements net of amounts due to the Company for services rendered as of December 31, 1999 and 1998 were $3,262,000 and $3,962,000, respectively. The leases have interest rates ranging from 7.75% to 9.50%, require monthly payments and have expiration dates varying through October 2002.

(10) Reportable Segments and Major Customers

Reportable Segments

The Company has two reportable segments, data management services and licenses and implementation services. The Company measures its reportable segments based on revenue for each segment and costs directly related to each segment. General and administrative, sales and marketing and other costs are not measured by segment. Data management services include the provisioning of an outsourcing solution for 9-1-1 data management to customers, including ILECs, CLECs, wireless carriers and state and local governments. Licenses and implementation services include the licensing, customization and installation of the Company's 9-1-1 software solutions. Substantially all of the Company's customers are in the United States.

These segments are managed separately because the nature of and resources used for each segment is unique. Data management services include ongoing data management and monitoring of systems and other enhanced services. Under data management services, the customer's data is transferred to the Company's systems and the Company owns the systems used to manage the data. Under licenses and implementation services, the customer performs data management and systems monitoring activities. The customer also owns the hardware, licenses the Company's software and maintains the data on its internal systems under this segment.

Revenue and costs are segregated in the Statement of Operations for the two reportable segments. The Company does not segregate assets between the segments as it is impractical to do so.

Major Customers

Revenue from certain customers exceeded 10% of total revenue for the respective year as follows: 27%, 27% and 26% in 1999; 27%, 25% and 21% in 1998 and 30%, 29% and 22% in 1997. Contracts with certain of these customers have a ten-year duration and provide for fixed monthly fees based upon the number of subscriber records managed and upon the services selected by the customer. All of these customers are in the Company's data management services segment.

(11) Legal Matters

The Company is subject to various claims and business disputes in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management anticipates that the ultimate outcome of the issues will not have a material impact on the financial statements. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers. The Company plans to provide 9-1-1 services directly to state and local governments rather than local exchange carriers in certain areas. Since this is the first time that such services have been provided in this manner, the regulations are being challenged and clarified for the first time. The Company believes that the services it provides are within the scope of the existing regulations and that any challenges to the regulations will be decided in the Company's favor. However, if the regulations are challenged and are not decided in the Company's favor, the Company may be prohibited from expanding its services to certain markets.

Report of Independent Public Accountants

To the Board of Directors and Stockholders of SCC Communications Corp.:

We have audited the accompanying balance sheets of SCC Communications Corp. (a Delaware corporation) as of December 31, 1999 and 1998, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCC Communications Corp. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Denver, Colorado

January 21, 2000

Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the Nasdaq National Market under the symbol "SCCX." We commenced our initial public offering of the common stock on June 24, 1998 at a price of $12 per share. Prior to such date, there was no public market for the common stock. The following table sets forth the high and low bid prices for the common stock for the periods indicated, as reported on the Nasdaq National Market.

	HIGH	LOW
June 24, 1998 through June 30, 1998	$14.00	$12.00
Quarter ended September 30, 1998	16.00	2.88
Quarter ended December 31, 1998	5.26	2.88
Quarter ended March 31, 1999	6.38	3.00
Quarter ended June 30, 1999	5.00	3.00
Quarter ended September 30, 1999	7.13	4.00
Quarter ended December 31, 1999	7.05	5.00

As of February 29, 2000, there were approximately 173 holders of record.

We have not paid any cash dividends on our capital stock since our inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. Certain covenants contained in our line of credit agreement restrict the payment of dividends without the lender's prior consent. Payments of future dividends, if any, will be at the discretion of our Board of Directors, subject to the restrictions discussed above, after taking into account various factors, including our financial condition, operating results, cash needs and expansion plans.

Corporate Information

George K. Heinrichs
President and Chief Executive Officer
SCC Communications Corp.

Stephen O. James
Independent Executive Business Consultant

David Kronfeld
Manager
JK&B Management L.L.C.

Mary Beth Vitale
President and Chief Executive Officer
Westwind Media

Winston J. Wade
Former Chief Executive Officer
Media One Malaysia

Darrell A. Williams
Chief Investment Officer
Telecommunications Development Fund

George K. Heinrichs
President and Chief Executive Officer

Carol L. Nelson
Chief Financial Officer

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For further information on SCC, additional copies of this report or other financial information filed with the Securities and Exchange Commission, please contact:

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Fax: 303.581.0900
Email: cnelson@sccx.com

SCC Communications Corp.'s common stock trades on the Nasdaq Stock Market® under the symbol SCCX.

Footnotes

1. National Emergency Number Association
2. SCC Communications Corp.
3. Strategis Group as quoted in *1999 Phone Facts*. United States Telecom Association
4. Cellular Telephone Institute Association
5. Cellular Telephone Institute Association
6. Strategis Group

SCC™

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000-29678

SCC COMMUNICATIONS CORP.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	**84-0796285** (I.R.S. Employer Identification Number)
6285 LOOKOUT ROAD **BOULDER, COLORADO** (Address of Principal Executive Offices)	**80301** (Zip Code)

Registrant's Telephone Number, Including Area Code:	(303) 581-5600
Securities registered pursuant to Section 12 (b) of the Act:	None
Securities registered pursuant to Section 12 (g) of the Act:	Common stock, par value $.001 per share (Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Registration S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the common stock on February 29, 2000 as reported on the Nasdaq National Market, was approximately $48,985,000. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding shares of common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of February 29, 2000, the Registrant had outstanding 11,151,151 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive proxy statement for its 2000 Annual Meeting of Stockholders is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

SCC COMMUNICATIONS CORP.
1999 ANNUAL REPORT ON FORM 10-K
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ITEM 1. BUSINESS

Overview

SCC Communications Corp. is the leading provider of 9-1-1 operations support systems, or OSS, services to telecommunications carriers. Our customers include incumbent local exchange carriers, or ILECs, competitive local exchange carriers, or CLECs, wireless carriers, and state and local governments in North America. We have redefined the market for 9-1-1 OSS by creating the first and largest 9-1-1 service bureau, with over 85 million subscriber data records under management throughout North America.

We manage the data that enable a 9-1-1 call to be routed to the appropriate public safety answering point, or PSAP, with accurate and timely information about the caller's identification, call-back number and location. Each day, we receive subscriber and coverage updates from our telecommunications carrier customers, as well as public safety jurisdiction boundary changes from PSAPs. Records identified as potentially having problems are separated automatically and reviewed and analyzed by our data integrity team. The clean data are then inserted into the 9-1-1 system, so that the call may be routed to the appropriate PSAP with the correct location and call-back number. This complex and detailed process allows our customers to comply with regulatory mandates and to provide additional value-added services.

Our solution is comprehensive and cost-effective, as well as highly reliable and secure. Our customers may outsource virtually all of their 9-1-1 data management operations, including system activation, routine data administration, event transaction processing and performance management. Our customers include Ameritech, AT&T Wireless Services, BellSouth, MCI Worldcom, Sprint PCS, the General Services Commission of the State of Texas and U S WEST. In addition, we license our 9-1-1 OSS software to carriers that wish to manage their 9-1-1 data systems in-house.

We were incorporated in July 1979 in the State of Colorado under the name Systems Concepts of Colorado, Inc. and were reincorporated in September 1993 in the State of Delaware under the name SCC Communications Corp.

Industry Background

Historically, telecommunications carriers in the United States operated in a highly regulated environment, with both local and long-distance service providers operating as monopolies. The desire for long-distance competition in the 1970s led the government to force the breakup of AT&T in 1984. AT&T split into a competitive long-distance company and seven independent Regional Bell Operating Companies, or RBOCs, which offered local service and local access to long-distance service. In the early 1990's, these RBOCs and other ILECs realized that regulatory changes would increase competition in their local exchange markets. To remain competitive, these RBOCs and ILECs began to make their operations more efficient and to develop new products that would make their service offerings more attractive to their customers and generate new revenue. The Telecommunications Act, adopted in 1996, significantly increased competition and encouraged CLECs, long-distance carriers, wireless carriers and other communications providers to enter local exchange markets. The Telecommunications Act also required each ILEC to modify its systems to allow for fair and equal access by competitive carriers. Competition caused telecommunications carriers to differentiate their service offerings, improve service quality, decrease time to market, introduce new services and increase cost efficiencies. In addition to updating their systems to remain competitive, some carriers began to outsource selected functions, such as 9-1-1 OSS services.

Previously, carriers used closed and proprietary systems to operate their networks. These systems were often mainframe-based and were not compatible with new software and technologies, such as new advanced switching capabilities and other technologies that would allow the carrier to offer value-added services. Today, carriers need more advanced systems to improve the reliability of their networks, offer more advanced services and comply with regulatory requirements of the Telecommunications Act. New technologies emerged that improve the carriers' ability to provide telecommunications services, manage operations, take and bill customer orders and plan and engineer their systems. 9-1-1 is another essential OSS service that requires close coordination of data and network elements, because changes in customer service information usually require changes in the data needed for 9-1-1 service.

9-1-1 service includes routing emergency calls to the appropriate PSAP responsible for dispatching police, fire and other emergency services. Most jurisdictions in the United States now provide enhanced 9-1-1 service, or

E9-1-1, which provides the caller's telephone number and location to the call taker at the PSAP. When a caller dials 9-1-1, the call is routed through the network and queries the 9-1-1 data servers. The 9-1-1 data servers attach the caller's location and telephone number to the call and identify the PSAP to which the call should be routed. The information in the data servers must be current and accurate for 9-1-1 calls to receive prompt response. Each time a telephone subscriber modifies its data, such as an added telephone line or change of address, the data must be changed in the 9-1-1 database. Changes in PSAP boundaries, such as the addition of a street or a change in the name of a street, also must be changed in the 9-1-1 database. If these changes to the 9-1-1 database are not made accurately and in a timely manner, the response to a 9-1-1 call could be affected. The complicated and critical process of 9-1-1 service delivery requires coordination of data from multiple sources, review and processing of the data, resolution of data errors and conflicts, and insertion of the data into network and mission-critical data servers.

Today, local exchange carriers must provide 9-1-1 service. According to the National Emergency Number Association, nearly 93% of the current wireline telephone subscribers in the United States are covered by some type of 9-1-1 service and approximately 95% of that coverage is E9-1-1 service.

The growth of the wireless telecommunications industry introduces significant new challenges to 9-1-1 service delivery. Since a wireless caller's location is constantly changing, the location of the caller is not easily identified. The Cellular Telephone Information Association estimates that approximately 98,000 9-1-1 calls are made each day from wireless phones. We estimate that approximately 25% of wireless callers cannot identify the location from where they are calling. Most wireless networks must be modified to route calls accurately to the appropriate PSAP and to provide location information.

Recognizing the public safety need for improved wireless E9-1-1 services, the Federal Communications Commission, or FCC, issued Report and Order 94-102 on June 12, 1996. Report and Order 94-102 includes two phases for adoption of E9-1-1 technology by wireless carriers. Phase I requires wireless carriers to provide the PSAP receiving the call with the 9-1-1 caller's telephone number and the location of the cell sector from where the call was made. Phase I allows the call to be routed to the PSAP that is near the caller and would be assigned to handle that area. Since April 1998, wireless carriers have been required to comply with the Phase I mandate within six months after a PSAP request. Except in states which have passed specific cost recovery legislation, carrier cost recovery is no longer a prerequisite to their obligation to provide Phase I services. Implementation of Phase I services has been slowed by a number of issues, including carrier cost recovery, liability protection and technology issues.

Phase II will require wireless carriers to locate wireless 9-1-1 callers within location parameters specified in the FCC guidelines. Under the FCC rules, wireless carriers must declare by October 2000 whether they will use technology in the wireless telephone handset or a network-based solution to locate wireless 9-1-1 callers. The FCC rules include a timeline for implementation that requires Phase II service to be substantially available to requesting PSAPs by October 1, 2001. In addition to the requirements of Report and Order 94-102, wireless carriers are motivated to implement wireless 9-1-1 services because of their desire to improve emergency services and the increasing pressure from public safety agencies. The technology required for Phase II service can also be used by wireless carriers to provide other value-added location services to their customers, including location-based traffic reporting, emergency roadside assistance or other services that require the location of the caller.

New technologies have expanded the demand for public safety services. Phase II of Report and Order 94-102 requires that 9-1-1 service be provided to wireless phone users. The expansion of the internet into homes and wireless internet devices introduces new vehicles to reach the public and the potential for increased public safety. Telematics devices, which are communication devices in automobiles that can be used for location-based services such as traffic reporting and emergency roadside assistance, are also entering the market at a rapid pace. The Strategis Group estimates that emergency roadside assistance will be a $2.9 billion market by 2004. In addition, telephony products and services based on the internet protocol are becoming common elements of telecommunications infrastructure. Each of these technologies introduces public safety challenges that are not addressed in a significant manner today.

Today carriers and other service providers, including state and local government entities, may deliver 9-1-1 data management solutions using their own proprietary solutions, by licensing the software and managing the delivery of public safety products and services themselves, or by outsourcing their 9-1-1 OSS needs.

Our Solution

We redefined the U.S. market for 9-1-1 OSS by creating the first and largest 9-1-1 service bureau, with over 85 million subscriber data records under management throughout North America. We offer a cost-effective outsourcing solution that covers virtually all aspects of 9-1-1 data management. Our 9-1-1 data management services include system activation, routine data administration, event transaction processing and performance management. Our services are also extremely secure and reliable and can interface with each carrier's proprietary or open systems. In addition, we license our 9-1-1 OSS software to carriers that wish to control the delivery of 9-1-1 services in-house. We believe that our solution offers the following principal features and benefits:

Focus on Data Integrity. The accuracy of subscriber records that identify and provide caller location information is an essential element of 9-1-1 service. Our systems conduct more than 60 logical tests to prepare data for use in 9-1-1 operations. Our data integrity team researches and resolves transactions identified by the system as requiring further analysis. Our data integrity team also creates and maintains boundary information. Live 9-1-1 calls access our database to route the call to the proper PSAP and to provide timely and accurate subscriber location information to the 9-1-1 call taker.

Survivability and Reliability. We process a large volume of mission-critical transactions using highly reliable and scalable operating platforms. We have more than 20 servers that are built with multiple layers of redundancy and are located in diverse locations to ensure continued service. The 9-1-1 network that connects our systems to our customers is monitored continuously. Since we launched our 9-1-1 data management services in 1994, our systems for 9-1-1 service delivery have provided uninterrupted service to our customers. We also have a comprehensive disaster recovery program for our central data administration operations.

Leading-Edge Technology. We believe we are the technological leader in the 9-1-1 data management services industry based on our advances in the areas of systems architecture, spatial data management and advanced network integration. Our products and services are updated regularly to comply with regulatory and industry requirements, as well as to implement innovative solutions. Our innovations include advanced intelligent call routing support, local number portability data transaction support, technologies that improve 9-1-1 availability, a transaction-based map maintenance system, a spatial coordinate-based E9-1-1 management system and large-scale internet applications for E9-1-1. We were the first to demonstrate data management support for wireless systems that complied with both Phase I and Phase II of Report and Order 94-102. We also have developed systems for the use of spatial coordinate data for use in managing and routing non-address specific 9-1-1 calls.

Flexible Business Model. PSAPs generally pay carriers a fixed rate based on the number of subscribers located in a particular PSAP's jurisdiction. Our outsourcing solution allows customers to avoid costly capital expenditures and fix their expenses for 9-1-1 services on a per subscriber basis. Additionally, we will customize their service packages both to meet the needs of their subscribers and to comply with regulatory mandates. Alternatively, carriers may elect to license 9-1-1 OSS software directly from us and manage the 9-1-1 data themselves.

Neutral Solution Providing Equal Access. Since we are not a telecommunications carrier, we are able to act as a neutral third party to carriers who must access their competitors' systems to provide 9-1-1 service. Where state or local governments choose to control 9-1-1 data management, we can provide equal access to all carriers in the region. As local exchange competition increases, a neutral solution that provides equal access becomes increasingly important.

Our Strategy

Our objective is to be the leading national provider of 9-1-1 OSS and other complementary and synergistic services. We focus on developing innovative and automated solutions to provide customers with a comprehensive system for managing large amounts of dynamic subscriber information. Key elements of our strategy are to:

Maintain and Extend Our Leadership Position in the Wireline 9-1-1 Data Management Market. We currently manage more than 85 million wireline subscriber data records out of an estimated 167 million total wireline telephone subscriber records in the United States. We intend to maintain and extend our market leadership in the wireline 9-1-1 OSS systems market by adding new service and license customers, increasing the number of subscriber data records under management, enhancing our existing 9-1-1 services and supporting the evolving telecommunications infrastructure.

Capitalize on Emerging Wireless Carrier Opportunities. We have contracts to provide Phase I wireless 9-1-1 services to 11 wireless carriers which have approximately 27 million subscribers. As of December 31, 1999, we have 726,000 live subscribers on our wireless 9-1-1 services. We believe there is a significant opportunity to increase our wireless 9-1-1 services by implementing a larger portion of the subscribers we have under contract and signing contracts with more wireless carriers. We also are positioning to provide Phase II wireless services. The significant growth in wireless telephone users, the FCC mandate and the increased demand for enhanced wireless service offerings present opportunities for growth in our wireless 9-1-1 services.

Maintain and Extend Leadership Position in National Clearinghouse Services. We have 25 contracts to provide 9-1-1 clearinghouse services to CLECs. Under our TelConnect services, we process updates to our CLEC customers' 9-1-1 databases, prepare the data to conform to the ILEC's network requirements and insert the data into the appropriate ILEC's 9-1-1 system. Our TelConnect services allow CLECs to grow their subscriber bases while minimizing their investment in OSS technology infrastructure and personnel. CLECs receive the benefit of our 9-1-1 service delivery expertise and relationships with PSAPs and others necessary to provide 9-1-1 services. We plan to build upon our position as a neutral, carrier-independent service provider by working cooperatively with newly emerging dial tone providers, including CLECs, fixed-position wireless carriers and cable television carriers, to increase our sales of 9-1-1 clearinghouse services. In addition to our base clearinghouse solution, we provide other value-added products and services, such as local number portability solutions. Local number portability refers to the transfer of a telephone number from one carrier to another when a telephone subscriber chooses to change its local exchange carrier. We recently initiated our alliance program to partner with OSS providers that provide complementary products, such as billing and customer care solutions, to CLECs. We and our alliance partners will jointly market our products and services.

Provide Additional Services. ILECs, CLECs and wireless carriers, as well as state governmental entities, all seek to apply emerging technologies in response to competitive pressures and regulatory mandates. For example, we have developed off-switch routing capabilities for carriers that have deployed the advanced intelligent network and created local number portability transaction sets in response to the local number portability mandates of the Telecommunications Act. By using the experience and economies of scale we have obtained in managing the 9-1-1 OSS infrastructure for multiple carriers, we are well-positioned to continue to develop and offer flexible, scalable solutions that allow carriers to support cost-effectively new technological developments and regulatory mandates.

Develop Applications for New Commercial Products. By leveraging our core competency of managing dynamic subscriber location information, we believe that we are well-positioned to expand into additional markets outside of traditional 9-1-1 OSS services. The rapid introduction of the Internet and wireless devices into the market presents public safety challenges that are not addressed in a significant manner today. In addition, the use of internet protocol-based telephony is rapidly expanding and increasing the complexity of public safety services. We believe we can leverage our wireline and wireless dynamic call routing, large volume transaction processing and mission critical networks to provide solutions for these emerging technologies. Continuing change in the telecommunications market introduces substantial opportunities for growth for us. In response, we plan to deliver new products and services to the dynamic markets that we serve. During 2000, we will announce specific products and strategic partnerships designed to significantly expand our market opportunities. We estimate that we will make a special investment and incur expenses of approximately $10 million toward research, development and marketing of these new products and services.

Expand International Operations. We believe that a significant opportunity to generate additional long-term revenue may be created by partnering with established telecommunications carriers and systems integration firms to design, implement, maintain and operate effective, reliable emergency communications systems in countries other than the United States and Canada. We intend to expand internationally to address the needs of this market for telecommunications emergency services.

There can be no assurances that we will achieve our objective or any of the key elements of our strategy. See "Risk Factors."

Our Services and Products

Our 9-1-1 OSS solution enables a 9-1-1 call to be routed to the appropriate PSAP along with accurate and timely information about the caller's identification, call-back number and location. We receive daily service order updates, which are changes to subscriber data such as address changes, telephone number changes and other changes to subscriber data that can affect 9-1-1 call processing. We also receive updates to boundary and routing data needed to route 9-1-1 calls to the appropriate PSAP. We screen this data for accuracy and analyze and resolve data discrepancies. Certain discrepancies are referred back to the customer for resolution. Screened data is inserted into the 9-1-1 databases. When a 9-1-1 call occurs, it is routed to the 9-1-1 voice switch, which queries our databases. Our databases route the call to the appropriate PSAP and simultaneously send the caller's location and call back number with the call. The data that are delivered allow PSAPs to dispatch personnel and equipment to the emergency.

Base Services

Our base services consist of the following:

System Preparation and Administration. To begin providing 9-1-1 data management services to our customers, we must collect, organize, review and analyze the data necessary to prepare the systems. Data preparation includes collecting information on PSAP jurisdictional boundaries, performing a full inventory of addresses located in an area and loading the subscriber information into our systems. To improve data quality and, consequently, 9-1-1 service, our systems run the data through over 60 automated integrity checks. We employ over 100 data integrity analysts who resolve any data discrepancies and update the databases based on information received from customers and related sources.

Routine Data Administration. We receive and automatically process service order updates from telecommunications carriers on a regular basis to maintain current data in the 9-1-1 databases. Service order updates include address changes, telephone number changes and other changes that may affect 9-1-1 call processing. We usually receive between 150,000 and 210,000 service orders per day. We also frequently receive boundary updates from PSAPs reflecting changes in jurisdiction boundaries for PSAP responses. Boundary updates may include the addition of streets, changes in street names, or other changes that may affect the proper routing of a 9-1-1 call. When we receive a service order update or jurisdiction change, the information received is checked for complete and appropriate data, and then distributed throughout our network of geographically dispersed servers.

Event Transaction Processing. When a caller dials 9-1-1 in an area served by us, the call is routed through one of our data servers with a request for information. The server rapidly responds and delivers the caller's location and call-back number to the 9-1-1 dispatcher at the PSAP. Our data servers also control the switch to route the call to the appropriate PSAP.

Performance Management. We monitor and report the performance of our service operations by measuring response time, systems availability, data accuracy and error resolution intervals, among other performance measurements. Using these measurements as a basis, we design and implement programs to improve our services continuously.

Mapping Services. Traditional mapping services do not provide updates to geographic information often enough to ensure the accuracy of data in an emergency situation. Thus we maintain a team of geographic information system experts, who work with carriers and public safety officials to document, review and analyze call routing boundaries and specific address information. The mapping services department uses advanced tools to improve existing mapping information with new and more detailed geographical information for optimal management of 9-1-1 call records. The mapping services department also assists in system preparation and quality control programs to ensure that geographical information is current.

TelConnect Services (previously Clearinghouse Services). Our TelConnect services provide a single point of contact to process and format 9-1-1 data for CLECs and independent telephone companies. CLECs and independent telephone companies may be located in multiple communities that have diverse requirements for delivery of 9-1-1 information. We have the processes and systems in place to deliver the data in all communities throughout the United States. CLECs and independent telephone companies electronically transmit subscriber information to SCC. We then reformat the data to comply with the destination community's local standards, test for detectable errors and deliver the data to the 9-1-1 data systems that serve that community. The receiving data systems may be operated by us or by a carrier that does not use our services or products. Our TelConnect services also include measurement of certain performance criteria, which allow us and our customers to continually improve service. To provide added value to customers, we launched LNP 2000, a program designed to assist customers with complications in 9-1-1 processing caused by local number portability. Local number portability resulted from competition in local exchange service and refers to the need to transfer, or port, a telephone number from one telephone carrier to another where the telephone subscriber chooses to change carriers. We also launched our Alliance Program, in which we are partnering with OSS providers that provide complementary service offerings to CLECs and independent telephone companies, such as billing and customer care software.

Enhanced Services of SCC National Data Services Center

We offer enhancements to our 9-1-1 OSS services that provide additional features and functions. These services are targeted to specific markets and are sold either directly by us or through our customers.

9-1-1Net. 9-1-1Net is an online tool that allows instant communication and makes important information available to our customers and PSAPs. Through 9-1-1Net, users can view live address routing rules, send address updates, review inbound call load, error statistics and Automatic Location Information, or ALI, discrepancy reports, and receive new product updates.

Private Switch ALI. Private telephone switches, or PBXs, create a challenge for E9-1-1 operations. When a call is placed from within a PBX, the location of the PBX itself is generally displayed to a 9-1-1 dispatcher at a PSAP rather than the location of the specific PBX extension. In the case of large facilities such as campuses, hotels and hospitals, emergency response personnel may not have adequate information to determine the location of the caller quickly. Private Switch ALI allows PBX or CENTREX system managers to create and transmit appropriate data records that identify a caller's extension location within a facility for 9-1-1 response.

9-1-1Connect. We provide wireless carriers with 9-1-1 services similar to those provided to wireline customers and that fully comply with the FCC's Phase I mandate. Once a wireless carrier receives an activation request from a PSAP, our program managers develop a plan with the wireless carrier to activate service. This plan includes development of ILEC network interconnections for both data and voice specific to the local wireless network configuration and interface requirements. The program managers develop graphic coverage area maps that are superimposed on current maps of public safety agency boundaries. Routing recommendations can then be made and coordinated with the appropriate PSAP. The result is that 9-1-1 calls are routed to the appropriate PSAP with the callback number and cell location of the caller. We also are developing a solution to address the FCC's Phase II mandate.

Emergency Warning and Evacuation System. We are currently selling our Emergency Warning and Evacuation System, or EWE, to initiate outbound calls to selected areas in the event of potential disasters such as floods, hazardous materials incidents, industrial accidents and localized weather events. EWE uses spatially classified location information and up-to-date telephone subscriber data to deliver voice, fax and TDD warnings to geographically targeted populations.

Subscriber ALI. We are preparing to offer Subscriber ALI, which is designed to allow subscribers to supply personal information in their 9-1-1 records such as medical conditions, allergies, disabilities or languages of choice. When a subscriber calls 9-1-1, data previously provided by the subscriber will be displayed along with traditional 9-1-1 information to the PSAP. This information may help emergency response personnel handle an incident with greater safety and more effectiveness. Subscriber ALI also allows for notification of a designated relative, security team, remote property owner or other contact person of a 9-1-1 call made from the subscriber's telephone. For example, parents away from home would be notified when a child or babysitter calls 9-1-1 from the home telephone.

License Products

We offer 9-1-1 software to ILECs that elect to manage their own 9-1-1 data records rather than outsourcing such operations to SCC. We also provide custom software development services to customers with specific or local requirements through our engineering department. The engineering department develops, customizes and enhances the software using a structured approach to perform requirements analysis, software development and quality assurance.

Commercial Services

We believe we can leverage our 9-1-1 expertise to provide other public safety-related products and services. The new technologies entering the market, such as wireless location services, the Internet, wireless internet devices, telematics in automobiles and internet protocol-based telephony, present public safety challenges that are not comprehensively addressed today. We believe our expertise in managing large volumes of data, managing geographic call boundaries and operating mission-critical networks puts SCC in a unique position to address this evolving market. We will invest and incur expenses of approximately $10 million in 2000 for research, development and implementation of products and services to address these emerging markets.

Service and Product Pricing

Revenue included in data management services generally includes a non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are recognized on the percentage-of-completion method over the period required to perform the tasks necessary to prepare for the processing of customer data. Our contracts also separately allow for a monthly service fee based on the number of subscriber records under management, which is recognized in the period in which the services are rendered. Data management services revenue also may include revenue from enhanced products and services, which may include non-recurring and/or monthly fees which are separately stated in the contract and are recognized in the period in which the services are performed. We typically enter into two- to ten-year agreements. We also license software, and provide hardware and professional services necessary for the management of 9-1-1 services to our customers in exchange for license and implementation services fees and maintenance fees.

Service Infrastructure and Architecture

Our operations include central data administration and distributed systems for real-time 9-1-1 transaction support. Based on large scale, fault-tolerant Compaq Tandem computers, our major processing systems are configured to provide high reliability. They are also designed to provide significant capacity for continued growth using the Tandem NSK scalable message-based architecture.

Our central data administration systems, located in Boulder, Colorado, are a key element of our 9-1-1 OSS, and are used to perform routine data maintenance and to support new customer transition and initial system loads. We also maintain a central monitoring facility in Boulder that operates 24 hours a day, seven days a week.

Data networks interconnecting our facility and systems in Boulder, SCC operated remote systems and SCC client systems are based on traditional T-1 and frame relay links provided by separate, redundant carriers. To improve reliability and survivability, the primary links are designed to have three or more backup paths to access our distributed networks, including VSAT satellite links. A "hot-site" emergency business recovery facility has been established in New York and can be activated to continue routine operations in the event of a disaster at the Boulder site. Electronic processing necessary to handle actual 9-1-1 calls is geographically distributed and remains a local service for each region, so our central data administration systems are not in the actual 9-1-1 call path.

Distributed throughout the U.S., our real-time 9-1-1 servers are located in shared, hardened computer facilities. The systems are deployed in pairs or quads. System pairs are intentionally distributed to different geographic locations to provide an additional level of reliability. These systems provide data display for thousands of public safety agencies throughout the service areas of our customers. Direct interface to telephone control switches is also supported on these platforms, providing the information necessary to route calls to the jurisdictionally appropriate PSAP. We also use a number of Microsoft NT servers and various Unix servers for internal administrative processing and extranet support.

Customers

We provide our services to a range of customers, including ILECs, CLECs, wireless carriers and state and local government agencies. We also license our software, provide 9-1-1 data clearinghouse services directly to CLECs and provide 9-1-1 data management services indirectly to over 750 independent telephone companies. During the year ended December 31, 1999, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. During the year ended December 31, 1998, we recognized approximately 73% of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. During the year ended December 31, 1997, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. No other customers accounted for more than 10% of our total revenue during those years.

We typically enter into contracts with carriers and their affiliates to provide services to some or all of the carrier's operating entities. We have two segments, data management services and licenses and implementation services. Set forth below is a list of carriers utilizing our services or products, which we believe are representative of our overall customer base. All of these customers are in the data management services segment except for license customers, which are in the licenses and implementation services segment. See Note 10 of our financial statements for further information regarding our reportable segments.

ILECs. Our customers include Ameritech, BellSouth Inc. and U S WEST.

CLECs. Our customers include ICG Telecom, MCI Worldcom, TriVergent Communications Inc. and Nextlink Communications Inc.

Wireless Carriers. Our customers include CommNet Cellular Inc., AT&T Wireless Services, Sprint PCS and US WEST Wireless.

State Agency. We have a contract with the General Services Commission of the State of Texas.

License Customers. Our license customers include Bell Canada.

We signed a contract to provide 9-1-1 data management services to the General Services Commission. This contract was assigned by the General Services Commission of the State of Texas to the Texas Commission for State Emergency Communications. This is the first time that a state entity decided to centralize 9-1-1 OSS and data management services with a neutral third party. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers, thus the regulations are being challenged and clarified for the first time. In accordance with Texas law, and on the recommendation of the Texas Public Utilities Commission, we have been granted a Service Provider Certificate of Operating Authority in the State of Texas. We successfully completed the field trial required under the contract in July 1999 and are in the process of marketing our services to the state's public safety agencies and implementing services to those who opt into the contract. Prior to commencement of the field trial, SBC Communications, which historically has been responsible for the provisioning of 9-1-1 OSS, data transport and data management services in the State of Texas, challenged whether we have a right to access SBC Communications' source systems and 9-1-1 database, whether they must allow other parties to interconnect to their selective routing switches and whether they are obligated by law to unbundle components of their network functionality. However, an interim agreement among the involved parties was reached in March 1999 that allowed us to perform the field trial to test the interfacing technology solutions in the Houston area. As part of the interim agreement, the legal challenges and all related proceedings were placed in abeyance to permit the parties to proceed with the field trial. Those matters are still held in abeyance.

As required by the agreement, SBC Communications filed wireline and wireless tariffs regarding its portion of the unbundled services. SBC Communications failed to unbundle its tariffs in a manner that allowed the cost of its solution to be competitively neutral to the grandfathered SBC Communications' solution, and the tariffs were contested by the Texas Commission for State Emergency Communications, us and various other parties. The outcome of the tariff filing is uncertain although the parties to the tariff matters have executed a second interim agreement for both wireline and wireless services, which sets the rates to be charged to public safety agencies who wish to procure our solution until a final tariff is determined. We believe that these legal and technological issues and their associated cost implications are likely to be readdressed by the Texas Public Utilities Commission, which is expected to decide on these matters in 2000. Until such resolution, the interim tariff agreement will govern those rates and charges. We believe that the services that we will provide under our contract with the General Services Commission are permitted within the scope of the existing regulations and that the outcome of the matter before the Texas Public Utilities Commission will be favorable to us and the Texas Commission for State Emergency

Communications. However, we cannot assure you that the Texas Public Utilities Commission will decide in favor of us and the Texas Commission for State Emergency Communications or that SBC Communications will not pursue this legal challenge on a longer term basis, thus causing further delay in implementing services, by exercising its right to appeal a Texas Public Utilities Commission decision that favors us or the Texas Commission for State Emergency Communications. If the Texas Public Utilities Commission does not decide in our favor or places contingencies on the manner in which the services are provided, we may be prohibited from delivering our services to the State of Texas, may expend significant resources to appeal the Texas Public Utilities Commission's decision or may expend additional costs to redesign the methodology by which the services are provided. In addition, if SBC Communications exercises its right to appeal, we may be required to spend significant resources to defend our right to provide our services in the State of Texas. The tariff proceedings have been held in abeyance pending resolution of Project 19203, a rulemaking initiated by the Texas Public Utilities Commission to establish the roles and responsibilities of 9-1-1 service providers in Texas. We cannot assure you that Project 19203 will be resolved in our favor or that the final rule will not affect the manner in which we delivers our services in Texas.

Sales and Marketing

Our marketing efforts are focused on targeting key carriers, government bodies, and PSAPs in each geographical market through advertising in telecommunications industry publications, participation in trade shows, presentations at technical conferences and other initiatives. Additionally, SCC employees serve as the chairpersons and members of key standards committees related to emergency communications services. Our sales strategy relies primarily on direct channels of distribution for our services, although we recently initiated an alliance program to jointly market our TelConnect services with OSS companies who sell complementary products. We have dedicated account teams to work with each existing and potential customer. Our account teams develop relationships with 9-1-1 service providers through a consultative, problem-solving sales process and work closely with customers and potential customers to determine how their needs can be fulfilled by our services. As of February 29, 2000, we employed 28 persons in our sales and marketing organization. Sales cycles range from one month to over two years.

Research and Development

We direct our research and development efforts toward providing highly scalable, fault tolerant applications to the public safety, telecommunications and wireless industries. Development efforts currently in process are focused on integrating internet technology, spatial data mapping systems and enabling the more efficient E9-1-1 OSS processes that improve data quality. We plan to invest and incur expenses of approximately $10 million in research, development and marketing of new products and services to address the rapidly evolving changes in wireless telecommunications. Research and development expenses totaled approximately $1,740,000, $1,376,000 and $738,000 for December 31, 1999, 1998, and 1997, respectively.

Competition

The market for 9-1-1 OSS solutions is intensely competitive and we expect competition to increase in the future. We believe that the principal competitive factors affecting the market for 9-1-1 OSS solutions include effectiveness with existing infrastructure, reliability, manageability, technical features, wireless support, performance, ease of use, price, scope of product offerings, and customer service and support. Although we believe that our solution competes favorably with respect to such factors, we cannot assure you that we can maintain our competitive position against current and potential competitors, especially those with significantly greater financial, marketing, service support, technical and other competitive resources.

Our principal competitors fall generally within one of three categories:

- internal development departments of major carriers or consulting firms that support such departments;
- relatively smaller companies that offer applications featuring portions of the Company's comprehensive set of E9-1-1 solutions; and
- larger companies that are either in the process of entering our market or have the potential to develop products and services that compete with our service offerings.

Potential customers sometimes rely on their own internal development teams to formulate 9-1-1 OSS systems or retain consultants to undertake such a project. We believe that our 9-1-1 OSS solution competes favorably with internally developed systems, which may be expensive to develop and maintain, may not provide a comprehensive, reliable approach to 9-1-1 OSS services, and may not provide the flexibility to adapt readily to regulatory, technological and market changes.

In addition, a number of companies currently market or have under development software products and services to provide 9-1-1 administration. We compete with a few relatively smaller companies, including XY Point Corporation, for the provision of 9-1-1 OSS services to wireless carriers. We also compete with a few relatively smaller companies for CLEC 9-1-1 services, such as HBF Group, Inc. Although we expect more significant competition to emerge in the future, we believe that, to date, none of these relatively smaller companies offer products or services that are as robust in features or as comprehensive in scope as our products and services. While it is likely that the product development efforts of these companies eventually will enable them to offer a line of products or services to compete with our current service offerings, we intend to continue to dedicate significant resources for product and service development to expand our capabilities and stay ahead of these competitors. Notwithstanding, we expect additional competition from these established competitors and from other emerging companies. Mergers or consolidations among these competitors or acquisitions of these companies by larger competitors would make them more formidable competitors to us. We cannot assure you that our current and potential competitors will not develop products and services that may be more effective than our current or future 9-1-1 data management solutions or that our technologies and offerings will not be rendered obsolete by such developments.

Finally, there are a number of companies that currently market and sell various products and services to telecommunications carriers, such as billing software and advanced telecommunications equipment, that have been broadly adopted by our customers and potential customers. In addition, vendors of telecommunications software and hardware in the future may enhance their products to include functionality that is currently provided by our solutions. The widespread inclusion of the functionality of our service offerings as standard features of other telecommunications software or hardware could render our services obsolete and unmarketable, particularly if the quality of such functionality were comparable to that of our services. Furthermore, even if the 9-1-1 functionality provided as standard features by telecommunications software or networking hardware is more limited than that of our services, we cannot assure you that a significant number of customers would not elect to accept more limited functionality in lieu of purchasing additional products or services. For example, Lucent Technologies offers carriers software systems with functionality similar to our services. Many of these larger companies have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical and marketing resources than us. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products and services, than us. We believe that the entry of these larger companies into our market will require them to undertake operations that are currently not within their core areas of expertise, and thus expose them to significant uncertainties in the product development process or in providing a range of products and services to comprehensively address the 9-1-1 requirements which our services address. However, if these companies were to introduce products or services that effectively compete with our service offerings, they could be in a position to substantially lower the price of their 9-1-1 products and services or to bundle such products and services with their other product and service offerings.

For the foregoing reasons, we cannot assure you that we will be able to compete successfully against our current and future competitors. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which would materially and adversely affect our business, financial condition and results of operations.

Proprietary Rights

Our success and our ability to compete depends significantly upon our proprietary rights. We rely primarily on a combination of copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions to establish and protect our proprietary rights. We cannot assure you that such measures will be adequate to protect our proprietary rights. Further, we may be subject to additional risks as we enter into transactions in foreign countries where intellectual property laws are not well developed or are difficult to enforce. Legal protections of our proprietary rights may be ineffective in such countries. Litigation to defend and enforce our intellectual property rights could result in substantial costs and diversion of resources, and could have a material adverse effect on our business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad, we cannot assure you that we will be successful in doing so or that the steps taken by us in this regard will be adequate to deter misappropriation or independent third-party development of our technology, or to prevent an unauthorized third party from copying or otherwise obtaining and using our technology. There also can be no assurance that others will not independently develop similar technologies or duplicate any technology developed by us. Any such events could have a material adverse effect on our business, financial condition and results of operations.

As the number of entrants to our markets increases and the functionality of our products and services increases and overlaps with the products and services of other companies, we may become subject to claims of infringement or misappropriation of the intellectual property rights of others. In certain of our customer agreements, we agree to indemnify our customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. In certain instances, the amount of such indemnities may be greater than the revenue we may have received from the customer. We cannot assure you that third parties will not assert infringement or misappropriation claims against us in the future with respect to current or future products or services. Any claims or litigation, with or without merit, could be time consuming, result in costly litigation or require us to enter into royalty or licensing arrangements. Such royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all, and could have a material adverse effect on our business, financial condition and results of operations.

Employees

As of February 29, 2000, we employed 315 full-time employees in ten states. Of these employees, 33 were involved in research and development, 28 in sales and marketing, 204 in technical support and operations and 50 in administration and finance. No employees are covered by any collective bargaining agreements. We believe that our relationships with our employees are good.

Facilities

Our principal administrative, sales and marketing, research and development and support facilities consist of approximately 80,000 square feet of office space in Boulder, Colorado. We occupy these premises under a lease expiring December 31, 2002. As of February 29, 2000, the annual base rent for this facility was approximately $878,000; however, the lease agreement provides for periodic defined increases in rent through the lease term. In December 1999, we leased an additional 2,100 square feet of office space in Austin, Texas to supplement and serve as a back up to our Boulder, Colorado facility. We occupy these premises under a lease expiring November 30, 2003. As of February 29, 2000, the annual base rent for this facility was approximately $37,000; however the lease agreement provides for periodic defined increases in rent through the lease term. We expect to lease additional space in 2000 to accommodate growth.

Legal Proceedings

We are not a party to any litigation that we believe could have a material adverse effect on us or our business. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers. We plan to provide 9-1-1 services directly to state and local governments rather than local exchange carriers in certain areas. Since this is the first time that such services have been provided in this manner, the regulations are being challenged and clarified for the first time. We believe that the services we provide are within the scope of the existing regulations and that any challenges to the regulations will be decided in our favor. However, if the regulations are challenged and are not decided in our favor, we may be prohibited from expanding our services to certain markets.

RISK FACTORS

In evaluating our business, you should carefully consider the risks and uncertainties discussed in this section, in addition to the other information presented in this Annual Report on Form 10-K. The risks and uncertainties described below may not be the only risks that we face. If any of these risks or uncertainties actually occurs, our business, operating results or financial condition could be materially adversely affected. This could cause the market price of our common stock to decline.

Our operating results fluctuate, and our stock price may be volatile as a result.

Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. We experienced a profit in 1998, but had a net loss of approximately $1.3 million in 1999. Therefore, you should not rely on period-to-period comparisons of revenue or operating results as an indication of our future performance. If our quarterly revenue or operating results fall below the expectations of the investors or securities analysts, the price of our common stock could fall substantially.

Our operating results may continue to fluctuate as a result of many factors, including:

- our planned investments in research, development and marketing to expand our service offerings;
- our sales cycle is relatively long;
- the size, timing and duration of significant customer contracts can vary significantly;
- the number of subscriber records under our management may fluctuate;
- we cannot predict the rate of adoption of wireless services by PSAPs;
- our revenue will be affected by the timing of introduction of new products and services by us and our competitors; and
- changes in telecommunications legislation and regulations may affect the competitive environment for our services.

Our contracts for data management services generally include a separate non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to the Company's systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data, and therefore, we may recognize significantly increased revenue for a short period of time upon commencing services for a new customer.

Our sales cycle is relatively long and difficult to predict.

Our potential customers typically commit significant resources to the technical evaluation of our services and products, and we typically spend substantial time, effort and money providing education regarding our 9-1-1 OSS solution. The evaluation process often results in an extensive and lengthy sales cycle, typically ranging between one month and two years, making it difficult for us to forecast the timing and magnitude of sales contracts. Delays associated with customers' internal approval and contracting procedures, procurement practices, and testing and acceptance processes are common. For example, customers' budgetary constraints and internal acceptance reviews may cause potential customers to delay or forego a purchase. The delay or failure to complete one or more large contracts could have a material adverse effect on our business, financial condition and results of operations and cause our operating results to vary significantly from quarter to quarter.

We depend on large contracts from a limited number of significant customers, and the loss of any of those contracts would adversely affect our operating results.

We historically have depended on, and expect to continue to depend on, large contracts from a limited number of significant customers. We provide our services to a range of customers, including ILECs, CLECs, wireless carriers and state and local government agencies. We also license our software and provide 9-1-1 data clearinghouse services directly and indirectly to over 750 independent telephone companies. During the year ended December 31, 1999, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. During the year ended December 31, 1998, we recognized approximately 73% of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. During the year ended December 31, 1997, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. No other customers accounted for more than 10% of our total revenue during those years. We believe that these customers will continue to represent a substantial portion of our total revenue in the future. Certain of our contracts with these customers allow them to cancel their contracts with us in the event of changes in regulatory, legal, labor or business conditions. Our contracts with these customers expire through 2005. The loss of any of these customers would have a material adverse effect on our business, financial condition and results of operations.

Two of our significant customers, Ameritech and US WEST, have entered into merger agreements with companies that are not our customers. We cannot predict what effect, if any, these acquisitions will have on us and we cannot assure you that these acquisitions or any future consolidation in the telecommunications industry will not have a material adverse effect on our business, financial condition and results of operation.

None of our major customers has any obligation to purchase additional products or additional services beyond those currently contemplated by their existing contracts. Consequently, our failure to develop relationships with significant new customers could have a material adverse effect on the rate of growth in our revenue, if any. If we fail to monitor and maintain adequately the quality or our product and services, expand the breadth of our services and products, advance our technology or continue to price our services and products competitively, one or more of our major customers may select alternative providers or seek to develop services and products internally.

If we lose the services of George Heinrichs or other key personnel, our business will suffer.

Our future success depends in large part on the continued service of our key management, sales, product development and operational personnel, including George Heinrichs, our President and Chief Executive Officer. We have not entered into employment agreements with Mr. Heinrichs or any of our other key personnel. Losing the services of one or more of these individuals might hinder our ability to achieve our business objectives.

We must hire and retain qualified personnel in a competitive labor market.

Our success in large part depends on our ability to continue to attract, motivate and retain highly qualified employees, including technical, managerial and sales and marketing personnel. We expect to continue to expand the number of employees engaged in all aspects of our business. Competition in the recruitment of highly qualified personnel in the software and telecommunications services industry is intense and has become particularly difficult in the Denver metropolitan area. Our inability to hire and retain qualified personnel or the loss of the services of key personnel could have a material adverse effect upon our current business, development efforts and future business prospects.

Our business will be adversely affected if Public Safety Answering Points do not demand E9-1-1 services at the rate we expect.

We expect the percentage of our revenue derived from the management of 9-1-1 data records for wireless carriers to increase. Recognizing the public safety need for improved wireless 9-1-1 service, the FCC issued Report and Order 94-102 on June 12, 1996 and subsequent orders in 1999 and 2000 that mandated the adoption of 9-1-1 technology by wireless carriers in two phases. Phase I requires wireless carriers to provide to requesting PSAPs at the time of a 9-1-1 call, the caller's telephone number and location of the receiving cell site. Phase II requires wireless carriers to locate a 9-1-1 caller more accurately, subject to FCC guidelines. However, under the FCC rules, wireless carriers are not required to provide wireless 9-1-1 service without a PSAP request. To provide an additional impetus for wireless 9-1-1 implementation, the Federal Wireless Communications and Public Safety Act was signed into law in October 1999. This legislation provides liability protection to wireless carriers that is in parity with wireline carriers' liability protection. However, there is no assurance that the legislation will have the desired effect of accelerating wireless E9-1-1 deployment. The FCC continues to work with the wireless industry to facilitate wireless E9-1-1 implementation. The FCC has outlined a phased implementation schedule for Phase II. We believe that the technological challenges confronting wireless carriers attempting to comply with Report and Order 94-102 will encourage them to outsource their E9-1-1 services. If many wireless carriers decide not to outsource such services, our business, financial condition and results of operations could be materially and adversely affected. Due to cost recovery, liability and operational issues, the number of PSAPs demanding services complying with Report and Order 94-102 from wireless carriers has been less than anticipated by us. If the rate of adoption by PSAPs continues to be slow because of cost recovery, liability or operational issues, extensions granted by the FCC or other reasons, we will continue to experience delays in receiving revenue under our current wireless contracts that, because we have already incurred costs in expectation of such revenue, could have a material adverse effect on our business, financial condition and results of operations.

Our market is characterized by rapid technological change, and we could lose our competitive position and fail to grow our business if we do not develop and offer new products and services.

The market for our services is characterized by rapid technological change, frequent new product or service introductions, evolving industry standards and changing customer needs. We launched our Emergency Warning and Evacuation (EWE) product, in the fourth quarter of 1999, which allows PSAPs to call all numbers in a given area and warn citizens of imminent danger. We intend to offer other new products in the future. The introduction of products and services embodying new technologies and the emergence of new industry and technology standards can render existing products and services obsolete and unmarketable in short periods of time. We expect other vendors to regularly introduce new products and services, as well as enhancements to their existing products and services, that will compete with the services and products offered by us. As a result, the life cycles of our services and products are difficult to estimate. We believe that our future success will depend in large part on our ability to maintain and enhance our current service and product offerings, to develop and regularly introduce new services and products that will keep pace with technological advances and satisfy evolving customer requirements, and to achieve acceptable levels of sales of our new services and products through our current customers that resell our solutions to their subscribers. However, we cannot assure you that we will not experience difficulties that could delay or prevent the successful development, introduction or marketing of such new services and products or that our new services and products will adequately meet the requirements of the marketplace and achieve market acceptance. Announcements of currently planned or other new service and product offerings by us or our competitors may cause customers to defer the purchase of our existing services and products. Our inability to develop on a timely basis new services or products, or the failure of such new services or products to achieve market acceptance, could have a material adverse effect on our business, financial condition and results of operations. The development of new, technologically advanced products and services is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends. We cannot assure you that we will successfully develop, introduce or manage the transition to new services and products. Furthermore, services and products such as those offered by us may contain undetected or unresolved errors when they are first introduced or as new versions are released. We cannot assure you that, despite extensive testing by us, errors will not be found in new services and products after commencement of commercial availability, resulting in delay in or loss of market acceptance and sales, diversion of development resources, injury to our reputation or increased service and warranty costs, any of which could have a material adverse effect on our business, financial condition and results of operations. Significant delays in meeting deadlines for announced service or product introductions or performance problems with such products or upgrades could result in an undermining of customer confidence in our services and products, which would materially adversely affect our customer relationships as well.

In addition, we plan to introduce transaction-based services and software products to industries different from those we have traditionally supported. We cannot assure you that we will be successful in developing and marketing these new services and products or that our current or new services and products will adequately meet the demands of our new markets. Because it is generally not possible to predict the time required and costs involved in reaching certain research, development and engineering objectives related to entering new markets, actual development costs could exceed budgeted amounts and estimated development schedules could require extensions. Furthermore, we cannot assure you that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these services and products. If we are unable to develop and introduce new services and products to these new markets in a timely manner, or if a new release of a product or service to such new markets does not achieve market acceptance, our business, financial condition and results of operations could be materially adversely affected.

Substantially all of our revenue is derived from our 9-1-1 OSS solution, and our operating results will depend upon our ability to continue to sell this solution.

We currently derive substantially all of our revenue from the provisioning of our 9-1-1 OSS solution to ILECs, CLECs, wireless carriers and state and local government agencies. Accordingly, we are susceptible to adverse trends affecting this market segment, such as government regulation, technological obsolescence and the entry of new competition. We expect that this market will continue to account for substantially all of our revenue in the near future. As a result, our future success will depend on our ability to continue to sell our 9-1-1 OSS solution, maintain and increase our market share by providing other value-added services to the market, and successfully adapt our technology and services to other related markets. We cannot assure you that markets for our existing services and products will continue to expand or that we will be successful in our efforts to penetrate new markets.

Our operating results could be adversely affected if we underestimate costs on our fixed price contracts.

During 1999, approximately 88% of our revenue was generated on a fixed price per subscriber basis. We generally enter into contracts with two- to ten-year terms. We generally receive a fixed monthly fee based upon the number of subscribers and upon the services selected by the customer. Therefore, our failure to estimate accurately the resources required for a fixed price per subscriber contract could have a material adverse effect on our business, financial condition and results of operations.

We could incur substantial costs from product liability claims relating to our software.

Because our services and products are utilized by our customers to provide critical 9-1-1 services, the provisioning of services and licensing of software by us may entail the risk of product liability and related claims. Our agreements with our customers typically require us to indemnify our customers for our own acts of negligence. Product liability insurance is expensive and may not be available in the future. We cannot be sure that we will be able to maintain or obtain insurance coverage at acceptable costs or in a sufficient amount, that our insurer will not disclaim coverage as to a future claim or that a product liability claim would not otherwise adversely affect our business, operating results or financial condition.

Our success depends upon the continued growth of wireline and wireless telecommunications markets.

We provide our 9-1-1 OSS solution to telecommunications carriers in the wireline and wireless markets. Although these markets have experienced significant growth and have been characterized by increased deregulation and competition in recent years, we cannot assure you that such trends will continue at similar rates or that we will be able to market and sell effectively our products and services in such markets. In addition, many of the new entrants in the telecommunications market are companies that lack significant financial and other resources. To cultivate relationships with such new market entrants, we may be required to offer alternative pricing arrangements, which may provide for deferred payments. However, we cannot assure you that we will be able to develop such relationships or that new carriers that become our customers will gain market acceptance for their telecommunications services. If we permit customers that do not have adequate financial resources to pay us for our services on a deferred basis, we ultimately may be unable to collect payments for such services. Because we historically have depended on a limited number of long-term customer relationships, our failure to develop relationships with, make sales to, or collect payments from new telecommunications carriers, or the failure of our customers to compete effectively in the telecommunications market, could have a material adverse effect on our business, financial condition and results of operations. In addition, the telecommunications industry is experiencing substantial consolidations and changes that are unpredictable, and any such consolidation or change could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to government regulation and other legal uncertainties, which could adversely affect our operations.

The market for our services and products has been influenced by the adoption of regulations under the Telecommunications Act, the new duties imposed on ILECs by the Telecommunications Act to open the local telephone markets to competition, and the requirements imposed on wireless carriers by Report and Order 94-102. Therefore, any changes to such legal requirements, the adoption of new regulations by federal or state regulatory authorities under the Telecommunications Act or any legal challenges to the Telecommunications Act could have a material adverse effect upon the market for our services and products. Although the Telecommunications Act was designed to expand competition in the telecommunications industry, the realization of the objectives of the Telecommunications Act is subject to many uncertainties, including judicial and administrative proceedings designed to define rights and obligations pursuant to the Telecommunications Act, actions or inactions by ILECs and other carriers that affect the pace at which changes contemplated by the Telecommunications Act occur, resolution of questions concerning which parties will finance such changes, and other regulatory, economic and political factors.

We are aware of litigation challenging the validity of the Telecommunications Act and the local telephone competition rules adopted by the FCC to implement the Telecommunications Act. The U.S. Supreme Court in AT&T v. Iowa invalidated the unbundling requirements adopted by the FCC while upholding a portion of the FCC's local competition rules. The FCC adopted new unbundling requirements on September 15, 1999 to comply with the decision of the Supreme Court. The final impact of the application of these rules is not yet known. Such litigation may serve to delay full implementation of the Telecommunications Act, which could adversely affect demand for our services and products. Any delays in the deadlines imposed by the Telecommunications Act, the FCC, or any invalidation, repeal or modification in the requirements imposed by the Act or the FCC could have a material adverse effect on our business, financial condition and results of operations. Moreover, customers may require, or we otherwise may deem it necessary or advisable, that we modify our services and products to address actual or anticipated changes in the regulatory environment. Any other delays in implementation of the Telecommunications Act, or other regulatory changes, could materially adversely affect our business, financial condition and results of operations.

We signed a contract to provide 9-1-1 data management services to the General Services Commission of the State of Texas. This contract was assigned by the General Services Commission to the Texas Commission for State Emergency Communications. As this is the first time that a state entity has endeavored to centralize 9-1-1 OSS and data management services with a neutral third party, federal and state regulations governing 9-1-1 service provisioning, which have typically applied to local exchange services providers, are being challenged and clarified for the first time. In accordance with Texas law, and on the recommendation of the Texas Public Utilities Commission, we have been granted a Service Provider Certificate of Operating Authority in the State of Texas. We successfully completed the field trial required under the contract in July 1999 and are in the process of marketing our services to the state's public safety agencies and implementing services to those who opt into the contract. Prior to commencement of the field trial, SBC Communications, which historically has been responsible for the provisioning of 9-1-1 OSS, data transport and data management services in Texas, challenged whether we have a right to access SBC Communications' source systems and 9-1-1 database, whether they must allow other parties to interconnect to their selective routing switches and whether they are obligated by law to unbundle components of their network functionality. An interim agreement among the involved parties was reached in March 1999 that allowed us to perform the field trial to test the interfacing technology solutions in the Houston area. As part of the interim agreement, the legal challenges and all related proceedings were placed in abeyance to permit the parties to proceed with the field trial. Those matters are still held in abeyance.

As required by the agreement, SBC Communications filed wireline and wireless tariffs regarding its portion of the unbundled services. SBC Communications failed to unbundle its tariffs in a manner that allowed the cost of our solution to be competitively neutral to the grandfathered SBC Communications' solution, and the tariffs were contested by the Texas Commission for State Emergency Communications, us and various other parties. The outcome of the tariff filing is uncertain, although the parties to the tariff matters have executed a second interim agreement for both wireline and wireless services, which sets the rates to be charged to public safety agencies who wish to procure our solution until a final tariff is determined. We believe that these legal and technological issues and their associated cost implications are likely to be readdressed by the PUC, which is expected to decide on these matters in 2000. Until such resolution, this interim tariff agreement will govern those rates and charges. We believe that the services that we will provide under our contract with the General Services Commission are permitted within the scope of the existing regulations and that the outcome of the matter before the PUC will be favorable to us and the Texas Commission for State Emergency Communications. However, we cannot assure you that the PUC will decide in favor of us and the Texas Commission for State Emergency Communications or that SBC Communications will not resume its desire to pursue this legal challenge on a longer term basis, thus causing further delay of the commencement of the services by exercising its right to appeal a PUC decision that favors us or the Texas Commission for State Emergency Communications. If the PUC does not decide in our favor or places contingencies on the manner in which the services are provided, we may be prohibited from delivering our services to the State of Texas, may expend significant resources to appeal the PUC's decision or may expend additional costs to redesign the methodology by which the services are provided. In addition, if SBC Communications exercises its right to appeal, we may be required to spend significant resources to defend our right to provide our services in the State of Texas. The tariff proceedings have been held in abeyance pending resolution of Project 19203, a rulemaking initiated by the PUC to establish the roles and responsibilities of 9-1-1 service providers in Texas. We cannot assure you that Project 19203 will be resolved in our favor or that the final rule will not affect the manner in which we delivers our services in Texas.

9-1-1 services generally are funded by a locally imposed fee per subscriber per month. A portion of this tax is paid to the local carrier providing the 9-1-1 services. We generally receive a monthly fee per subscriber from our customers for management of 9-1-1 data records, allowing the carrier to match our fixed revenue stream for 9-1-1 services with a fixed cost for record management. Changes by local governments in the funding mechanism for 9-1-1 services or the parties responsible for the provision of such services could have a material adverse effect on our business, financial condition and results of operations.

Our operating results could be adversely affected by any interruption of our services because of system failure.

Our operations depend on our ability to maintain our computer and telecommunications equipment and systems in effective working order, and to protect our systems against damage from fire, natural disaster, power loss, telecommunications failure or similar events. Although all of our mission-critical systems and equipment are designed with built-in redundancy and security, we cannot assure you that a fire, natural disaster, power loss, telecommunications failure or similar event would not result in an interruption of our services. Any damage, failure or delay that causes interruptions in our operations could have a material adverse effect on our business, financial condition and results of operations. Furthermore, any future addition or expansion of our facilities to increase capacity could increase our exposure to damage from fire, natural disaster, power loss, telecommunications failure or similar events. We cannot assure you that our property and business interruption insurance will be adequate to compensate us for any losses that may occur in the event of a system failure or that such insurance will continue to be available to us at all or, if available, that it will be available on commercially reasonable terms.

Our failure to manage our growth effectively could adversely affect our ability to increase our revenue and could increase our operating expenses.

We have expanded our operations rapidly over the past several years, placing significant demands on our administrative, operational and financial personnel and systems. Additional expansion by us may further strain our management, operational, financial reporting, and other systems and resources. We cannot assure you that our systems, resources, procedures, controls and existing space will be adequate to support such expansion of our operations. Our future operating results will depend substantially on the ability of our officers and key employees to manage changing business conditions and to implement and improve our management, operational, financial control and other reporting systems. In addition, our future operating results depend on our ability to attract, train and retain qualified consulting, technical, sales, financial, marketing and management personnel. Failure to hire, train or retain qualified personnel necessary to keep pace with our development of products and services could have a material adverse effect on our business, financial condition and results of operations. Continued expansion will require our management to:

- enhance management information and reporting systems;
- standardize implementation methodologies of our operations;
- further develop our infrastructure; and
- continue to maintain customer satisfaction.

If we are unable to respond to and manage changing business conditions, the quality of our products and services, our ability to retain key personnel and our business, financial condition and results of operation could be materially adversely affected.

The market for 9-1-1 OSS solutions is highly competitive, and we could lose our market position if we fail to compete effectively.

The market for 9-1-1 OSS solutions is intensely competitive and we expect competition to increase in the future. We believe that the principal competitive factors affecting the market for 9-1-1 OSS services include flexibility, reliability, manageability, technical features, wireless support, performance, ease of use, price, scope of product offerings, and customer service and support. We cannot assure you that we can maintain our competitive position against current and potential competitors, especially those with significantly greater financial, marketing, support service, technical and other competitive resources.

Our principal competitors generally fall within one of three categories:

- internal development departments of major carriers or consulting firms that support such departments;
- relatively smaller companies that offer applications featuring portions of our comprehensive set of E9-1-1 solutions; and
- larger companies that are either in the process of entering our market or have the potential to develop products and services that compete with our service offerings.

There are a number of companies that market and sell various products and services to telecommunications carriers, such as billing software and advanced telecommunications equipment, that have been broadly adopted by our customers and potential customers. In addition, vendors of telecommunications software and hardware in the future may enhance their products to include functionality that is currently provided by our solutions. The widespread inclusion of the functionality of our service offerings as standard features of other telecommunications software or hardware could render our services obsolete and unmarketable, particularly if the quality of such functionality were comparable to that of our services. Furthermore, even if the 9-1-1 functionality provided as standard features by telecommunications software or networking hardware is more limited than that of our services, we cannot assure you that a significant number of customers would not elect to accept more limited functionality in lieu of purchasing additional products or services.

Many of our competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical and marketing resources than we do. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products and services, than us. If these companies were to introduce products or services that effectively compete with our service offerings, they could be in a position to substantially lower the price of their 9-1-1 products and services or to bundle such products and services with their other product and service offerings.

We may be unable to protect our proprietary technology rights.

Our success and our ability to compete depends significantly upon our proprietary rights. We rely primarily on a combination of copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions to establish and protect our proprietary rights. We cannot assure you that such measures will be adequate to protect our proprietary rights. Further, we may be subject to additional risks as we enter into transactions in foreign countries where intellectual property laws are not well developed or are difficult to enforce. Legal protections of our proprietary rights may be ineffective in such countries. Litigation to defend and enforce our intellectual property rights could result in substantial costs and diversion of resources, and could have a material adverse effect on our business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite our efforts to safeguard and maintain our proprietary rights, we cannot assure you that we will be successful in doing so or that the steps taken by us in this regard will be adequate to deter misappropriation or independent third-party development of our technology, or to prevent an unauthorized third party from copying or otherwise obtaining and using our technology. There also can be no assurance that others will not independently develop similar technologies or duplicate any technology developed by us. Any such events could have a material adverse effect on our business, financial condition and results of operations.

Claims by other companies that our products infringe their proprietary rights could adversely affect our financial condition.

As the number of entrants to our markets increases and the functionality of our services and products increases and overlaps with the products and services of other companies, we may become subject to claims of infringement or misappropriation of the intellectual property rights of others. In certain of our customer agreements, we agree to indemnify our customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. In some instances, the amount of the indemnities may be greater than the revenue we received from the customer. Any claims or litigation, with or without merit, could be time consuming, result in costly litigation or require us to enter into royalty or licensing arrangements. Any royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all, and could have a material adverse effect on our business, financial condition and results of operations.

We face additional risks from any international operations we undertake.

Although substantially all of our revenue is generated from sales to customers in the United States, we have generated revenue in Canada and intend to enter additional international markets, which will require significant management attention and financial resources. International sales are subject to a variety of risks, including difficulties in establishing and managing international distribution channels, and in translating products and related materials into foreign languages. International operations are also subject to difficulties in collecting accounts receivable, staffing, managing personnel and enforcing intellectual property rights. Other factors that can adversely affect international operations include fluctuations in the value of foreign currencies and currency exchange rates, changes in import/export duties and quotas, introduction of tariff or non-tariff barriers and economic or political changes in international markets. We cannot assure you that these factors will not have a material adverse effect on our future international sales and, consequently, on our business, financial condition and results of operations. Furthermore, any inability to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on our business, financial condition and results of operations.

Acquisitions could cause financial or operational problems.

As part of our overall strategy, we regularly evaluate opportunities to enter into strategic acquisitions, including potential business combinations and significant investments in complementary companies, assets, products and technologies, although we have no present arrangements, commitments or agreements with respect to any acquisition. Acquisitions involve a number of operating risks that could materially adversely affect our business, financial condition and results of operations, including the diversion of management's attention to assimilate the operations, products and personnel of the acquired companies, the amortization of acquired intangible assets, and the potential loss of key employees of the acquired companies. Furthermore, acquisitions may involve businesses in which we lack experience. Because management has limited experience in acquisitions and we have no experience in integrating acquired companies or technologies into our operations, we cannot assure you that we will be able to manage one or more acquisitions successfully, or that we will be able to integrate the operations, products or personnel gained through any such acquisitions without a material adverse effect on our business, financial condition and results of operations.

Our business may be adversely affected by Year 2000 technology problems.

Many currently installed computer and software products were coded to accept only two digit entries in the date code field. These date code fields need to accept four digit entries to distinguish twenty-first century dates from twentieth century dates. We use off-the-shelf and custom software developed internally and by third parties for our production, information technology (IT) and non-IT systems. We programmed and tested our systems and installed all upgrades necessary to make them Year 2000 compliant. We spent approximately $400,000 to make our systems Year 2000 compliant. As a result of our Year 2000 readiness efforts, our production systems, IT systems and non-IT systems successfully distinguished twenty-first century dates from twentieth century dates on January 1, 2000 without any system failures. However, we are continuing to monitor our systems throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly. Despite the fact that many companies' software and computer systems are currently processing twenty-first century dates correctly, these companies, including us, could experience latent Year 2000 problems.

The market price of our common stock may experience price and volume fluctuations for reasons over which we have no control.

The stock market has from time to time experienced, and is likely to continue to experience, extreme price and volume fluctuations. Recently, prices of securities of high technology companies have been especially volatile and have often fluctuated for reasons that are unrelated to the operating performance of the affected companies. The market price of shares of our common stock has fluctuated greatly since our initial public offering and could continue to fluctuate due to a variety of factors. In the past, companies that have experienced volatility in the market price of their stock have been the objects of securities class action litigation. If we were the object of securities class action litigation, it could result in substantial costs and a diversion of our management's attention and resources.

Our corporate documents and Delaware law make a takeover of our company more difficult, which may limit the market price of the common stock.

Our charter and by-laws and Section 203 of the Delaware General Corporation Law contain provisions that might enable our management to resist a takeover of our company. Among other things, the board of directors has the ability to issue "blank check" preferred stock without further stockholder approval. These provisions may discourage, delay or prevent a change in control or a change in our management. These provisions also could discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors are willing to pay for shares of common stock.

Our officers and directors have significant voting power and may substantially influence the outcome of any stockholder vote.

Members of our board of directors and our executive officers, together with members of their families and entities that may be deemed affiliates of or related to such persons or entities, beneficially own approximately 22.6% of the outstanding shares of our common stock as of February 29, 2000. Accordingly, these stockholders are able to influence election of all members of our board of directors and influence the outcome of corporate actions requiring stockholder approval, such as mergers and acquisitions. This level of ownership by such persons and entities may have a significant effect in delaying, deferring or preventing a change in control of us and may adversely affect the voting and other rights of other holders of common stock.

ITEM 2. PROPERTIES

Our principal administrative, sales and marketing, research and development and support facilities consist of approximately 80,000 square feet of office space in Boulder, Colorado. We occupy these premises under a lease expiring December 31, 2002. In December 1999, we leased an additional 2,100 square feet of office space in Austin, Texas. This facility will supplement and serve as a back up to our Boulder, Colorado facility. We occupy the Texas premises under a lease expiring November 30, 2003. We expect to lease additional space in 2000 to accommodate growth.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any litigation that we believe could have a material adverse effect on us or our business. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers. We plan to provide 9-1-1 services directly to state and local governments rather than local exchange carriers in certain areas. Since this is the first time that such services have been provided in this manner, the regulations are being challenged and clarified for the first time. We believe that the services we provides are within the scope of the existing regulations and that any challenges to the regulations will be decided in our favor. However, if the regulations are challenged and are not decided in our favor, we may be prohibited from expanding our services to certain markets.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

a) On December 2, 1999, we held our 1999 Annual Meeting of Stockholders (the "Annual Meeting").

b) One matter voted on at the Annual Meeting was the election of six directors. The six nominees, who were existing directors and nominees of our Board of Directors, were re-elected at our Annual Meeting as directors, receiving the number and percentage of votes for election and abstentions as set forth next to their respective names below:

NOMINEE FOR DIRECTOR	FOR		ABSTAIN	
George K. Heinrichs	6,301,620	97.6%	154,275	2.4%
Stephen O. James	6,303,898	97.6%	151,997	2.4%
David Kronfeld	6,303,898	97.6%	151,997	2.4%
Mary Beth Vitale	6,302,398	97.6%	153,497	2.4%
Winston J. Wade	6,303,898	97.6%	151,997	2.4%
Darrell A. Williams	6,302,398	97.6%	153,497	2.4%

c) The following additional matter was separately voted upon at the Annual Meeting and received the votes of the holders of the number of shares of our common stock voted in person or by proxy at the Annual Meeting and the percentage of total votes cast as indicated below:

Ratification of selection of Arthur Andersen LLP as independent accountants for 2000 fiscal year:

For	6,306,528	97.7%
Against	10,400	0.2%
Abstain	138,967	2.1%

d) Not applicable.

PART II

ITEM 5a. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the Nasdaq National Market under the symbol "SCCX." We commenced our initial public offering of the common stock on June 24, 1998 at a price of $12 per share. Prior to such date, there was no public market for the common stock. The following table sets forth the high and low bid prices for the common stock for the periods indicated, as reported on the Nasdaq National Market.

	HIGH	LOW
June 24, 1998 through June 30, 1998	$14.00	$12.00
Quarter ended September 30, 1998	16.00	2.88
Quarter ended December 31, 1998	5.56	2.88
Quarter ended March 31, 1999	6.38	3.00
Quarter ended June 30, 1999	5.00	3.00
Quarter ended September 30, 1999	7.13	4.00
Quarter ended December 31, 1999	7.09	5.00

As of February 29, 2000, there were approximately 173 holders of record.

We have not paid any cash dividends on our capital stock since our inception, and do not expect to pay cash dividends on our common stock in the foreseeable future. Certain covenants contained in our line of credit agreement restrict the payment of dividends without the lender's prior consent. Payments of future dividends, if any, will be at the discretion of our Board of Directors, subject to the restrictions discussed above, after taking into account various factors, including our financial condition, operating results, cash needs and expansion plans.

ITEM 5b. CHANGES IN SECURITIES AND USE OF PROCEEDS

On June 29, 1998, we consummated our initial public offering of our common stock. The estimated net offering proceeds to us after deducting the foregoing discounts, commissions, fees and expenses were $25,988,400, of which $3,510,400 relates to the exercise of the underwriters' over-allotment option on July 22, 1998. Through December 31, 1999, the proceeds of the offering have been applied as follows:

Aggregate offering price	$28,980,000
Direct and indirect payment to others for:	
Underwriting discounts and commissions	2,028,600
Other offering expenses	963,000
Construction of building and facilities	300,000
Capital lease payment to receive discount	2,878,500
Repayment of indebtedness	4,610,000

None of such payments were direct or indirect payments to our directors, officers, general partners or their associates or to persons owning 10% or more of any class of our equity securities or to our affiliates. We expect to use up to $13 million of our remaining net proceeds in 2000 for research, development and marketing to expand our product offerings, as well as for general corporate purposes, including working capital. A portion of the net proceeds also may be used for the acquisition of businesses, products and technologies that are complementary to ours. We invested approximately $15 million of the offering proceeds in an investment portfolio consisting mostly of high-grade bonds and commercial paper.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data are qualified by reference to and should be read in conjunction with our financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7. The statement of operations data for the years ended December 31, 1999, 1998 and 1997 and the balance sheet data at December 31, 1999 and 1998 are derived from, and are qualified by reference to, the audited financial statements and notes included in Item 8. The statement of operations data for the years ended December 31, 1996 and 1995 and the balance sheet data at December 31, 1997, 1996 and 1995 are derived from audited financial statements not included in this Annual Report on Form 10-K.

	December 31,				
	1999	1998	1997	1996	1995
Statement of Operations Data:					
Revenue:					
Data management services	$ 32,096	$ 30,610	$ 24,005	$ 13,165	$ 3,531
Licenses and implementation services	488	3,839	3,067	1,637	3,882
Total revenue	32,584	34,449	27,072	14,802	7,413
Costs and expenses:					
Cost of data management services	24,338	20,740	15,378	7,996	2,840
Cost of licenses and implementation services	138	836	1,283	596	1,041
Sales and marketing	5,314	4,119	3,850	3,204	2,016
General and administrative	4,931	4,959	3,227	1,533	830
Total costs and expenses	34,721	30,654	23,738	13,329	6,727
Income (loss) from operations	(2,137)	3,795	3,334	1,473	686
Other income (expense), net	607	(294)	(879)	(527)	(368)
Income (loss) from continuing operations before income taxes	(1,530)	3,501	2,455	946	318
Provision (benefit) for income taxes	(468)	(379)	(2,328)	9	16
Net income (loss) from continuing operations before extraordinary item	(1,062)	3,880	4,783	937	302
Loss from operations of discontinued division, net of tax	(226)	—	(876)	(562)	(1,746)
Loss from disposal of discontinued division, net of tax	—	—	(2,032)	—	—
Net income (loss) before extraordinary item	(1,288)	3,880	1,875	375	(1,444)
Loss from early extinguishment of debt, net of tax	—	(909)	—	—	—
Net income (loss)	$ (1,288)	$ 2,971	$ 1,875	$ 375	$ (1,444)
Per Share Data:					
Net income (loss) from continuing operations before extraordinary item per share:					
Basic	$ (0.10)	$ 0.53	$ 2.17	$ 0.15	$ (0.02)
Diluted	$ (0.10)	$ 0.38	$ 0.54	$ 0.11	$ (0.02)
Net income (loss) per share:					
Basic	$ (0.12)	$ 0.39	$ 0.61	$ (0.17)	$ (1.07)
Diluted	$ (0.12)	$ 0.29	$ 0.21	$ 0.05	$ (1.07)

	December 31,				
	1999	1998	1997	1996	1995
Balance Sheet Data:					
Cash and cash equivalents	$ 8,354	$ 10,266	$ 2,503	$ 32	$ 1,004
Short and long-term investments in marketable securities	13,158	9,815	—	—	—
Working capital (deficit)	18,014	17,678	(2,670)	(7,345)	(8,135)
Total assets	41,780	45,095	21,106	18,482	11,755
Long-term debt	2,038	2,791	6,891	3,318	1,934
Total stockholders' equity (deficit)	32,935	33,591	(11,867)	(13,068)	(4,614)

See Note 2 of notes to financial statements for an explanation of the determination of the shares used in computing net income (loss) per share.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed below and in the section entitled "Risk Factors" in Item 1.

Overview

Prior to 1995, substantially all of our revenue was derived from the sale of software licenses and related implementation services to ILECs and public safety agencies. During 1994, we began investing in infrastructure to provide our 9-1-1 OSS solution to telephone operating companies seeking to outsource such operations. We signed our first 9-1-1 data management services contract in August 1994 and continue to add to the number of records under management. We began to recognize revenue from wireless carriers in the third quarter of 1997, and continue to increase the number of live wireless subscribers managed. In addition, we signed a contract with the General Services Commission of the State of Texas in November 1998, representing the first time that a state agency has endeavored to centralize 9-1-1 OSS and data management services with a neutral third party.

Our data management services revenue is derived from contracts with ILECs, CLECs, wireless carriers and a state agency pursuant to which we provide an outsourcing solution for our customers' 9-1-1 data management. Revenue included in data management services generally includes a non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are recognized on the percentage-of-completion method over the period required to perform the tasks necessary to prepare for the processing of customer data. Our contracts also separately allow for a monthly service fee based on the number of subscriber records under management, which is recognized in the period in which the services are rendered. Data management services revenue also may include revenue from enhanced products and services, which may include non-recurring and/or monthly fees which are separately stated in the contract and are recognized in the period in which the services are performed. Related costs are expensed as they are incurred. Data management services revenue comprised 99% of our total revenue in 1999 and 89% in each of the years ended December 31, 1998 and 1997.

Our licenses and implementation services revenue is derived from contracts with ILECs pursuant to which we provide a 9-1-1 software license or related products and services such as implementation, training, software enhancements and interfaces to our customers' systems. Licenses and implementation services revenue is recognized using the percentage-of-completion method. The related costs include third-party licenses, direct labor and related expenses, and are expensed as incurred. Subsequent to system installation, we provide our customers with maintenance services that are recognized ratably over the related contract period on a straight-line basis. Our licenses and implementation services revenue is derived from a limited number of customers and consequently the concentration of customers can result in quarterly fluctuations based on the timing of the signing of new contracts and completion of existing contracts. Margins on such contracts also may fluctuate based on the elements included in the contract. We completed the licenses and implementation services contracts we had in place in 1998 and did not sign additional contracts due to our focus on our longer term services contracts. We do not expect to generate significant revenue from licenses and implementation services during 2000. Licenses and implementation services revenue comprised 1% of our total revenue in 1999 and 11% in each of the years ended December 31, 1998 and 1997.

During the year ended December 31, 1999, we recognized approximately 81% of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our total revenue. During the year ended December 31, 1998, we recognized approximately 73% of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our total revenue. During the year ended December 31, 1997, we recognized approximately 81% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our total revenue.

In the third quarter of 1998, one of our licenses and implementation services customers, Bell Atlantic, who had merged with Nynex, announced their decision to standardize their 9-1-1 hardware and software platform utilizing non-SCC systems that had been used by Nynex prior to the merger. In the fourth quarter of 1998, we entered into a Termination, Settlement and Release Agreement with Bell Atlantic, under which Bell Atlantic paid us for work that had been performed prior to cancellation of the contract. This transition occurred over the course of 1999, during which time we continued to support the systems installed in Bell Atlantic and cooperated fully to ensure a smooth transition of these systems. Bell Atlantic comprised approximately 8% of our total revenue in 1998.

As of December 31, 1999, we had net operating loss carryforwards of $11.2 million available to offset future net income for U.S. federal income tax purposes. We reversed $1.7 million of the valuation allowance on our deferred tax assets in the year ended December 31, 1998 and recorded an additional income tax benefit of $468,000 from continuing operations in the year ended December 31, 1999, as we believe that it is more likely than not that such tax benefits will be realized. Of the $912,000 tax benefit recorded in 1998, $533,000 related to the extraordinary loss from early extinguishment of debt. We expect to incur losses in the near term related to development costs for new commercial products and future taxable income may not be sufficient to realize additional deferred tax assets that will be created by the projected net operating losses. Consequently, we presently expect our statement of operations will not reflect tax benefits for projected operating losses to be incurred during 2000.

In June 1997, we sold the net assets of our Premise Products Division. The sale of our Premise Products Division resulted in a net loss from the sale of $2.0 million. Net losses from operations of this division totaled $876,000 and $226,000 in 1997 and 1999, respectively, and are presented in our financial statements as loss from operations of discontinued division. The loss from discontinued operations in 1999 resulted from final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

In June and July 1998, we completed an initial public offering of our common stock, which generated proceeds of $26.0 million, net of the underwriter's discount and other offering costs and including the exercise of the underwriters' overallotment option. See Note 2 to the accompanying financial statements and "Liquidity and Capital Resources."

Historically, substantially all of our revenue has been generated from sales to customers in the United States. However, we have generated revenue in Canada and intend to enter additional international markets, which may require significant management attention and financial resources. International sales are subject to a variety of risks.

Our quarterly and annual operating results have varied significantly in the past. The variation in operating results will likely continue and may intensify. We believe that period to period comparisons of results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Our operating results may continue to fluctuate as a result of many factors, including the length of the sales cycles for new or existing customers, the size, timing or duration of significant customer contracts, fluctuations in number of subscriber records under management, timing or duration of service offerings, rate of adoption of wireless services by Public Safety Answering Points, efforts expended to accelerate the introduction of certain new products, our ability to hire, train and retain qualified personnel, increased competition, changes in operating expenses, changes in our strategy, the financial performance of our customers, changes in telecommunications legislation and regulations that may affect the competitive environment for our services, and general economic factors. Our contracts for 9-1-1 OSS services generally include a separate non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data, and therefore, we may recognize significantly increased revenue for a short period of time upon commencing services for a new customer.

Our expense levels are based in significant part on our expectations regarding future revenue. Our revenue is difficult to forecast because the market for our services is evolving rapidly and the length of our sales cycle, the size and timing of significant customer contracts and license fees and the timing of recognition of non-recurring initial fees vary substantially among customers. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenue. Any significant shortfall could therefore have a material adverse effect on our business, financial condition and results of operations. We will incur expenses of approximately $10 million in 2000 for research, development and marketing to expand our product offerings. In addition, we hired additional employees in 1999, 1998 and 1997, and expect to continue hiring additional employees during 2000. We also began leasing office space in Texas in December 1999, from which we will perform some of our operations. We cannot assure you that we can report operating profits or that our investments in research and development will generate future revenue. Failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Results of Operations

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Revenue

Total Revenue. Total revenue decreased 5%, from $34.4 million in 1998 to $32.6 million in 1999.

Data Management Services Revenue. Revenue from data management services increased 5%, from $30.6 million in 1998 to $32.1 million in 1999, representing approximately 89% and 99% of total revenue, respectively. Data management services revenue increased due to an increase in the number of records under management for ILEC and CLEC customers caused by customer growth and the signing of additional CLEC contracts. These increases were offset by monthly minimum fees from a wireless carrier in 1998 that expired at the end of 1998 and a decrease in non-recurring fees related to wireless and wireline services.

Licenses and Implementation Services. Revenue from licenses and implementation services decreased 87%, from $3.8 million in 1998 to $488,000 in 1999, as we had no licenses and implementation services contracts in process in 1999 other than warranty contracts.

Costs and Expenses

Cost of Data Management Services. Cost of data management services consists primarily of labor and costs of interconnection with customers' systems and our infrastructure. Cost of data management services increased 17%, from $20.7 million in 1998 to $24.3 million in 1999, representing 60% and 75% of total revenue, respectively, and 68% and 76% of data management services revenue, respectively. The dollar increase was due to the pilot phase and start of implementation of our contract with the State of Texas, increased depreciation expense and telephone lines to accommodate growth in our wireless and wireline operations and additional headcount and related costs incurred to accommodate growth for both wireline and wireless services. The percentage increase occurred primarily because the rollout of our wireless and enhanced services has been slower than anticipated, although we have built the infrastructure to service the anticipated demand, and the infrastructure required to begin the State of Texas contract before significant revenue was generated. In addition, in 1998, we received monthly minimum fees from a wireless customer which expired at the end of 1998.

Cost of Licenses and Implementation Services. Cost of licenses and implementation services consists primarily of labor, license fees for third party software and related expenses. Cost of licenses and implementation services decreased 83%, from $836,000 in 1998 to $139,000 in 1999, representing 2% and 0.4% of total revenue, respectively, and 22% and 28% of licenses and implementation services revenue, respectively. The dollar decrease occurred because we had no licenses and implementation services contracts in process during 1999 other than warranty contracts.

Sales and Marketing. Sales and marketing expenses consist primarily of expenses related to salaries and commissions, travel, trade shows and sales collateral. Sales and marketing expenses increased 29%, from $4.1 million in 1998 to $5.3 million in 1999, representing 12% and 16% of total revenue, respectively. The dollar increase was due to the addition of marketing personnel, the creation of a government affairs department to interpret and influence legislation primarily related to our wireless operations and related legal expenses, addition of sales staff for enhanced services and an increase in tradeshow expenses.

General and Administrative. General and administrative expenses consist primarily of expenses related to our information systems, finance, human resources, legal, executive and financial planning departments. General and administrative expenses decreased 1%, from $5.0 million in 1998 to $4.9 million in 1999, representing 14% and 15% of total revenue, respectively. We experienced decreases due to a decrease in expenses related to the resignations of our chief operating officer and chief financial officer. These decreases were partially offset by:

- the addition of information technology personnel and related expenses;
- increased legal and accounting costs related to quarterly and annual reporting requirements as we became a publicly traded company in June 1998;

- increased legal staffing and other fees related to regulatory and legislative issues concerning the implementation of our services in Texas; and
- the creation of an investor relations department.

Other Income (Expense),Net. Net other income (expense) consists primarily of interest expense from our borrowings and leases for capital equipment, offset by interest income earned on our cash and investment balances. Net other expense was $294,000 in 1998 compared to net other income of $607,000 in 1999, representing (1)% and 2% of total revenue for such periods, respectively. The dollar increase in net other income was primarily due to a decrease in interest expense related to the repayment of certain bank debt outstanding through the second quarter of 1998 and repayment of certain capital leases and an increase in interest earned from the investment of funds received from our initial public offering in June and July of 1998.

Benefit for Income Taxes. Our income tax benefit from continuing operations increased from $379,000 in 1998 to $468,000 in 1999. In 1998, we reversed a portion of our valuation allowance and in 1999 recorded an income tax benefit related to our deferred tax assets as we believe that it is more likely than not that the tax assets will be realized.

Loss from Operations of Discontinued Division. We recorded a charge of $226,000 in 1999, net of the related tax benefit, related to the final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

Loss from Early Extinguishment of Debt. We recorded a charge of $909,000 in 1998, net of the related tax benefit, related to the write-off of the remaining debt discount and other costs associated with the early extinguishment of our bank debt.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Revenue

Total Revenue. Total revenue increased 27%, from $27.1 million in 1997 to $34.4 million in 1998.

Data Management Services Revenue. Revenue from data management services increased 28%, from $24.0 million in 1997 to $30.6 million in 1998, representing approximately 89% of total revenue in both periods. The increase resulted primarily from increases in:

- monthly fees from wireline customers due to an increase in the number of subscribers under management;
- non-recurring and monthly fees from wireless customers, as we did not begin to earn revenue from wireless customers until the third quarter of 1997 and signed several new contracts in 1998;
- non-recurring fees from enhanced services; and
- non-recurring fees from new wireline customers that were transitioned to our systems.

Licenses and Implementation Services. Revenue from licenses and implementation services increased 25%, from $3.1 million in 1997 to $3.8 million in 1998, due to increased work performed on contracts that began in 1997 and were completed or terminated during 1998.

Costs and Expenses

Cost of Data Management Services. Cost of data management services increased 35%, from $15.4 million in 1997 to $20.7 million in 1998, representing 57% and 60% of total revenue, respectively, and 64% and 68% of data management services revenue, respectively. The dollar increase was due to the addition of personnel and equipment and expansion of facilities to accommodate growth in our wireless and wireline operations.

Cost of Licenses and Implementation Services. Cost of licenses and implementation services decreased 35%, from $1.3 million in 1997 to $836,000 in 1998, representing 5% and 2% of total revenue, respectively, and 42% and 22% of licenses and implementation services revenue, respectively. The decrease in dollars and as a percent of licenses and implementation services revenue was primarily due to the reversal of accrued third party software fees that will not be required and an increase in warranty revenue, both of which resulted from the cancellation of our contract with Bell Atlantic.

Sales and Marketing. Sales and marketing expenses increased 7%, from $3.9 million in 1997 to $4.1 million in 1998, representing 14% and 12% of total revenue, respectively. The increase was primarily due to salaries and related costs of hiring additional sales and marketing personnel during 1998 and public relations costs incurred in 1998. These increases were partially offset by decreases in sales commissions, as well as the transfer of a vice president to a general and administrative position.

General and Administrative. General and administrative expenses increased 54%, from $3.2 million in 1997 to $5.0 million in 1998, representing 12% and 14% of total revenue, respectively. The dollar increase was due to:

- the reassignment of certain continuing resources, infrastructure and related general and administrative expenses applicable to continuing operations;
- addition of personnel and computer equipment in the accounting, information systems, legal and human resources departments to support our growth;
- the transfer of a marketing vice president to a general and administrative position; and
- strategic consulting costs incurred in 1998.

The increases were partially offset by a decrease in executive bonuses.

Other Expenses, Net. Other expenses decreased 67%, from $879,000 in 1997 to $294,000 in 1998, representing 3% and 1% of total revenue, respectively. The dollar decrease was primarily due to the repayment of certain bank debt and capital leases during 1998 and interest earned from the investment of funds from our initial public offering in June and July of 1998.

Income Tax Benefit. The income tax benefit of $379,000 in 1998 consists of the reversal of a portion of our valuation allowance on our deferred tax assets, compared to a reversal of valuation allowance of $2.4 million in 1997. We did not record a state income tax provision in 1998 primarily due to the utilization of state net operating loss carryforwards. In 1997, we recorded a state provision of $172,000 as more business was conducted in states where net operating loss carryforwards were not available.

Loss from Sale and Operations of Discontinued Division. In 1997, we recorded a charge of $2.9 million, net of the related tax effect, related to the sale of the net assets of our Premise Products Division.

Loss from Early Extinguishment of Debt. We recorded a charge of $909,000 in 1998, net of the related tax benefit, related to the write-off of the remaining debt discount and other costs associated with the early extinguishment of our bank debt.

Liquidity and Capital Resources

Since our inception we have funded our operations with cash provided by operations, supplemented by equity and debt financing and leases on capital equipment. As of December 31, 1999, we had $21.5 million in cash and cash equivalents and investments in marketable securities.

In June 1998, we completed an initial public offering of 2,100,000 shares of our common stock, which generated proceeds of $22.5 million to us, net of the underwriter's discount and other offering costs. We used approximately $4.4 million of the proceeds to repay our bank loans and $160,000 for the related prepayment penalty. In July 1998, the underwriters of our initial public offering exercised their over-allotment option. Under the over-allotment option, we sold an additional 315,000 shares of our common stock, generating net proceeds of $3.5 million.

In addition to the $4.4 million of debt repaid with the proceeds of the initial public offering, we repaid $5.6 million and $1.9 million of other bank debt and capital lease obligations during 1998 and 1999, respectively. Additionally, we used $3.4 million and $2.5 million during 1998 and 1999, respectively, for the purchase of capital assets and software development. We anticipate that our level of spending for capital expenditures in 1999 will continue during 2000, although we currently have no material commitments for capital expenditures.

We have a line of credit with a bank equal to $2.0 million, which is available to meet operating needs. The interest rate on amounts borrowed under the line of credit is equal to the bank's prime rate or the one, two or three month Libor rate plus 2.25% per annum. The line of credit matures April 15, 2000 and is collateralized by certain of our assets. As of December 31, 1999, no borrowings were outstanding on the line of credit.

We also have a $2.0 million capital lease line with a bank which is available to meet capital acquisition needs that arise from normal business operations. The interest rate on capital leased under the lease line is equal to the bank's cost of funds at the time of each lease. Separate lease schedules are signed from time to time. Each lease schedule is collateralized by the assets that are being leased. Each lease has its own termination date, typically 36 months. As of December 31, 1999, $582,000 was outstanding on the capital lease line.

We have announced plans to incur research, development and marketing expenses of approximately $10 million to expand our product offerings. This will require approximately $13 million in cash due to the capital expenditure requirements. We may also increase our capital lease line to finance this initiative. We believe that our remaining net proceeds from our initial public offering, cash generated from operations and lease financing will be sufficient to fund our anticipated working capital needs, research and development initiative, capital expenditures and any potential future acquisitions through at least the next twelve months. In the event our plans or assumptions change or prove to be inaccurate, or if we consummate any unplanned acquisitions of businesses or assets, we may be required to seek additional sources of capital. Sources of additional capital may include public and private equity and debt financings, sales of nonstrategic assets and other financing arrangements.

Year 2000 Capability

Many currently installed computer and software products were coded to accept only two digit entries in the date code field. These date code fields need to accept four digit entries to distinguish twenty-first century dates from twentieth century dates. We use off-the-shelf and custom software developed internally and by third parties for our production, information technology (IT) and non-IT systems. We programmed and tested our systems and installed all upgrades necessary to make them Year 2000 compliant. We spent about $400,000 to make our systems Year 2000 compliant. As a result of our Year 2000 readiness efforts, our production systems, IT systems and non-IT systems successfully distinguished twenty-first century dates from twentieth century dates on January 1, 2000 without any system failures. However, we are continuing to monitor our systems throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly. Despite the fact that many companies' software and computer systems are currently processing twenty-first century dates correctly, these companies, including us, could experience latent Year 2000 problems.

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 and No. 137

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An amendment of FASB Statement No. 133." SFAS No. 137 delays the effective date of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. We do not typically enter into arrangements that would fall under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not significantly affect our financial condition and results of operations.

Statement of Position 98-9

In December 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 amends certain paragraphs of Statement of Position 97-2, "Software Revenue Recognition," to require the application of a residual method of accounting for software revenue when certain conditions exist. SOP 98-9 also amends Statement of Position 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2" to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. Earlier adoption is permitted, however, retroactive application is prohibited. We believe SOP 98-9 will not materially impact our financial statements.

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition." SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 101 must be applied to financial statements no later than the second fiscal quarter of 2000. We are currently reviewing SAB 101 to determine what impact, if any, the adoption of SAB 101 will have on our financial position and results of operations.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States interest rates. These exposures are directly related to our normal operating and funding activities. Historically and as of December 31, 1999, we have not used derivative instruments or engaged in hedging activities.

Interest Rate Risk

The interest payable on our line of credit is variable based on the lender's prime rate or the one, two, or three month Libor rate plus 2.25% per annum, and, therefore, is affected by changes in market interest rates. At December 31, 1999, no amounts were outstanding under our line of credit, however, we may borrow up to 80% of qualified accounts receivable, not to exceed $2,000,000. Rates on our capital lease line are also dependent on interest rates in effect at the time the lease line is drawn upon. In addition, we invest excess funds in high-grade treasury bonds and commercial paper on which we monitor interest rates frequently and as the investments mature. We do not believe that reasonably possible near-term changes in interest rates will result in a material effect on our future earnings, fair values or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SCC COMMUNICATIONS CORP.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of SCC Communications Corp.:

We have audited the accompanying balance sheets of SCC Communications Corp. (a Delaware corporation) as of December 31, 1999 and 1998, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCC Communications Corp. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Denver, Colorado
January 21, 2000

SCC COMMUNICATIONS CORP.

BALANCE SHEETS
(dollars in thousands)

	December 31, 1999	December 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,354	$ 10,266
Short-term investments in marketable securities	12,165	7,761
Accounts receivable, net of allowance of approximately $58 and $50 in 1999 and 1998, respectively, for doubtful accounts	2,255	4,820
Unbilled revenue	846	1,035
Prepaids and other	548	484
Deferred income taxes — current portion	653	2,025
Total current assets	24,821	26,391
PROPERTY AND EQUIPMENT, at cost:		
Computer hardware and equipment	25,411	23,687
Furniture and fixtures	933	800
Leasehold improvements	915	920
	27,259	25,407
Less — Accumulated depreciation	(15,753)	(11,056)
Total property and equipment	11,506	14,351
OTHER ASSETS	86	112
LONG-TERM INVESTMENTS in marketable securities	993	2,054
DEFERRED INCOME TAXES — NONCURRENT	3,423	1,504
SOFTWARE DEVELOPMENT COSTS, net of accumulated amortization of $575 and $346 in 1999 and 1998, respectively	951	683
	$ 41,780	$ 45,095
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 752	$ 1,211
Payroll-related accruals	786	734
Other accrued liabilities	1,641	2,546
Property and other taxes	792	696
Current portion of capital lease obligations (Note 5)	1,971	1,618
Deferred contract revenue	865	1,908
Total current liabilities	6,807	8,713
LONG-TERM DEBT:		
Capital lease obligations, net of current portion (Note 5)	2,038	2,791
Total liabilities	8,845	11,504
COMMITMENTS AND CONTINGENCIES (Notes 7 and 11)		
STOCKHOLDERS' EQUITY (Note 4):		
Preferred stock, $.001 par value; 15,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.001 par value; 30,000,000 shares authorized; 11,104,111 and 10,886,353 shares issued at December 31, 1999 and 1998, respectively	11	10
Additional paid-in capital	43,925	43,320
Stock subscriptions receivable	(33)	(59)
Accumulated deficit	(10,968)	(9,680)
Total stockholders' equity	32,935	33,591
	$ 41,780	$ 45,095

The accompanying notes to financial statements are an integral part of these balance sheets.

SCC COMMUNICATIONS CORP.

STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)

	Year Ended December 31, 1999	1998	1997
REVENUE:			
Data management services	$ 32,096	$ 30,610	$ 24,005
Licenses and implementation services	488	3,839	3,067
Total revenue	32,584	34,449	27,072
COSTS AND EXPENSES:			
Cost of data management services	24,338	20,740	15,378
Cost of licenses and implementation services	138	836	1,283
Sales and marketing	5,314	4,119	3,850
General and administrative	4,931	4,959	3,227
Total costs and expenses	34,721	30,654	23,738
INCOME (LOSS) FROM OPERATIONS	(2,137)	3,795	3,334
OTHER INCOME (EXPENSE):			
Interest and other income	1,095	654	88
Interest and other expense	(488)	(948)	(967)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(1,530)	3,501	2,455
BENEFIT FOR INCOME TAXES (Note 6)	(468)	(379)	(2,328)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM	(1,062)	3,880	4,783
DISCONTINUED OPERATIONS (Note 3):			
Loss from operations of discontinued division, net of tax	(226)	—	(876)
Loss from disposal of discontinued division, net of tax	—	—	(2,032)
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(1,288)	3,880	1,875
EXTRAORDINARY LOSS FROM EARLY EXTINGUISHMENT OF DEBT, net of tax	—	(909)	—
NET INCOME (LOSS)	$ (1,288)	$ 2,971	$ 1,875
Dividends accrued on Series D, E and F mandatorily redeemable convertible preferred stock	—	(355)	(740)
Common stock warrant put price adjustment	—	(77)	(8)
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	$ (1,288)	$ 2,539	$ 1,127
NET INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM (Note 2):			
Basic	$ (0.10)	$ 0.53	$ 2.17
Diluted	$ (0.10)	$ 0.38	$ 0.54
NET INCOME (LOSS) PER SHARE BEFORE EXTRAORDINARY ITEM (Note 2):			
Basic	$ (0.12)	$ 0.53	$ 0.61
Diluted	$ (0.12)	$ 0.38	$ 0.21
NET INCOME (LOSS) PER SHARE (Note 2):			
Basic	$ (0.12)	$ 0.39	$ 0.61
Diluted	$ (0.12)	$ 0.29	$ 0.21
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE (Note 2):			
Basic	10,989,091	6,433,564	1,857,413
Diluted	10,989,091	10,334,556	8,788,816

The accompanying notes to financial statements are an integral part of these statements.

SCC COMMUNICATIONS CORP.

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(dollars in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock Subscriptions Receivable	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit	Total Stockholders' Equity (Deficit)
BALANCES, at December 31, 1996	1,840,899	$ 2	$ 298	$ (19)	(36,250)	$ (3)	$ (13,346)	$ (13,068)
Dividends accrued on Series D, E and F Convertible Preferred Stock	—	—	—	—	—	—	(740)	(740)
Exercise of stock options, including options exercised in exchange for notes receivable	153,382	—	154	(80)	—	—	—	74
Common stock warrant put price adjustment (Note 4)	—	—	—	—	—	—	(8)	(8)
Net income	—	—	—	—	—	—	1,875	1,875
BALANCES, at December 31, 1997	1,994,281	2	452	(99)	(36,250)	(3)	(12,219)	(11,867)
Dividends accrued on Series D, E and F Convertible Preferred Stock	—	—	—	—	—	—	(355)	(355)
Issuance of common stock through Initial Public Offering, net of issuance costs of $964	2,415,000	2	25,985	—	—	—	—	25,987
Conversion of preferred stock into common stock	6,188,575	6	14,938	—	—	—	—	14,944
Conversion of common stock warrants	195,148	—	1,549	—	—	—	—	1,549
Issuance of common stock under Employee Stock Purchase Plan	61,105	—	243	—	—	—	—	243
Exercise of stock options	68,494	—	39	—	—	—	—	39
Common stock warrant put price adjustment	—	—	—	—	—	—	(77)	(77)
Stock subscription payments received	—	—	—	40	—	—	—	40
Tax benefit related to disqualifying dispositions of common stock	—	—	117	—	—	—	—	117
Retirement of treasury stock	(36,250)	—	(3)	—	36,250	3	—	—
Net income	—	—	—	—	—	—	2,971	2,971
BALANCES, at December 31, 1998	10,886,353	10	43,320	(59)	—	—	(9,680)	33,591
Issuance of common stock under Employee Stock Purchase Plan	38,679	—	145	—	—	—	—	145
Exercise of stock options	179,079	1	460	—	—	—	—	461
Stock subscription payments received	—	—	—	26	—	—	—	26
Net loss	—	—	—	—	—	—	(1,288)	(1,288)
BALANCES, at December 31, 1999	11,104,111	$ 11	$ 43,925	$ (33)	—	$ —	$ (10,968)	$ 32,935

The accompanying notes to financial statements are an integral part of these statements.

SCC COMMUNICATIONS CORP.

STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (1,288)	$ 2,971	$ 1,875
Adjustments to reconcile net income to net cash provided by operating activities —			
Amortization and depreciation	5,117	4,315	3,534
Amortization and write-off of note payable discount	—	1,430	33
Accretion of investments in marketable securities	(284)	(316)	—
(Gain) loss on disposal of assets	53	—	(40)
Loss on disposal of discontinued division	—	—	2,032
Provision for estimated losses on contracts	—	7	(196)
Provision for doubtful accounts	8	—	25
Deferred income tax benefit	(547)	(912)	(2,500)
Change in —			
Accounts receivable	2,557	(2,492)	(977)
Unbilled revenue	189	(39)	(190)
Prepaids and other	(38)	(286)	(202)
Accounts payable	(29)	246	236
Accrued liabilities	(433)	150	1,337
Deferred contract revenue	(1,043)	(705)	303
Decrease in current assets and liabilities from discontinued operations	—	—	110
Net cash provided by operating activities	4,262	4,369	5,380
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(1,961)	(2,995)	(2,646)
Proceeds from sale of net assets	—	—	603
Purchase of investments in marketable securities	(14,559)	(14,446)	—
Sale of investments in marketable securities	11,500	4,947	—
Software development costs	(497)	(397)	(142)
Net cash used in investing activities	(5,517)	(12,891)	(2,185)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of notes payable	—	—	4,275
Principal payments on notes payable	—	(4,986)	(1,439)
Principal payments on capital lease obligations	(1,870)	(5,038)	(3,634)
Proceeds from equipment financing	581	—	—
Exercise of stock options	461	39	74
Stock subscription payments received	26	40	—
Purchases through employee stock purchase plan	145	243	—
Proceeds from initial public offering and overallotment, net of underwriters' discount	—	26,951	—
Costs related to initial public offering	—	(964)	—
Net cash provided by (used in) financing activities	(657)	16,285	(724)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,912)	7,763	2,471
CASH AND CASH EQUIVALENTS, beginning of period	10,266	2,503	32
CASH AND CASH EQUIVALENTS, end of period	$ 8,354	$ 10,266	$ 2,503
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$ 439	$ 801	$ 942
Cash paid during the period for taxes	$ 459	$ 95	$ 18
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:			
Dividends accrued on Series D, E and F Convertible Preferred Stock	$ —	$ 355	$ 740
Common stock issued to employees in exchange for employee notes receivable	$ —	$ —	$ 80
Property acquired with capital leases	$ 889	$ 3,488	$ 3,074
Conversion of preferred stock	$ —	$ 14,943	$ —
Conversion of warrants	$ —	$ 1,549	$ —
Retirement of treasury stock	$ —	$ 3	$ —

The accompanying notes to financial statements are an integral part of these statements.

SCC COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION, BUSINESS AND LIQUIDITY

SCC Communications Corp. (the "Company") is a Delaware corporation. The Company is the leading provider of 9-1-1 operations support systems services to incumbent local exchange carriers ("ILECs"), competitive local exchange carriers ("CLECs"), wireless carriers and state and local governments in the United States. The Company manages the data which enables 9-1-1 calls to be routed to the appropriate public safety agency with accurate and timely information about the caller's identification and location. In addition, the Company licenses its 9-1-1 software to carriers that wish to manage the delivery of 9-1-1 data management services in-house.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operating Cycle

Assets and liabilities related to contracts are included in current assets and liabilities in the accompanying balance sheets since they will be liquidated in the normal course of contract completion, although this may require more than one year.

Property and Equipment

Depreciation of property and equipment is computed using the straight-line method over estimated useful lives of three to five years for computer hardware and equipment, seven years for furniture and fixtures and the life of the lease for leasehold improvements. The costs of repairs and maintenance are expensed while enhancements to existing assets are capitalized. Depreciation expense totaled approximately $4,888,000, $4,174,000 and $3,399,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Software Development Costs

The Company expenses the costs of developing computer software until technological feasibility is established and capitalizes all costs incurred from that time until the software is available for general customer release. Technological feasibility for the Company's computer software products is based upon the earlier of the achievement of (a) a detailed program design free of high-risk development issues or (b) completion of a working model. Costs of major enhancements to existing products with a wide market are capitalized while routine maintenance of existing products is charged to expense as incurred. The establishment of technological feasibility and the ongoing assessment of the recoverability of capitalized computer software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technology.

Capitalized software costs are amortized on a product-by-product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenue for a product compares to the total of current and anticipated future gross revenue for that product, or (b) the straight-line method over the remaining estimated economic life of the product which is typically five years. Amortization expense related to capitalized software costs totaled approximately $229,000, $145,000 and $107,000 for the years ended December 31, 1999, 1998 and 1997, respectively, and is included in cost of data management services and licenses and implementation services in the statements of operations.

Revenue Recognition

The Company reports revenue based on its two segments, data management services and licenses and implementation services.

Revenue from data management services generally consists of a non-recurring fee and monthly recurring revenue. Revenue included in data management services generally includes a non-recurring fee for the design and implementation of the 9-1-1 OSS, conversion of the customer's data to the Company's systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are recognized on the percentage-of-completion method over the period required to perform the tasks necessary to prepare for the processing of customer data. The Company's contracts also separately allow for a monthly service fee based on the number of subscriber records under management, which is recognized in the period in which the services are rendered. Data management services revenue also may include revenue from enhanced products and services, which may include non-recurring and/or monthly fees which are separately stated in the contract and are recognized in the period in which the services are performed.

Revenue related to software license fees and implementation of the Company's 9-1-1 systems at customer sites is recognized using the percentage-of-completion method because the Company's software requires significant modification for each customer. Such contracts include a license fee for the use of the Company's software and service fees for the installation and customization of the system. The Company's costs to install its systems include direct labor, third-party license fees and miscellaneous expenses. Such costs are included in cost of licenses and implementation services.

In applying the percentage-of-completion method, revenue and related costs are recognized based on the percentage that labor hours incurred to date compared to total estimated labor hours. Revenue recognized in excess of amounts billed is reflected as unbilled revenue and amounts billed in excess of revenue recognized are reflected as deferred contract revenue in the accompanying balance sheets. The Company recognizes any known or anticipated loss on contracts in process when such losses are determined to exist.

Revenue from licenses and implementation services includes customer support revenue which is recognized ratably over the related contract period on a straight-line basis. Costs related to customer support revenue are included in cost of licenses and implementation services in the accompanying statements of operations.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and investments in high-grade treasury bonds and commercial paper. The Company maintains its cash balances in the form of bank demand deposits, money market accounts, treasury bonds and commercial paper with original maturities less than ninety days. The Company's deposits and investments are with financial institutions that management believes are creditworthy and investments are high-grade. The Company's accounts receivable are from customers that are generally telecommunications service providers; accordingly, the Company's accounts receivable are concentrated in the telecommunications industry. The Company's principal customers (Note 10) accounted for 71% and 30% of the Company's accounts receivable as of December 31, 1999 and 1998, respectively. The Company has no significant financial instruments with off-balance sheet risk of accounting loss, such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

Research and Development

Research and development efforts consist of salaries, supplies and other related costs. These costs are expensed as incurred and totaled approximately $1,740,000, $1,376,000 and $738,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These costs are included in cost of data management services and licenses and implementation services in the accompanying statements of operations and do not include development costs incurred as part of the efforts performed under licenses and implementation services contracts with the Company's customers.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include highly liquid investments with original maturities of 90 days or less.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Market Value of Financial Instruments

Financial instruments include cash and cash equivalents, corporate debt securities, accounts receivable and debt obligations. The carrying amounts for cash and cash equivalents and accounts receivable approximate fair market value because of the short maturity of these instruments. The fair value of notes are estimated based on current rates available for debt with similar maturities and securities, and at December 31, 1999 and 1998, approximates the carrying value.

Investments in Marketable Securities

The Company's investments in corporate debt securities are classified as held-to-maturity and are carried at the amortized cost basis. The investments had the following values at December 31, 1999 and 1998, respectively:

	Amortized/ Accreted Cost	Accrued Interest	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Corporate Debt Securities, maturing within one year	$ 7,761,000	$ (237,000)	$ 13,000	$ (2,000)	$ 7,535,000
Corporate Debt Securities, maturing after one year through five years	2,054,000	(33,000)	3,000	—	2,024,000
Balances at December 31, 1998	$ 9,815,000	$ (270,000)	$ 16,000	$ (2,000)	$ 9,559,000
Corporate Debt Securities, maturing within one year	$12,165,000	$ —	$ —	$ (10,000)	$ 12,155,000
Corporate Debt Securities, maturing after one year through five years	993,000	—	—	(2,000)	991,000
Balances at December 31, 1999	$13,158,000	$ —	$ —	$ (12,000)	$13,146,000

Income Taxes

The Company follows Statement of Financial Accounting Standards No. 109 ("SFAS 109"), which requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax basis of assets and liabilities. SFAS 109 also requires recognition of deferred tax assets for the expected future tax effects of loss carryforwards and tax credit carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, on a more likely than not basis, are not expected to be realized (Note 6).

Stock Based Compensation Plans

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB Opinion No. 25") in accounting for its stock option and other stock-based compensation plans for employees and directors. The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," for such options and stock-based plans for employees and directors (Note 4).

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from future undiscounted cash flows. Impairment losses are recorded for the excess, if any, of the carrying value over the fair value of the long-lived assets.

Earnings Per Share

The Company presents basic and diluted earnings or loss per share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings Per Share" ("SFAS 128"), which establishes standards for computing and presenting basic and diluted earnings per share. Under this statement, basic income (loss) per share is determined by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted income (loss) per share includes the effects of potentially issuable common stock, but only if dilutive (i.e., a loss per share is never reduced). The treasury stock method, using the average price of the Company's common stock for the period, is applied to determine dilution from options and warrants. The if-converted method is used for convertible securities. Potentially dilutive common stock options that were excluded from the calculation of diluted income per share because their effect is antidilutive totaled 1,085,747, 51,000 and 298,017 in 1999, 1998 and 1997, respectively.

A reconciliation of the numerators and denominators used in computing per share net income from continuing operations is as follows:

	Year Ended December 31,		
	1999	1998	1997
Numerator:			
Net income (loss) from continuing operations before extraordinary item (numerator for diluted loss per share)	$ (1,062,000)	$ 3,880,000	$ 4,783,000
Dividends on Convertible Preferred Stock	—	(355,000)	(740,000)
Common stock warrant put price adjustment	—	(77,000)	(8,000)
Numerator for basic income (loss) per share from continuing operations before extraordinary item	$ (1,062,000)	$ 3,448,000	$ 4,035,000
Denominator for basic income (loss) per share:			
Weighted average common shares outstanding	10,989,091	6,433,564	1,857,413
Denominator for diluted income (loss) per share:			
Convertible Preferred Stock	—	3,051,900	6,188,575
Weighted average common shares outstanding	10,989,091	6,433,564	1,857,413
Options issued to employees	—	752,863	720,605
Putable common stock warrant	—	96,229	22,223
Denominator for diluted income (loss) per share	10,989,091	10,334,556	8,788,816

Income (loss) per common share was computed as follows:

	Year Ended December 31,		
	1999	1998	1997
Basic income (loss) per share:			
Income (loss) per share from continuing operations before extraordinary item	$ (0.10)	$ 0.53	$ 2.17
Loss per share from discontinued operations	(0.02)	—	(1.56)
Loss per share from extraordinary item	—	(0.14)	—
Basic income (loss) per share	$ (0.12)	$ 0.39	$ 0.61
Diluted income (loss) per share:			
Income (loss) per share from continuing operations	$ (0.10)	$ 0.38	$ 0.54
Loss per share from discontinued operations	(0.02)	—	(0.33)
Loss per share from extraordinary item	—	(0.09)	—
Diluted income (loss) per share	$ (0.12)	$ 0.29	$ 0.21

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 and No. 137

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An amendment of FASB Statement No. 133" ("SFAS No. 137"). SFAS No. 137 delays the effective date of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. The Company does not typically enter into arrangements that would fall under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not significantly affect its financial condition and results of operations.

Statement of Position 98-9

In December 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-9 ("SOP 98-9"), "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 amends certain paragraphs of Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition," to require the application of a residual method of accounting for software revenue when certain conditions exist. SOP 98-9 also amends Statement of Position 98-4 ("SOP 98-4"), "Deferral of the Effective Date of a Provision of SOP 97-2" to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. Earlier adoption is permitted, however, retroactive application is prohibited. The Company believes SOP 98-9 will not materially impact its financial statements.

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB 101"). SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 101 must be applied to financial statements no later than the second fiscal quarter of 2000. The Company is currently reviewing SAB 101 to determine what impact, if any, the adoption of SAB 101 will have on its financial position and results of operations.

(3) DISCONTINUED OPERATIONS

On June 30, 1997, the Company sold the net assets of its Premise Products Division. The sale resulted in a net loss of $2,032,000. The net losses of this division are included in the statements of operations as loss from operations of discontinued division. Revenue from the division for the six months ended June 30, 1997 was $5,785,000. Net losses from operations of this division totaled $226,000 and $876,000 in 1999 and 1997, respectively, and are presented in the Company's financial statements as loss from operations of discontinued division. The loss from discontinued operations in 1999 resulted from final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

(4) STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock and Preferred Stock

In March 1998, the Company's Board of Directors authorized an increase in common stock to 30,000,000 shares and authorized 15,000,000 shares of undesignated preferred stock. In 1998 the Company also retired 36,250 shares of treasury stock.

Mandatorily Redeemable Convertible Preferred Stock

In connection with the Company's initial public offering in June 1998, the Company's mandatorily redeemable convertible preferred stock was converted on a one-for-one basis to common stock. Activity for 1997, 1998 and 1999 is as follows:

	Shares Issued and Outstanding						
	Series A	Series B	Series C	Series D	Series E	Series F	Total
BALANCES, at December 31, 1996 and 1997	1,515,152	1,010,101	442,328	912,123	1,083,381	1,225,490	6,188,575
Conversion of preferred stock to common stock	(1,515,152)	(1,010,101)	(442,328)	(912,123)	(1,083,381)	(1,225,490)	(6,188,575)
BALANCES, at December 31, 1998 and 1999	—	—	—	—	—	—	—

The activity related to the liquidation or redemption value of Series A through Series F Convertible Preferred Stock for the periods ended December 31, 1997, 1998 and 1999 is as follows:

	Liquidation or Redemption Value						
	Series A	Series B	Series C	Series D	Series E	Series F	Total
BALANCES, at December 31, 1996	$ 1,500,000	$ 1,000,000	$ 730,000	$ 2,242,000	$ 3,044,000	$ 5,333,000	$ 13,849,000
Dividends accrued on Series D, E and F Convertible Preferred Stock	—	—	—	129,000	211,000	400,000	740,000
BALANCES, at December 31, 1997	1,500,000	1,000,000	730,000	2,371,000	3,255,000	5,733,000	14,589,000
Dividends accrued on Series D, E and F Convertible Preferred Stock	—	—	—	62,000	101,000	192,000	355,000
Conversion of Series A-F Convertible Preferred Stock to Common Stock	(1,500,000)	(1,000,000)	(730,000)	(2,433,000)	(3,356,000)	(5,925,000)	(14,944,000)
BALANCES, at December 31, 1998 and 1999	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Until the mandatorily redeemable convertible preferred stock was converted, dividends of 8% per year were accrued that would be due upon liquidation or redemption.

Putable Common Stock Warrant

In November 1997, the Company borrowed $4,000,000 from Banc One Capital Partners II, LLC (the "Lender") (Note 5). In connection with the loan, the Lender received a warrant to purchase 195,148 shares of the Company's common stock for $100. In June 1998, the Lender exercised this warrant. Because of the put feature of the warrant, the Company recorded an amount equal to the number of shares under the warrant times the difference between the current market value, as defined, and the market value of the shares at the time the warrant was issued. This amount was recorded as an increase in the value of the putable common stock warrant and charged to accumulated deficit in the accompanying financial statements through the time that the warrant was exercised. The amount recorded was $77,000 and $8,000 in 1998 and 1997, respectively.

Stock Subscriptions Receivable

In September 1997, in connection with the sale of the Company's Premise Products Division, several former employees of the Company signed full recourse promissory notes to the Company to exercise their vested stock options. The notes accrue interest at 6.07% per annum. The Company extended the due date on the notes to March 20, 1999 and is pursuing collection of the note that remains unpaid.

Stock Option Plan

The Company adopted the 1998 Stock Incentive Plan ("1998 Plan") effective June 23, 1998, which is a successor to the Company's 1990 Option Plan. As of December 31, 1999, a total of 3,257,647 shares have been authorized for issuance under the 1998 Plan, including shares authorized under the 1990 Option Plan. The shares reserved for issuance will increase automatically on the first trading day of each calendar year, beginning with the 1999 calendar year, by 3% of the number of shares of common stock outstanding on the last trading day of the immediately preceding calendar year. The share reserve was increased by 326,590 shares under this provision in 1999. The 1998 Plan allows for issuances of options to officers, non-employee Board members and consultants, as provided for under the terms of the 1998 Plan.

Employee Stock Purchase Plan

On March 18, 1998, the Company adopted an employee stock purchase plan ("ESPP") under which eligible employees may contribute up to 10% of their salaries through payroll deductions to purchase shares of the Company's common stock. The first offering period of the ESPP began March 1, 1998 and ended on December 31, 1998. Thereafter, offering periods will be successive six month periods. At the end of each offering period, amounts contributed by employees will be used to purchase shares of the Company's common stock at a price equal to 85%

of the lower of the closing price of the common stock on the first day or last day of the offering period. The Company's Board of Directors has authorized the issuance of up to 200,000 shares under the ESPP and may terminate the ESPP at any time. At March 1 of each year, the shares available under the ESPP will be restored to 200,000, although the Company's Board of Directors may elect to restore a lesser number of shares. The Company issued 38,679 and 61,105 shares under the ESPP in 1999 and 1998, respectively.

Statement of Financial Accounting Standards No. 123 ("SFAS 123")

SFAS 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, provided that pro forma disclosures are made of net income or loss assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has computed the fair values of all options granted under the 1998 Plan, which succeeds the 1990 Option Plan, during 1999, 1998 and 1997, using the Black-Scholes pricing model and the following weighted average assumptions:

	1999	1998	1997
Risk-free interest rate	5.40%	4.71%	6.41%
Expected dividend yield	0.00%	0.00%	0.00%
Expected lives outstanding	4.8 years	4.4 years	5.0 years
Expected volatility	78.614%	66.004%	0.001%

To estimate lives of options for this valuation, it was assumed options will be exercised upon becoming fully vested. All options are initially assumed to vest. Cumulative compensation costs recognized in pro forma net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of pro forma compensation expense in the period of forfeiture. Because the Company's common stock was not yet publicly traded, the expected market volatility was assumed to be zero in 1997. In 1998 and 1999, the Company's common stock was not yet traded for an extended period of time, thus the expected market volatility was based on the stock prices of companies whose operations are similar to the Company's. Actual volatility of the Company's common stock may vary. Fair value computations are highly sensitive to the volatility factor assumed; the greater the volatility, the higher the computed fair value of options granted.

The total fair value of options granted under the 1998 Option Plan and the ESPP was computed to be approximately $2,630,000, $1,406,000 and $499,000 for the years ended December 31, 1999, 1998 and 1997, respectively. These amounts are amortized ratably over the vesting periods of the options or recognized at date of grant if no vesting period is required. Pro forma stock-based compensation, net of the effect of forfeitures, was $496,000, $417,000 and $232,000 for 1999, 1998 and 1997, respectively.

A summary of stock options under the 1998 Plan and the ESPP as of December 31, 1999, 1998 and 1997 and changes during the years then ended are presented below:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,339,880	$ 3.62	1,106,610	$ 3.03	1,073,908	$ 1.68
Granted	740,364	5.15	379,211	5.81	270,016	6.93
Exercised	(179,079)	2.56	(68,494)	0.54	(153,382)	1.00
Canceled	(245,301)	5.43	(77,447)	8.64	(83,932)	2.46
Outstanding at end of year	1,655,864	$ 4.15	1,339,880	$ 3.62	1,106,610	$ 3.03
Weighted average fair value of options granted	$ 3.38		$ 3.19		$ 1.80	

The following table summarizes information about the options outstanding at December 31, 1999:

Range of Exercise Prices	Options Outstanding: Number Outstanding at 12/31/99	Options Outstanding: Weighted Average Remaining Contractual Life	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number Exercisable at 12/31/99	Options Exercisable: Weighted Average Exercise Price
$0.12 — 0.30	184,509	1.19 years	$ .18	184,509	$ .18
$0.75 — 3.00	334,217	5.33 years	1.98	322,410	1.94
$3.63 — 5.13	679,103	9.13 years	4.39	90,292	4.09
$6.00 — 7.50	425,351	8.13 years	6.59	80,344	7.42
$9.00 — 12.75	32,684	8.30 years	11.93	16,078	12.02
	1,655,864	7.21 years	$ 4.15	693,633	$ 2.62

If the Company had accounted for its stock-based compensation plan in accordance with SFAS 123, the Company's net income from continuing operations would have been reported as follows:

	1999	1998	1997
Net income (loss) from continuing operations before extraordinary item :			
As reported	$(1,062,000)	$ 3,880,000	$ 4,783,000
Pro forma	$(1,373,000)	$ 3,619,000	$ 4,638,000
Basic net income (loss) per share from continuing operations before extraordinary item:			
As reported	$ (0.10)	$ 0.53	$ 2.17
Pro forma	$ (0.12)	$ 0.50	$ 2.09
Diluted net income (loss) per share from continuing operations before extraordinary item:			
As reported	$ (0.10)	$ 0.38	$ 0.54
Pro forma	$ (0.12)	$ 0.35	$ 0.53

(5) LONG-TERM DEBT

At December 31, 1999 and 1998, long-term debt consisted of the following:

	December 31, 1999	December 31, 1998
Capitalized lease obligations for equipment due on various dates through December 1, 2002, minimum monthly payments in varying amounts, currently approximately $189,000 including imputed interest ranging from 7.75% to 9.50% per annum, collateralized by the related assets with a net book value of $3,838,000 and $4,273,000, respectively	4,009,000	4,409,000
Less — Current portion	(1,971,000)	(1,618,000)
	$ 2,038,000	$ 2,791,000

The Company prepaid its $4,000,000 note payable to Banc One Capital Partners II, LLC on June 30, 1998 and incurred a prepayment premium equal to 4% of the amount, totaling $160,000. In addition, the Company wrote-off the remaining debt discount related to the note payable of $1,282,000. The prepayment penalty and write-off of the debt discount totaling $1,442,000 were recorded as an extraordinary item, net of the related income tax benefit of $533,000.

Debt maturities of long-term debt as of December 31, 1999, are as follows:

	Capital Leases
2000	$ 2,250,000
2001	1,633,000
2002	537,000
	4,420,000
Less — Amount related to interest	(411,000)
Principal portion of future obligations	4,009,000
Less — Current portion	(1,971,000)
	$ 2,038,000

(6) INCOME TAXES

The Company has operated in three countries, the United States, Canada and Australia. For income tax return reporting purposes, the Company has approximately $11,200,000 of net operating loss carryforwards and approximately $723,000 of tax credit carryforwards available to offset future federal taxable income or federal tax liabilities in the United States. The research and development credit and net operating loss carryforwards expire at various dates through 2019.

The Tax Reform Act of 1986 contains provisions which may limit the net operating loss and credit carryforwards available to be used in any given year upon the occurrence of certain events including significant changes in ownership of the Company. In accordance with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), a greater than 50% change in ownership of a company within a three-year period results in an annual limitation on the Company's ability to utilize its net operating loss carryforwards from tax periods prior to the ownership change.

Deferred income tax assets and liabilities at December 31, 1999 and 1998, were as follows:

	December 31,	
	1999	1998
Current -		
Accrued liabilities and other	$ 640,000	$ 852,000
Deferred revenue	70,000	200,000
Net operating loss carryforwards	—	1,179,000
Less – Valuation allowance	(57,000)	(206,000)
	653,000	2,025,000
Noncurrent -		
Depreciation differences	(1,057,000)	(901,000)
Net operating loss carryforwards	4,150,000	1,974,000
Tax credit carryforwards	723,000	675,000
Less — Valuation allowance	(393,000)	(244,000)
	3,423,000	1,504,000
	$ 4,076,000	$ 3,529,000

The Company recorded an income tax benefit of $568,000 in 1999 as it believes that it is more likely than not that the net operating loss generated will be utilized against future earnings. As of December 31, 1998, the Company reversed $1,689,000 of the valuation allowance on part of its deferred tax assets, as the Company believes it is more likely than not that such tax benefits will be realized. Approximately $533,000 of the income tax benefit in 1998 was allocated to the extraordinary loss on early extinguishment of debt.

Management believes the remaining tax assets of $450,000 as of December 31, 1999 relate to tax credits that do not satisfy the realization criteria set forth in SFAS No. 109 and has recorded a valuation allowance for such net tax assets.

The components of the benefit for income taxes attributable to income from operations as of December 31, 1999, 1998 and 1997, were as follows:

	December 31,		
	1999	1998	1997
Current provision — state	$ —	$ —	$ 172,000
Deferred benefit, federal and state	(468,000)	(912,000)	(2,500,000)
Income tax benefit	$ (468,000)	$ (912,000)	$ (2,328,000)

The components of the provision (benefit) for income taxes attributable to income from discontinued operations as of December 31, 1999, 1998 and 1997, were as follows:

	December 31,		
	1999	1998	1997
Current provision — Foreign	$ —	$ —	$ 100,000
Deferred benefit — Federal	$ (100,000)	$ —	$ —

A reconciliation of income tax benefit computed by applying the federal income tax rate of 34% to income from continuing operations before income taxes as of December 31, 1999, 1998 and 1997, is as follows:

	December 31,		
	1999	1998	1997
Computed normal tax (benefit) provision	$ (631,000)	$ 700,000	$ 835,000
Tax effect of permanent differences and other	124,000	9,000	34,000
State tax, net of federal tax impact	(61,000)	68,000	113,000
Change in valuation allowance attributable to continuing operations	—	(1,689,000)	(3,310,000)
Income tax benefit	$ (568,000)	$ (912,000)	$ (2,328,000)

The benefit for income taxes is attributable to continuing operations and discontinued operations in 1999, 1998 and 1997 is as follows.

	December 31,		
	1999	1998	1997
Provision (benefit) attributable to continuing operations	$ (468,000)	$ 777,000	$ 982,000
Change in valuation allowance attributable to continuing operations	—	(1,689,000)	(3,310,000)
Net benefit attributable to continuing operations	(468,000)	(912,000)	(2,328,000)
Benefit attributable to discontinued operations	(100,000)	—	(797,000)
Change in valuation allowance attributable to discontinued operations	—	—	897,000
Net provision attributable to discontinued operations	(100,000)	—	100,000
Total income tax benefit	$ (568,000)	$ (912,000)	$ (2,228,000)

(7) COMMITMENTS

The Company leases its office and research facilities and certain equipment under operating lease agreements which expire through November 2003. Rent expense for the years ended December 31, 1999, 1998 and 1997 was approximately $1,370,000, $1,030,000 and $718,000, respectively. Future minimum lease obligations under these agreements are as follows:

2000	$ 1,580,000
2001	1,553,000
2002	1,552,000
2003	36,000
Total	$ 4,721,000

(8) EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan under which eligible employees may defer up to 15% of their compensation. The Company may make matching contributions and discretionary contributions if approved by the Board of Directors. For 1998 and 1997, no employer matching or discretionary contributions were made to the 401(k) plan. However, in February 1999, the Company's Board of Directors approved a matching contribution for employees, which was effective April 1, 1999. The Company matches 50% of employee contributions up to 6% of the employee's salary, not to exceed $1,000 in 1999 and 2000, respectively. Matching contributions will vest 35%, 70% and 100% for one, two and three years of service, respectively.

(9) RELATED PARTY TRANSACTION

The Company provides data management and certain consulting services to and leases equipment from entities in which a stockholder of the Company has an ownership interest. A representative of the stockholder was a member of the Company's Board of Directors until December 2, 1999. The Company received net proceeds of approximately $6,979,000, $6,735,000 and $6,959,000 in 1999, 1998 and 1997, respectively, pursuant to these agreements. Amounts due to the stockholder under the capital lease agreements net of amounts due to the Company for services rendered as of December 31, 1999 and 1998 were $3,262,000 and $3,962,000, respectively. The leases have interest rates ranging from 7.75% to 9.50%, require monthly payments and have expiration dates varying through October 2002.

(10) REPORTABLE SEGMENTS AND MAJOR CUSTOMERS

Reportable Segments

The Company has two reportable segments, data management services and licenses and implementation services. The Company measures its reportable segments based on revenue for each segment and costs directly related to each segment. General and administrative, sales and marketing and other costs are not measured by segment. Data management services include the provisioning of an outsourcing solution for 9-1-1 data management to customers, including ILECs, CLECs, wireless carriers and state and local governments. Licenses and implementation services include the licensing, customization and installation of the Company's 9-1-1 software solutions. Substantially all of the Company's customers are in the United States.

These segments are managed separately because the nature of and resources used for each segment is unique. Data management services include ongoing data management and monitoring of systems and other enhanced services. Under data management services, the customer's data is transferred to the Company's systems and the Company owns the systems used to manage the data. Under licenses and implementation services, the customer performs data management and systems monitoring activities. The customer also owns the hardware, licenses the Company's software and maintains the data on its internal systems under this segment.

Revenue and costs are segregated in the Statement of Operations for the two reportable segments. The Company does not segregate assets between the segments as it is impractical to do so.

Major Customers

Revenue from certain customers exceeded 10% of total revenue for the respective year as follows: 27%, 27% and 26% in 1999; 27%, 25% and 21% in 1998 and 30%, 29% and 22% in 1997. Contracts with certain of these customers have a ten-year duration and provide for fixed monthly fees based upon the number of subscriber records managed and upon the services selected by the customer. All of these customers are in the Company's data management services segment.

(11) LEGAL MATTERS

The Company is subject to various claims and business disputes in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management anticipates that the ultimate outcome of the issues will not have a material impact on the financial statements. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers. The Company plans to provide 9-1-1 services directly to state and local governments rather than local exchange carriers in certain areas. Since this is the first time that such services have been provided in this manner, the regulations are being challenged and clarified for the first time. The Company believes that the services it provides are within the scope of the existing regulations and that any challenges to the regulations will be decided in the Company's favor. However, if the regulations are challenged and are not decided in the Company's favor, the Company may be prohibited from expanding its services to certain markets.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item, insofar as it relates to directors and executive officers, will be contained in the definitive Proxy Statement with respect to the Company's 2000 Annual Meeting of Stockholders (the "2000 Proxy Statement"), and is hereby incorporated by reference thereto.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item will be contained in the 2000 Proxy Statement and is hereby incorporated by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item will be contained in the 2000 Proxy Statement and is hereby incorporated by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item will be contained in the 2000 Proxy Statement and is hereby incorporated by reference thereto.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES & REPORTS ON FORM 8-K

(1) Financial Statements

The financial statements filed as part of this report are listed on the index to financial statements on page 32.

(2) Financial Statement Schedules

All financial statement schedules have been omitted because they are not required, are not applicable or the information is included in the Financial Statements or Notes thereto.

(3) Exhibits

Exhibit Number	Description
3.1*	— Amended and Restated Certificate of Incorporation of the Company
3.2*	— Restated Bylaws of the Company to be effective upon the closing of the offering.
4.1*	— Form of Certificate for Common Stock.
4.2*	— Reference is made to Exhibits 3.1 and 3.2.
10.1*	— Fourth Amended and Restated Registration Rights Agreement, dated March 5, 1996.
10.2*	— 1990 Stock Option Plan.
10.3*	— 1998 Stock Incentive Plan.
10.4*	— 1998 Employee Stock Purchase Plan, as amended.
10.5*	— Form of Directors' and Officers' Indemnification Agreement.
10.6*†	— 9-1-1 Services Agreement between Ameritech Information Systems, Inc. and SCC Communications Corp., signed August 31, 1994.
10.7*†	— Agreement for Services between SCC Communications Corp. and U S West Communications, Inc. dated December 28, 1995.
10.8*†	— Services Agreement No. PR-9026-L between SCC Communications Corp. and BellSouth Telecommunications, Inc. dated October 13, 1995.
10.9*†	— Wireless E9-1-1 Agreement between SCC Communications Corp. and Ameritech Mobile Communications, Inc. dated April 1998
10.10*†	— Asset Purchase Agreement between SCC Communications Corp. and Printrak International, Inc., dated July 18, 1997.
10.11*	— Amendment One to Asset Purchase Agreement between SCC Communications Corp. and Printrak International, Inc.
10.12*	— Bank One Loan Agreement dated April 15, 1997, effective as of July 1, 1996.
10.13*	— Banc One Capital Partners and SCC Communications Corp. Senior Subordinated Note and Warrant Purchase Agreement, dated November 20, 1997.
10.14*	— Banc One Senior Subordinated Note due November 30, 2003.
10.15*	— Banc One Warrant Certificate.
10.16*	— Banc One and SCC Communications Corp. Option Agreement, dated November 20, 1997.
10.17*	— Banc One and SCC Communications Corp. Registration Rights Agreement, dated November 20, 1997.
10.18*	— Co-Sale Agreement, dated November 20, 1997, between SCC Communications Corp., George Heinrichs, John Sims, Nancy Hamilton, The Hill Partnership III, Ameritech Development Corporation, Boston Capital Ventures Limited Partnership and Banc One Capital Partners.
10.19*	— Preemptive Rights Agreement between Banc One Capital Partners and SCC Communications Corp.
10.20*	— Master Lease Agreement Between Ameritech Credit Corporation and SCC Communications Corp., dated March 11, 1996.
10.21*†	— Consulting Agreement Between SCC Communications Corp. and Ameritech Mobile Communications, Inc. dated October 27, 1997.
10.22*	— Bank One Loan Change in Terms Agreement effective as of April 15, 1998.
10.23#	— Employment Agreement between Nancy Hamilton and SCC Communications Corp.
23.1	— Consent of Arthur Andersen LLP, Independent Public Accountants.
27.1	— Financial Data Schedule.

* Incorporated by reference to identically numbered exhibits included in the Registrant's Registration Statement on Form S-1 (File No. 333-49767), as amended.

† Confidential treatment has been requested for a portion of these Exhibits.

\# Incorporated by reference to identically numbered exhibits included in the Registrant's 1998 Form 10-K.

(4) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, therunto duly authorized, as of March 29, 2000.

SCC COMMUNICATIONS CORP.

By: /s/ Carol Nelson
Carol Nelson
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of March 29, 2000 by the following persons on behalf of the registrant and in the capacities indicated.

Signature	Title
/s/ George K. Heinrichs **George K. Heinrichs**	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Carol Nelson **Carol Nelson**	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Stephen O. James **Stephen O. James**	Director
/s/ Darrell A. Williams **Darrell A. Williams**	Director
/s/ David Kronfeld **David Kronfeld**	Director
/s/ Mary Beth Vitale **Mary Beth Vitale**	Director
/s/ Winston J. Wade **Winston J. Wade**	Director

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER: 000-29678

SCC COMMUNICATIONS CORP.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	84-0796285 (I.R.S. Employer Identification Number)
6285 LOOKOUT ROAD BOULDER, COLORADO (Address of Principal Executive Offices)	80301 (Zip Code)

Registrant's Telephone Number, Including Area Code: (303) 581-5600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of October 31, 2000, there were 11,275,211 shares of the Registrant's Common Stock outstanding.

INDEX

PART 1 – FINANCIAL INFORMATION

PART II – OTHER INFORMATION

SCC COMMUNICATIONS CORP.

BALANCE SHEETS
(dollars in thousands)

ASSETS	September 30, 2000 (Unaudited)	December 31, 1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,665	$ 8,354
Short-term investments	10,856	12,165
Accounts receivable, net of allowance for doubtful accounts of approximately $58 in 2000 and 1999	5,500	2,255
Unbilled revenue	1,889	846
Prepaids and other	1,842	548
Deferred income taxes — current portion	653	653
Total current assets	25,405	24,821
PROPERTY AND EQUIPMENT, at cost:		
Computer hardware and equipment	28,710	25,411
Furniture and fixtures	1,078	933
Leasehold improvements	963	915
	30,751	27,259
Less — Accumulated depreciation	(19,477)	(15,753)
Total property and equipment	11,274	11,506
OTHER ASSETS	107	86
LONG-TERM INVESTMENTS	---	993
DEFERRED INCOME TAXES — NONCURRENT	3,423	3,423
SOFTWARE DEVELOPMENT COSTS, net of accumulated amortization of $791 and $575 in 2000 and 1999, respectively	1,025	951
	$ 41,234	$ 41,780

The accompanying notes to financial statements are an integral part of these balance sheets.

SCC COMMUNICATIONS CORP.

BALANCE SHEETS
(dollars in thousands)

	September 30, 2000	December 31, 1999
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,296	$ 752
Payroll-related accruals	1,193	786
Other accrued liabilities	1,708	1,641
Property and other tax liabilities	966	792
Current portion of capital lease obligations	2,200	1,971
Deferred contract revenue	1,803	865
Total current liabilities	9,166	6,807
LONG-TERM DEBT:		
Capital lease obligations, net of current portion	1,717	2,038
Total liabilities	10,883	8,845
STOCKHOLDERS' EQUITY:		
Preferred stock, $.001 par value; 15,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.001 par value; 30,000,000 shares authorized; 11,273,290 and 11,104,111 shares issued in 2000 and 1999, respectively	11	11
Additional paid-in capital	44,445	43,925
Common stock warrants	373	—
Stock subscriptions receivable	(33)	(33)
Accumulated deficit	(14,445)	(10,968)
Total stockholders' equity	30,351	32,935
	$ 41,234	$ 41,780

The accompanying notes to financial statements are an integral part of these balance sheets.

SCC COMMUNICATIONS CORP.

STATEMENTS OF OPERATIONS
(dollars in thousands, except share data)
Unaudited

	Three Months Ended September 30, 2000	Three Months Ended September 30, 1999	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 1999
REVENUE:				
ILEC Business Unit	$ 7,663	$ 6,606	$ 21,432	$ 19,976
CLEC Business Unit	1,888	1,092	5,297	2,581
Wireless Business Unit	1,265	405	2,980	1,251
Direct Business Unit	959	194	1,947	294
Total revenue	11,775	8,297	31,656	24,102
COSTS AND EXPENSES:				
ILEC Business Unit	4,236	3,704	12,077	11,077
CLEC Business Unit	738	535	1,835	1,415
Wireless Business Unit	1,349	1,033	3,583	3,117
Direct Business Unit	1,334	478	3,863	1,240
Sales and marketing	2,423	1,307	5,881	4,008
General and administrative	2,305	1,185	5,803	3,546
Research and development	907	420	2,713	1,268
Total costs and expenses	13,292	8,662	35,755	25,671
LOSS FROM OPERATIONS	(1,517)	(365)	(4,099)	(1,569)
OTHER INCOME (EXPENSE):				
Interest and other income	293	269	911	804
Interest and other expense	(97)	(125)	(289)	(386)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,321)	(221)	(3,477)	(1,151)
INCOME TAX BENEFIT	—	83	—	437
LOSS FROM CONTINUING OPERATIONS	(1,321)	(138)	(3,477)	(714)
LOSS FROM OPERATIONS OF DISCONTINUED DIVISION, net of tax	—	(25)	—	(149)
NET LOSS	$ (1,321)	$ (163)	$ (3,477)	$ (863)
NET LOSS PER SHARE (Note 2):				
Basic and diluted	$ (0.12)	$ (0.01)	$ (0.31)	$ (0.08)
SHARES USED IN COMPUTING NET LOSS PER SHARE (Note 2):				
Basic and diluted	11,217,093	11,050,697	11,201,308	10,963,830

The accompanying notes to financial statements are an integral part of these statements.

SCC COMMUNICATIONS CORP.

STATEMENTS OF CASH FLOWS
(dollars in thousands)
Unaudited

	Nine Months Ended September 30, 2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,477)	$ (863)
Adjustments to reconcile net loss to net cash provided by operating activities —		
Amortization and depreciation	3,957	3,806
Accretion of and interest accrued on investments	(184)	(214)
Loss on disposal of assets	6	38
Deferred income tax benefit	—	(529)
Provision for doubtful accounts	—	50
Change in —		
Accounts receivable	(3,245)	1,998
Unbilled revenue	(1,043)	225
Prepaids and other	(942)	(379)
Accounts payable	544	(109)
Accrued liabilities	648	(408)
Deferred contract revenue	938	(1,032)
Net cash provided by (used in) operating activities	(2,798)	2,583
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(3,503)	(1,516)
Purchase of investments	(10,764)	(8,643)
Sale of investments	13,250	7,000
Software development costs	(291)	(426)
Net cash used in investing activities	(1,308)	(3,585)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(1,222)	(1,432)
Proceeds from equipment lease	1,119	—
Exercise of stock options	448	258
Proceeds received from employee stock purchase plan	72	88
Payments received from stock subscriptions	—	22
Net cash provided by (used in) financing activities	417	(1,064)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,689)	(2,066)
CASH AND CASH EQUIVALENTS, beginning of period	8,354	10,266
CASH AND CASH EQUIVALENTS, end of period	$ 4,665	$ 8,200
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 250	$ 351
Cash paid during the period for taxes	$ 289	$ 356
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Property acquired with capital leases	$ 11	$ 856
Issuance of stock warrants	$ 373	$ —

The accompanying notes to financial statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

The unaudited financial statements included herein reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly present the Company's financial position, results of operations and cash flows for the periods presented. Certain information and footnote disclosures normally included in audited financial information prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations. The results of operations for the period ended September 30, 2000 are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire fiscal year ending December 31, 2000. These financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 1999, which are included in the Company's Annual Report on Form 10-K.

NOTE 2 – EARNINGS PER SHARE

"Basic income (loss) per share" is determined by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during each period. "Diluted income (loss) per share" includes the effects of potentially issuable common stock, but only if dilutive (i.e., a loss per share is never reduced). The treasury stock method, using the average price of the Company's common stock for the period, is applied to determine dilution from options and warrants. The if-converted method is used for convertible securities. Potentially dilutive common stock options and warrants that were excluded from the calculation of diluted income per share because their effect is antidilutive totaled 859,629 and 816,088 for the three months ended September 30, 2000 and 1999, respectively, and 787,993 and 1,132,604 for the nine months ended September 30, 2000 and 1999, respectively.

NOTE 3 – WARRANTS

During the second quarter, the Company issued a warrant to purchase 100,000 shares of the Company's common stock to an investor relations consulting firm for services to be provided over one year. The Company recorded the fair value of the warrant, totaling $273,000, as a prepaid expense which will be amortized over the one-year service period on a straight-line basis.

The Company also issued a warrant to purchase 36,590 shares of the Company's common stock to a marketing firm for services to be provided in the future. The Company recorded the fair value of the warrant, totaling $100,000, as a prepaid expense which was expensed as services were provided during the three months ended September 30, 2000.

NOTE 4– REPORTABLE SEGMENTS

The Company has five reportable segments, or "business units": Incumbent Local Exchange Carrier ("ILEC"), Competitive Local Exchange Carrier ("CLEC"), Wireless, Direct, and Corporate. The Company measures its reportable business units based on revenue and costs directly related to each business unit. Substantially all of the Company's customers are in the United States. The Company's business units are segmented based on the type of customer each business unit serves. The ILEC, CLEC and Wireless business units address ILEC, CLEC and wireless carriers, respectively. The Direct business unit addresses sales, either directly or indirectly, to state and local government entities. The Corporate business unit captures costs that are not directly related to a specific Business Unit. These segments are managed separately because the nature of and resources used for each segment is unique.

Revenue and costs are segregated in the Statement of Operations for the reportable segments. The Company does not segregate assets between the segments as it is impractical to do so.

For the Three Months Ended September 30:

(dollars in thousands)	ILEC		CLEC		WIRELESS		DIRECT		CORPORATE		TOTAL	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Revenue	$ 7,663	$ 6,606	$ 1,888	$ 1,092	$ 1,265	$ 405	$ 959	$ 194	$ —	$ —	$ 11,775	$ 8,297
Direct costs	4,236	3,704	738	535	1,349	1,033	1,334	478	—	—	7,657	5,750
Sales and marketing	516	420	216	81	284	155	336	150	1,071	501	2,423	1,307
General and administrative	—	—	—	—	—	—	—	—	2,305	1,185	2,305	1,185
Research and development	62	62	38	35	117	143	243	180	447	—	90	420
Total	4,814	4,186	992	651	1,750	1,331	1,913	808	3,823	1,686	13,292	8,662
Operating income (loss)	2,849	2,420	896	441	(485)	(926)	(954)	(614)	(3,823)	(1,686)	(1,517)	(365)
Other income, net	—	—	—	—	—	—	—	—	196	144	196	144
Income (loss) before income taxes	2,849	2,420	896	441	(485)	(926)	(954)	(614)	(3,627)	(1,542)	(1,321)	(221)
Income tax benefit	—	—	—	—	—	—	—	—	—	83	—	83
Net income (loss) from continuing operations before extraordinary item	2,849	2,420	896	441	(485)	(926)	(954)	(614)	(3,627)	(1,459)	(1,321)	(138)
Loss from operations of discontinued division, net of tax	—	—	—	—	—	—	—	—	—	(25)	—	(25)
Net income (loss)	$ 2,849	$ 2,420	$ 896	$ 441	($ 485)	($ 926)	($ 954)	($ 614)	($ 3,627)	($ 1,484)	($1,321)	($ 163)

For the Nine Months Ended September 30:

(dollars in thousands)	ILEC		CLEC		WIRELESS		DIRECT		CORPORATE		TOTAL	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Revenue	$ 21,43	$ 19,976	$ 5,297	$ 2,581	$ 2,980	$ 1,251	$ 1,947	$ 294	$ —	$ —	$31,656	$ 24,102
Direct costs	12,077	11,077	1,835	1,415	3,583	3,117	3,863	1,240	—	—	21,358	16,849
Sales and marketing	1,268	1,283	522	275	584	439	1,018	306	2,489	1,705	5,881	4,008
General and administrative	—	—	—		—	—	—	—	5,803	3,546	5,803	3,546
Research and development	226	243	199	93	482	266	637	666	1,169	—	2,713	1,268
Total	13,571	12,603	2,556	1,783	4,649	3,822	5,518	2,212	9,461	5,251	35,755	25,671
Operating income (loss)	7,861	7,373	2,741	798	(1,669)	(2,571)	(3,571)	(1,918)	(9,461)	(5,251)	(4,099)	(1,569)
Other income, net	—	—	—	—	—	—	—	—	622	418	622	418
Income (loss) before income taxes	7,861	7,373	2,741	798	(1,669)	(2,571)	(3,571)	(1,918)	(8,839)	(4,833)	(3,477)	(1,151)
Income tax benefit	—	—	—	—	—	—	—	—	—	437	—	437
Net income (loss) from continuing operations before extraordinary item	7,861	7,373	2,741	798	(1,669)	(2,571)	(3,571)	(1,918)	(8,839)	(4,396)	(3,477)	(714)
Loss from operations of discontinued division, net of tax	—	—	—	—	—	—	—	—	—	(149)	—	(149)
Net income (loss)	$ 7,861	$ 7,373	$ 2,741	$ 798	($1,669)	($2,571)	($3,571)	($ 1,918)	($ 8,839)	($4,545)	($3,477)	($ 863)

Information for 1999 has been reclassified to reflect the realignment of various business units. Licenses and implementation services are now included in the ILEC Business Unit. ILEC, CLEC, Wireless and Direct were formerly included in Data Management Services.

NOTE 4 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 133 and No. 137

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An amendment of FASB Statement No. 133." SFAS No. 137 delays the effective date of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. The Company does not typically enter into arrangements that would fall under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not significantly affect the Company's financial condition and results of operations.

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition." SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. The accounting impact of SAB 101 is required to be determined no later than the Company's fourth fiscal quarter of 2000. The Company has concluded that its current revenue recognition policies will have to change to be in accordance with SAB 101. Specifically, the guidance provided by SAB 101 requires the Company to defer the up-front Non-Recurring Engineering, ("NRE"), fee and related direct costs and amortize them over the life of the contract. The implementation of SAB 101 requires the Company to restate all of its previously reported 2000 quarterly results to reflect a cumulative effect of change in accounting principle as if SAB 101 had been implemented on January 1, 2000. The Company is currently reviewing its contracts to determine the impact SAB 101 will have on its financial position and results of operations, but currently expects the cumulative effect of change in accounting principle to be between $5 million and $6 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED UNDER "ITEM 2A. FACTORS THAT MAY AFFECT FUTURE RESULTS" BELOW.

Overview

We are the leading provider of 9-1-1 data management services to incumbent local exchange carriers or ILECs, competitive local exchange carriers or CLECs and wireless carriers in the United States. We manage the data that enables a 9-1-1 call to be routed to the appropriate public safety agency with accurate and timely information about the caller's identification and location. We were incorporated in July 1979 in the State of Colorado under the name Systems Concepts of Colorado, Inc. and were reincorporated in September 1993 in the State of Delaware under the name SCC Communications Corp. Prior to 1995, substantially all of our revenue was derived from the sale of software licenses and related implementation services to ILECs and public safety agencies. During 1994, we began investing in infrastructure to provide our 9-1-1 OSS solution to telephone operating companies seeking to outsource such operations. We signed our first 9-1-1 data management services contract in August 1994 and continue to add to the number of records under management. We began to recognize revenue from wireless carriers in the third quarter of 1997, and continue to increase the number of live wireless subscribers managed. In addition, we signed a contract with the General Services Commission of the State of Texas in November 1998, representing the first time that a state agency has endeavored to centralize 9-1-1 OSS and data management services with a neutral third party.

On October 17, 2000, we issued a press release announcing our signing of a definitive agreement to acquire specified assets, and assume specified liabilities, associated with the business of Lucent Public Safety Systems, an internal venture of Lucent Technologies Inc. A copy of the press release is included in a Current Report on Form 8-K filed with the SEC on October 17, 2000.

Each of our Business Units provides an outsourcing solution for its respective customer bases' 9-1-1 data management. Revenue generally includes a non-recurring initial fee for the design and implementation of the solution, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data. Non-recurring fees are recognized on the percentage-of-completion method over the period required to perform the tasks necessary to prepare for the processing of customer data. Our contracts also separately allow for a monthly service fee based on the number of subscriber records under management, which is recognized in the period in which the services are rendered. Related costs are expensed as they are incurred. We may also offer our customers enhanced products or services, for which revenue is recognized in the period that the work is performed. Our revenue breaks down as a percent of total revenue as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
ILEC Business Unit	65%	80%	68%	83%
CLEC Business Unit	16%	13%	17%	11%
Wireless Business Unit	11%	5%	9%	5%
Direct Business Unit	8%	2%	6%	1%

We have concluded that our current revenue recognition policies must change in order to comply with SAB 101. Specifically, SAB 101 requires that we defer the up-front NRE fee, certain enhancement fees and related direct costs and amortize them over the life of our contracts. The implementation of SAB 101 requires us to restate all of our reported 2000 quarterly results, including the operating results reported in this Quarterly Report on Form 10-Q, to reflect a cumulative effect of change in accounting principle as if SAB 101 had been implemented on January 1, 2000. We are currently reviewing our contracts to determine the impact SAB 101 will have on our financial position and results of operations but currently expect the cumulative effect of change in accounting principle to be between $5 million and $6 million. See "Recently Issued Accounting Pronouncements."

During the nine months ended September 30, 2000 and 1999, we recognized approximately 67% and 78%, respectively, of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our total revenue in such periods.

As of December 31, 1999, we had net operating loss carryforwards of $11.2 million available to offset future net income for U.S. federal income tax purposes. Since we expect to incur losses in the near term related to development costs for new commercial products, future taxable income may not be sufficient to realize additional deferred tax assets that will be created by the projected net operating losses. Consequently, we presently expect our statement of operations will not reflect tax benefits for projected operating losses to be incurred during 2000.

In June 1997, we sold the net assets of our Premise Products Division. The sale of our Premise Products Division resulted in a net loss from the sale of $2.0 million. Net loss from operations of this division, net of tax, totaled $149,000 in the first nine months of 1999, and is presented in our financial statements as loss from operations of discontinued division. This loss resulted from final closeout of unassigned contracts and the transition of customers to the company that acquired this division.

Historically, substantially all of our revenue has been generated from sales to customers in the United States. However, we have generated revenue in Canada and intend to enter additional international markets, which may require significant management attention and financial resources. International sales are subject to a variety of risks. See "Item 2A. Factors That May Affect Future Results."

Our quarterly and annual operating results have varied significantly in the past. The variation in operating results will likely continue and may intensify. We believe that period to period comparisons of results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Our operating results may continue to fluctuate as a result of many factors, including the length of the sales cycles for new or existing customers, the size, timing or duration of significant customer contracts, fluctuations in number of subscriber records under management, timing or duration of service offerings, rate of adoption of wireless services by Public Safety Answering Points, efforts expended to accelerate the introduction of certain new products, our ability to hire, train and retain qualified personnel, increased competition, changes in operating expenses, changes in our strategy, the financial performance of our customers, changes in telecommunications legislation and regulations that may affect the competitive environment for our services, and general economic factors. Our contracts for 9-1-1 data management services generally include a separate non-recurring fee for the design and implementation of services, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data, and therefore, we may recognize significantly increased revenue for a short period of time upon commencing services for a new customer.

Our expense levels are based in significant part on our expectations regarding future revenue. Our revenue is difficult to forecast because the market for our services is evolving rapidly and the length of our sales cycle, the size and timing of significant customer contracts and license fees and the timing of recognition of non-recurring initial fees vary substantially among customers. As discussed, our revenue recognition policy will change to be in accordance with SAB 101 which will spread the NRE revenue recognition over the life of the contract. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenue. Any significant shortfall could therefore have a material adverse effect on our business, financial condition and results of operations. We expect to incur expenses of approximately $10 million in 2000 for research, development and marketing to expand our product offerings. As of September 30, 2000, we had incurred expenses of approximately $2.2 million. We cannot assure you that we can report operating profits or that our investments in research and development will generate future revenue. Failure to do so could have a material adverse effect on our business, financial condition and results of operations. In addition, we hired additional employees in 1999 and year-to-date 2000, and expect to continue hiring additional employees during the remainder of 2000. We also began leasing office space in Texas in December 1999, from which we are performing some of our operations. In October 2000, we also leased additional office space in Colorado to accommodate our increased personnel.

Three Months Ended September 30, 2000 Compared to Three Months Ended September 30, 1999

Total Company

Total revenue increased 42%, from $8.3 million in the third quarter of 1999 to $11.8 million in the third quarter of 2000. Total direct costs increased 33%, from $5.8 million in the third quarter of 1999 to $7.7 million in the third quarter of 2000, representing 70% and 65% of total revenue, respectively.

ILEC Business Unit

ILEC revenue increased 17%, from $6.6 million in the third quarter of 1999 to $7.7 million in the third quarter of 2000. ILEC subscribers under management grew to 85.3 million, an increase of 6% from September 30, 1999. Approximately 86% of third quarter ILEC revenue for 2000 was recurring. ILEC revenue increased due to an increase in the number of records under management and non-recurring fees recognized for enhanced services. ILEC direct costs increased 14%, from $3.7 million in the third quarter of 1999 to $4.2 million in the third quarter of 2000, representing 56% and 55% of ILEC revenue for such periods, respectively. Costs increased due to the hiring of additional systems operations staff and increased systems maintenance costs to accommodate growth. ILEC sales and marketing expenses increased from $420,000 in the third quarter of 1999 to $516,000 in the third quarter of 2000, representing 6% and 7% of ILEC revenue for such periods, respectively. ILEC research and development costs remained constant at $62,000 for both periods, representing 1% of ILEC revenue for both periods.

CLEC Business Unit

CLEC revenue increased 73%, from $1.1 million in the third quarter of 1999 to $1.9 million in the third quarter of 2000. CLEC revenue increased due to an increase in the number of records under management for new and existing customers and additional non-recurring revenue recognized on new customers signed in 2000. As of September 30, 2000, we had 35 CLEC contracts, representing 4.8 million subscribers. Approximately 91% of CLEC revenue in the third quarter of 2000 was recurring.

CLEC direct costs increased 38%, from $535,000 in the third quarter of 1999 to $738,000 in the third quarter of 2000, representing 49% and 39% of CLEC revenue for such periods, respectively. The dollar increase in CLEC costs was due to the hiring of additional CLEC operations staff to assist with the continued growth in records under management. The percent decrease in CLEC costs was due mainly to volume efficiencies gained by the growth in records managed. CLEC sales and marketing expenses increased 167%, from $81,000 in the third quarter of 1999 to $216,000 in the third quarter of 2000, representing 7% and 11% of CLEC revenue for such periods, respectively. The dollar increase in CLEC sales and marketing expenses was due to the hiring of additional sales and marketing personnel to accommodate the growth in the CLEC Business Unit and increased direct marketing campaign costs. CLEC research and development costs increased 9%, from $35,000 in the third quarter of 1999 to $38,000 in the third quarter of 2000, representing 3% and 2% of CLEC revenue for such periods, respectively. CLEC research and development costs increased due to the development of local number portability, or LNP, software applications.

Wireless Business Unit

Wireless revenue increased 221%, from $405,000 in the third quarter of 1999 to $1.3 million in the third quarter of 2000. Wireless revenue increased due to one-time fees related to system capacity expansion to accommodate wireless carriers and an increase in the number of records under management. Wireless subscribers grew 59% from the second quarter of 2000 to 2.6 million. Public safety agency requests for wireless services increased 33% from the second quarter of 2000 to 4,686, covering approximately 22 million subscribers. We signed 5 new wireless contracts in the third quarter of 2000, bringing our total customers to 20 as of September 30, 2000. Our wireless customers represented approximately 35.9 million subscribers at that date.

Wireless costs increased 30%, from $1.0 million in the third quarter of 1999 to $1.3 million in the third quarter of 2000, representing 255% and 107% of Wireless revenue for such periods, respectively. Costs increased due to the hiring of additional systems operations staff and increased systems maintenance and telephone line costs to accommodate growth. Wireless direct costs as a percentage of Wireless revenue decreased as the increase in subscribers managed grew to cover more of the infrastructure costs. Wireless sales and marketing expenses increased 83%, from $155,000 in the third quarter of 1999 to $284,000 in the third quarter of 2000, representing 38% and 22% of Wireless revenue for such periods, respectively. The increase in Wireless sales and marketing expenses was due to the hiring of additional sales personnel in 2000. Wireless research and development costs decreased 18% from $143,000 in the third quarter of 1999 to $117,000 in the third quarter of 2000, representing 35% and 9% of Wireless revenue for such periods, respectively. Wireless research and development costs decreased due to our software engineering staff focusing on projects for other business units.

Direct Business Unit

Direct revenue increased from $194,000 in the third quarter of 1999 to $959,000 in the third quarter of 2000. Direct revenue increased due to the transition of records in the State of Texas, fees recognized for enhanced services and recurring and non-recurring revenues related to our Emergency Warning and Evacuation, or EWE, product. Both the Texas contract and EWE were launched in the beginning of 2000. The subscriber base in Texas increased to 6.7 million and EWE increased to 600,000 as of September 30, 2000. We had ten EWE customers as of that date. Direct costs increased from $478,000 in the third quarter of 1999 to $1.3 million in the third quarter of 2000. Costs increased due to the additional personnel and system infrastructure needed to implement the State of Texas contract and to manage records that have been transitioned. In addition, we opened an office in Texas in late 1999 to supplement our operations. Direct sales and marketing expenses increased from $150,000 in the third quarter of 1999 to $336,000 in the third quarter of 2000, representing 77% and 35% of Direct revenue for such periods, respectively. The increase in sales and marketing costs was due to the hiring of additional sales personnel to support the State of Texas contract and EWE. Direct research and development costs increased 35%, from $180,000 in the third quarter of 1999 to $243,000 in the third quarter of 2000. Direct research and development costs increased due to the reduction in EWE application development after the product was launched.

Corporate Business Unit

Corporate general and administrative expenses increased 92%, from $1.2 million in the third quarter of 1999 to $2.3 million in the third quarter of 2000. Corporate general and administrative expenses increased due to the addition of corporate legal personnel and outside legal fees to address legislative and regulatory issues related our 9-1-1 SafetyNet Product and other offerings, the hiring of additional human resources staff to accommodate headcount growth in 2000, and corporate consulting costs. Corporate sales and marketing expenses increased 120%, from $501,000 in the third quarter of 1999 to $1.1 million in the third quarter of 2000, representing 6% and 9% in total revenue for such periods, respectively. Corporate sales and marketing expenses increased due to national tradeshow costs, direct marketing costs related to 9-1-1 SafetyNet, and public relations charges. The increase was partially offset by the reallocation of certain resources from marketing-related activities to legislative and regulatory affairs activities and the reduction in headcount for general corporate product marketing. Corporate research and development of $477,000 in the third quarter of 2000 represented labor and associated travel and consulting costs related to network architecture of our 9-1-1 SafetyNet product offering. During the third quarter of 2000, we signed our first 9-1-1 SafetyNet customer. We currently estimate that our 9-1-1 SafetyNet product will begin to generate revenue in the first half of 2001.

Net other income increased 36%, from $144,000 in the third quarter of 1999 to $196,000 in the third quarter of 2000, representing 2% of total revenue for both periods.

The benefit for income taxes decreased from $83,000 in the third quarter of 1999 to zero in the third quarter of 2000. We expect to incur losses in the near term related to development costs for new commercial products and future taxable income may not be sufficient to realize additional deferred tax assets that will be created by the projected net operating losses. Consequently, we presently expect our statement of operations will not reflect tax benefits for projected operating losses to be incurred during 2000.

The loss from operations of discontinued division, net of tax, for the third quarter of 1999 of $25,000 represents the costs related to the final closeout of unassigned contracts related to our Premise Products division, which was sold in 1997, and the transition of customers to the company that acquired this division.

Nine Months Ended September 30, 2000 Compared to Nine Months Ended September 30, 1999

Total Company

Total revenue increased 32%, from $24.1 million in the nine months ended September 30, 1999 to $31.7 million in the nine months ended September 30, 2000. Eighty-seven percent of revenue in the nine months ended September 30, 2000 was recurring. Total direct costs increased 27%, from $16.8 million in the nine months ended September 30, 1999 to $21.3 million in the nine months ended September 30, 2000, representing 70% and 67% of total revenue, respectively.

ILEC Business Unit

ILEC revenue increased 7%, from $20.0 million in the nine months ended September 30, 1999 to $21.4 million in the nine months ended September 30, 2000. ILEC revenue increased due to an increase in the number of records under management and from the sale of enhancements to our existing customer base. ILEC subscribers under management grew to 85.3 million, an increase of 6 percent from September 30, 1999. ILEC direct costs increased 9%, from $11.1 million in the nine months ended September 30, 1999 to $12.1 million in the nine months ended September 30, 2000, representing 56% and 57% of ILEC revenue for such periods, respectively. Costs increased due to the hiring of additional systems operations staff and increased systems maintenance costs to accommodate growth. ILEC sales and marketing expenses remained constant at $1.3 million for both periods, representing 7% and 6% of

ILEC revenue for such periods, respectively. The decrease in sales and marketing costs percentage was due to a reduction in product management staff in late 1999 and early 2000. ILEC research and development costs decreased 7%, from $243,000 in the nine months ended September 30, 1999 to $226,000 in the nine months ended September 30, 2000, representing 1% of ILEC revenue for both periods. ILEC research and development costs decreased due to increased focus by our software engineering staff on projects for other business units.

CLEC Business Unit

CLEC revenue increased 104%, from $2.6 million in the nine months ended September 30, 1999 to $5.3 million in the nine months ended September 30, 2000. CLEC revenue increased due to an increase in the number of records under management for new and existing customers and additional non-recurring revenue recognized on new customers signed in 2000. CLEC direct costs increased 29%, from $1.4 million in the nine months ended September 30, 1999 to $1.8 million in the nine months ended September 30, 2000, representing 54% and 34% of CLEC revenue for such periods, respectively. The dollar increase in CLEC costs was due to the hiring of additional CLEC operations staff to assist with the continued growth in records under management. The percent decrease in costs was due mainly to volume efficiencies gained by the growth in records managed. CLEC sales and marketing expenses increased 90%, from $275,000 in the nine months ended September 30, 1999 to $522,000 in the nine months ended September 30, 2000, representing 11% and 10% of CLEC revenue for such periods, respectively. The increase in CLEC sales and marketing expenses was due to the hiring of additional sales and marketing personnel to accommodate the growth in the CLEC Business Unit and increased direct marketing campaign costs. CLEC research and development costs increased 114%, from $93,000 in the nine months ended September 30, 1999 to $199,000 in the nine months ended September 30, 2000, representing 4% of CLEC revenue for both periods. CLEC research and development costs increased due to the development of LNP software applications.

Wireless Business Unit

Wireless revenue increased 131%, from $1.3 million in the nine months ended September 30, 1999 to $3.0 million in the nine months ended September 30, 2000. Wireless revenue increased due to an increase in the number of records under management and one-time fees related to system capacity expansion to accommodate wireless carriers. Wireless costs increased 16%, from $3.1 million in the nine months ended September 30, 1999 to $3.6 million in the nine months ended September 30, 2000. Costs increased due to the hiring of additional systems operations staff and increased systems maintenance and telephone line costs to accommodate growth. Wireless direct costs as a percentage of Wireless revenue decreased as the increase in subscribers managed grew to cover more of the infrastructure costs. Wireless sales and marketing expenses increased 33%, from $439,000 in the nine months ended September 30, 1999 to $584,000 in the nine months ended September 30, 2000, representing 35% and 20% of Wireless revenue for such periods, respectively. The increase in Wireless sales and marketing expenses was due to the hiring of additional sales personnel in 2000. Wireless research and development costs increased 81% from $266,000 in the nine months ended September 30, 1999 to $482,000 in the nine months ended September 30, 2000, representing 21% and 16% of Wireless revenue for such periods, respectively. Wireless research and development costs increased due to the development of improvements to our general wireless database application in 2000.

Direct Business Unit

Direct revenue increased from $294,000 in the nine months ended September 30, 1999 to $1.9 million in the nine months ended September 30, 2000. Direct revenue increased due to the transition of records in the State of Texas beginning in 2000 and delivery of the EWE product offering. Direct costs increased from $1.2 million in the nine months ended September 30, 1999 to $3.9 million in the nine months ended September 30, 2000. Costs increased due to the additional personnel and system infrastructure needed to implement the State of Texas contract and to manage records that have been transitioned. In addition, we opened an office in Texas in late 1999 to supplement our operations. Direct sales and marketing expenses increased from $306,000 in the nine months ended September 30, 1999 to $1.0 million in the nine months ended September 30, 2000, representing 104% and 53% of Direct revenue for such periods, respectively. The increase in sales and marketing costs was due to the hiring of additional sales personnel to support the State of Texas contract and our EWE product. Direct research and development costs decreased 4%, from $666,000 in the nine months ended September 30, 1999 to $637,000 in the nine months ended September 30, 2000. Direct research and development costs decreased due to the reduction in EWE application development in 2000 after the product was launched.

Corporate Business Unit

Corporate general and administrative expenses increased 66%, from $3.5 million in the nine months ended September 30, 1999 to $5.8 million in the nine months ended September 30, 2000, representing 15% and 18% of total revenue for such period, respectively. Corporate general and administrative expenses increased due to the addition of corporate legal personnel and outside legal fees to address legislative and regulatory issues, the hiring of additional human resources staff to accommodate headcount growth in 2000, including growth related to 9-1-1 SafetyNet, and corporate consulting costs. Corporate sales and marketing expenses increased 47%, from $1.7 million in the nine months ended September 30, 1999 to $2.5 million in the nine months ended September 30, 2000, representing 7% and 8% in total revenue for such periods, respectively. Corporate sales and marketing expenses increased due to national tradeshow costs, direct marketing related to 9-1-1 SafetyNet, and public relations charges. The increase was partially offset by the reallocation of certain resources from marketing-related activities to legislative and regulatory affairs activities and the reduction in headcount for general corporate product marketing. Corporate research and development of $1.2 million in the nine months ended September 30, 2000 represented labor and associated travel and consulting costs related to the network architecture of the 9-1-1 SafetyNet product offering.

Net other income increased 49%, from $418,000 in the nine months ended September 30, 1999 to $622,000 in the nine months ended September 30, 2000. Other income increased due to interest income earned from investments and the reduction in interest expense related to the repayment of certain capital leases.

The benefit for income taxes decreased from $437,000 in the nine months ended September 30, 1999 to zero in the nine months ended September 30, 2000. We expect to incur losses in the near term related to development costs for new commercial products and future taxable income may not be sufficient to realize additional deferred tax assets that will be created by the projected net operating losses. Consequently, we presently expect our statement of operations will not reflect tax benefits for projected operating losses to be incurred during 2000.

The loss from operations of discontinued division, net of tax, for the nine months ended September 30, 1999 of $149,000 represents the costs related to the final closeout of unassigned contracts related to our Premise Products division, which was sold in 1997, and the transition of customers to the company that acquired this division.

Liquidity and Capital Resources

Since our inception we have funded our operations with cash provided by operations, supplemented by equity and debt financing and leases on capital equipment. As of September 30, 2000, we had $15.5 million in cash and cash equivalents and investments in marketable securities.

We borrowed approximately $1.1 million under our capital lease line secured by capital equipment in the nine months ended September 30, 2000, and repaid $1.2 million and $1.4 million of capital lease obligations during the nine months ended September 30, 2000 and 1999, respectively. Additionally, we used $3.8 million and $1.9 million during the nine months ended September 30, 2000 and 1999, respectively, for the purchase of capital assets and software development. We anticipate that our level of spending for capital expenditures in the nine months ended September 30, 2000 will continue, although we currently have no material commitments for capital expenditures.

We have a line of credit with a bank equal to $2.0 million, which is available to meet operating needs. The interest rate on amounts borrowed under the line of credit is equal to the bank's prime rate or the one, two or three month Libor rate plus 2.25% per annum. The line of credit matures April 15, 2001 and is collateralized by certain of our assets. As of September 30, 2000, no borrowings were outstanding under the line of credit.

We also have a $2.0 million capital lease line with a bank, which is available to meet capital acquisition needs that arise from normal business operations. The interest rate on capital leased under the lease line is equal to the bank's cost of funds at the time of each lease. Separate lease schedules are signed from time to time. Each lease schedule is collateralized by the assets that are being leased. Each lease has its own termination date, typically 36 months. As of September 30, 2000, $2.0 million was utilized under the capital lease line.

We expect to incur research, development and marketing expenses of up to $10 million on our 9-1-1 SafetyNet product. This may require up to $13 million in cash due to the capital expenditure requirements. During the nine months ended September 30, 2000, we incurred expense of approximately $2.2 million on this initiative.

Although we believe that our current cash and investments, cash generated from operations and lease financing will be sufficient to fund our anticipated working capital needs, research and development initiative and capital expenditures for our core operations, we may seek to raise additional capital to fund our 9-1-1 SafetyNet product initiative. We may seek a new capital lease line or other sources of debt or equity financing to fund this initiative. In the event our plans or assumptions for our core operations change or prove to be inaccurate, or if we consummate any unplanned acquisitions of businesses or assets, we may be required to seek additional sources of capital. Sources of additional capital may include public and private equity and debt financings, sales of nonstrategic assets and other financing arrangements.

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 and No. 137

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An amendment of FASB Statement No. 133." SFAS No. 137 delays the effective date of SFAS No. 133 to financial quarters and financial years beginning after June 15, 2000. We do not typically enter into arrangements that would fall under the scope of Statement No. 133 and thus, management believes that Statement No. 133 will not significantly affect our financial condition and results of operations.

Staff Accounting Bulletin No. 101

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition." SAB 101 provides interpretive guidance on the recognition, presentation and disclosure of revenue in financial statements. We are required to determine the potential impact of SAB 101 no later than fourth quarter of 2000. We have concluded that our current revenue recognition policies will have to change to be in accordance with SAB 101. Specifically, the guidance provided by SAB 101 requires us to defer the up-front NRE fee, certain enhancement fees and related direct costs and amortize them over the life of our contracts. The implementation of SAB 101 requires us to restate all of our previously reported 2000 quarterly results to reflect a cumulative effect of change in accounting principle as if SAB 101 had been implemented on January 1, 2000. We are currently reviewing our contracts to determine the impact SAB 101 will have on our financial position and results of operations but currently expect the cumulative effect of change in accounting principle to be between $5 million and $6 million.

ITEM 2A. FACTORS THAT MAY AFFECT FUTURE RESULTS

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED BELOW.

Our operating results fluctuate, and our stock price may be volatile as a result.

Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. We experienced a profit in 1998, but had a net loss of approximately $1.3 million in 1999 and a net loss of $3.5 million for the nine months ended September 30, 2000. Therefore, you should not rely on period-to-period comparisons of revenue or operating results as an indication of our future performance. If our quarterly revenue or operating results fall below the expectations of the investors or securities analysts, the price of our common stock could fall substantially.

Our operating results may continue to fluctuate as a result of many factors, including:

- our planned investments in research, development and marketing to expand our service offerings;
- the length of our sales cycle;
- the size, timing and duration of significant customer contracts;
- the number of subscriber records under our management;
- we cannot predict the rate of adoption of wireless services by PSAPs;
- the timing of introduction and market acceptance of new products and services by us and our competitors; and
- changes in telecommunications legislation and regulations.

Our contracts generally include a separate non-recurring fee for the design and implementation of the 9-1-1 solution, conversion of the customer's data to our systems, hiring and training of personnel, and other costs required to prepare for the processing of customer data. Therefore, we may recognize significantly increased revenue for a short period of time upon commencing services for a new customer.

Our sales cycle is relatively long and difficult to predict.

Our potential customers typically commit significant resources to the technical evaluation of our services and products, and we typically spend substantial time, effort and money providing education regarding our 9-1-1 solution. The evaluation process often results in an extensive and lengthy sales cycle, typically ranging between one month and two years, making it difficult for us to forecast the timing and magnitude of sales contracts. Delays associated with customers' internal approval and contracting procedures, procurement practices, and testing and acceptance processes are common. For example, customers' budgetary constraints and internal acceptance reviews may cause potential customers to delay or forego a purchase. The delay or failure to complete one or more large contracts could have a material adverse effect on our business, financial condition and results of operations and cause our operating results to vary significantly from quarter to quarter.

We depend on large contracts from a limited number of significant customers, and the loss of any of those contracts would adversely affect our operating results.

We historically have depended on, and expect to continue to depend on, large contracts from a limited number of significant customers. We provide our services to a range of customers, including ILECs, CLECs, wireless carriers and state and local government agencies. During the nine months ended September 30, 2000, we recognized approximately 67% of total revenue from continuing operations from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. During the nine months ended September 30, 1999, we recognized approximately 78% of total revenue from Ameritech, BellSouth Inc. and U S WEST, each of which accounted for greater than 10% of our revenue. No other customers accounted for more than 10% of our total revenue during those periods. We believe that these customers will continue to represent a substantial portion of our total revenue in the future. Certain of our contracts with these customers allow them to cancel their contracts with us in the event of changes in regulatory, legal, labor or business conditions. Our contracts with these customers expire through 2005. The loss of any of these customers could have a material adverse effect on our business, financial condition and results of operations.

Two of our significant customers, Ameritech and U S WEST, have entered into merger agreements with companies that are not our customers. We cannot predict what effect, if any, these acquisitions will have on us and we cannot assure you that these acquisitions or any future consolidation in the telecommunications industry will not have a material adverse effect on our business, financial condition and results of operation.

None of our major customers has any obligation to purchase additional products or additional services beyond those currently contemplated by their existing contracts. Consequently, our failure to develop relationships with significant new customers could have a material adverse effect on the rate of growth in our revenue, if any. If we fail to monitor and maintain adequately the quality or our product and services, expand the breadth of our services and products, advance our technology or continue to price our services and products competitively, one or more of our major customers may select alternative providers or seek to develop services and products internally.

If we lose the services of George Heinrichs or other key personnel, our business will suffer.

Our future success depends in large part on the continued service of our key management, sales, product development and operational personnel, including George Heinrichs, our President and Chief Executive Officer. We have not entered into employment agreements with Mr. Heinrichs or any of our other key personnel. Losing the services of one or more of these individuals might hinder our ability to achieve our business objectives.

Our proposed acquisition of the business of Lucent Public Safety Systems may cause financial or operational problems and will significantly dilute the ownership interests of existing stockholders.

On October 17, 2000, we entered into a definitive agreement to acquire specified assets, and assume specified liabilities, associated with the business of Lucent Public Safety Systems, an internal venture of Lucent Technologies Inc. This acquisition may not produce the revenues, earnings or business synergies that we anticipate, and the acquired business may not perform as we expect.

If we complete the acquisition, we may encounter significant difficulties and incur substantial expenses in integrating the operations and personnel of the acquired business into our operations while preserving the goodwill of the acquired business. In particular, we may lose the services of key employees of the acquired business and the separation of the business from Lucent Technologies may impair relationships between the acquired business and its employees and customers. Because our management has limited experience in acquisitions and in integrating acquired companies or technologies into our operations, we cannot assure you that we will be able to manage the proposed acquisition successfully. Moreover, our management will spend a significant amount of time and effort in completing the acquisition and integrating the acquired business, which will divert management's time and attention from our historical operations. The acquired business has not previously been accounted for as a separate reporting entity, and we are not acquiring all of the assets currently used in operating the Lucent Public Safety Systems business. As a result, we may encounter unexpected financial or operational difficulties in operating the acquired business. Any of these outcomes could prevent us from realizing the anticipated benefits of the acquisition.

If the acquisition is completed, we will issue approximately 6.1 million shares of common stock. The issued shares would represent approximately 35% of our outstanding stock after the acquisition, and as a result, our stockholders would experience significant dilution of their ownership interests.

We must hire and retain qualified personnel in a competitive labor market.

Our success in large part depends on our ability to continue to attract, motivate and retain highly qualified employees, including technical, managerial and sales and marketing personnel. We expect to continue to expand the number of employees engaged in all aspects of our business. Competition in the recruitment of highly qualified personnel in the software and telecommunications services industry is intense and has become particularly difficult in the Denver metropolitan area. Our inability to hire and retain qualified personnel or the loss of the services of key personnel could have a material adverse effect upon our current business, development efforts and future business prospects.

Our business will be adversely affected if Public Safety Answering Points do not demand E9-1-1 services at the rate we expect.

We expect the percentage of our revenue derived from the management of 9-1-1 data records for wireless carriers to increase. Recognizing the public safety need for improved wireless 9-1-1 service, the FCC issued a Report and Order in CC Docket 94-102 on June 12, 1996 and subsequent orders in 1999 and 2000 that mandated the adoption of 9-1-1 technology by wireless carriers in two phases. Phase I requires wireless carriers to route 9-1-1 calls to the most geographically-appropriate PSAP that requests service and to provide to PSAPs at the time of a 9-1-1 call the caller's telephone number and location of the cell site that initially received the call. Phase II requires wireless carriers to provide more accurate location information of a 9-1-1 caller, subject to specific FCC guidelines. However, under the FCC rules, wireless carriers are not required to provide wireless 9-1-1 service without a PSAP request. To provide an additional impetus for wireless 9-1-1 implementation, the Wireless Communications and Public Safety Act of 1999 (WCPSA) was signed into law in October 1999. Earlier this year, the FCC amended its rules to no longer guarantee wireless carriers cost recovery but did not disturb any existing contracts or state or local statutes/ordinances providing for cost recovery. To date, this development does not appear to have had an adverse impact on wireless E9-1-1 deployment, and in fact may have had a positive impact in some regions; however, no assurances can be given that this development will not result in adverse impacts on our operations. The FCC also has not addressed in unambiguous terms the respective obligations of the various parties impacted by Docket 94-102, and certain disputes linger with regard to, for example, which party may select the technology to be deployed, and no assurances can be given that these uncertainties will not have an adverse impact on our operations. The WCPSA legislation provides liability protection to wireless carriers that is in parity with wireline carriers' liability protection. However, there is no assurance that the legislation will have the desired effect of accelerating wireless E9-1-1 deployment. The FCC continues to work with the wireless industry to facilitate wireless E9-1-1 implementation and, using the WCPSA as enabling legislation, has recently invited public comment on implementation of universal wireless 9-1-1 service. The FCC has outlined a phased implementation schedule for Phase II. We believe that the technological challenges confronting wireless carriers attempting to comply with Docket 94-102 will encourage them to outsource their E9-1-1 services. If many wireless carriers decide not to outsource such services, our business, financial condition and results of operations could be materially and adversely affected. Due to cost recovery, liability and operational issues, the number of PSAPs demanding services from wireless carriers has been less than we anticipated. If the rate of adoption by PSAPs continues to be slow because of cost recovery, liability or operational issues, extensions granted by the FCC or other reasons, we will continue to experience delays in receiving revenue under our current wireless contracts that, because we have already incurred costs in expectation of such revenue, could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to government regulation and other legal uncertainties, which could adversely affect our operations.

The market for our services and products has been influenced by the adoption of regulations under the Telecommunications Act of 1996, the duties imposed on ILECs by the Telecommunications Act to open the local telephone markets to competition, the Wireless Communications and Public Safety Act of 1999 related to LECs' responsibility to provide subscriber records to emergency services providers, requirements in the various states, including but not limited to Texas where we are a regulated utility and a party to various Texas PUC dockets, and the requirements imposed on wireless carriers by the FCC Docket 94-102. Therefore, any changes to such legal requirements, the adoption of new regulations by federal or state regulatory authorities under these laws and regulations or any legal challenges to them could have a material adverse effect upon the market for our services and products. Although these laws and regulations were designed or modified in some respects to expand competition in the telecommunications industry, the realization of the objectives of these laws and regulations is subject to many uncertainties, including judicial and administrative proceedings designed to define rights and obligations, actions or inactions by ILECs and other carriers that affect the pace at which changes contemplated by these laws and regulations occur, resolution of questions concerning which parties will finance such changes, and other regulatory, economic and political factors.

We are aware of litigation challenging the validity of the Telecommunications Act and the local telephone competition and other rules adopted by the FCC to implement the Telecommunications Act, as well as certain administrative rule makings either underway or anticipated with respect to other laws and regulations. The final impact of the application of these laws and rules is not yet known. Litigation, regulatory and legislative activity may serve to delay full implementation of these laws and regulations, which could adversely affect demand for our services and products. Any delays in the deadlines imposed by these laws and regulations, the FCC, state utility commissions, or any invalidation, repeal or modification in the requirements imposed by these laws or regulations, state utility commissions or the FCC could have a material adverse effect on our business, financial condition and results of operations. Moreover, customers may require, or we otherwise may deem it necessary or advisable, that we modify our services and products to address actual or anticipated changes in the regulatory environment. Any other delays in implementation of these laws and regulations, or other regulatory changes or similar developments, could materially adversely affect our business, financial condition and results of operations.

In 1998, we signed a contract to provide 9-1-1 data management services to the State of Texas. As this is the first time that a state entity has endeavored to centralize 9-1-1 OSS and data management services with a neutral third party, federal and state regulations governing 9-1-1 service provisioning, which have typically applied to local exchange services providers, are being challenged and clarified for the first time. In accordance with Texas law, and on the recommendation of the Texas Public Utilities Commission, we have been granted a Service Provider Certificate of Operating Authority in the State of Texas. We successfully completed the field trial required under the contract in July 1999 and are in the process of marketing our services to the state's public safety agencies and implementing services to those who opt into the contract. Prior to commencement of the field trial, SBC Communications, which historically has been responsible for the provisioning of 9-1-1 OSS, data transport and data management services in Texas, challenged whether SBC Communications must allow other parties such as SCC to interconnect to their selective routing switches and whether they are obligated by law to unbundle components of their network functionality. An interim agreement among the involved parties was reached in March 1999 that allowed us to perform the field trial to test the interfacing technology solutions in the Houston area, and that agreement continues to operate as a basis for ongoing operations in Texas, however, the dispute has not been fully resolved. As part of the interim agreement, the legal challenges and all related proceedings were placed in abeyance to permit the parties to proceed with the field trial. Those matters have been taken out of abeyance and are currently being addressed by an administrative law judge on behalf of the Texas Public Utilities Commission.

As required by a separate interim agreement and pursuant to a new 9-1-1 regulatory rule issued by the Texas PUC, SBC Communications filed wireline and wireless tariffs regarding its portion of the unbundled services. Verizon Communications, formerly operating in Texas as GTE, also filed tariffs. We have challenged both tariffs, in pertinent part due to our belief that the tariffs are anti-competitive in nature in that they do not give proper consideration to our status as a certificated telecommunications provider in Texas, which affords us benefits not contemplated under the proposed tariffs. The outcome of the tariff filing is uncertain, although the parties continue to operate under this separate interim agreement which substantially sets the rates to be charged to public safety agencies who wish to procure our solution until a final tariff is determined. We believe that these legal and technological issues and their associated cost implications are likely to be readdressed by the PUC, which is likely to decide same in 2001. Until such resolution, this interim tariff agreement will govern those rates and charges. We believe that the services that we will provide under our contract with the State of Texas are permitted within the scope of the existing regulations and that the outcome of the matter before the PUC will be favorable to us and the Texas Commission for State Emergency Communications. However, we cannot assure you that the Texas PUC will decide in favor of us and the Texas Commission for State Emergency Communications or that SBC Communications or Verizon Communications will not resume its desire to pursue this and other legal challenges on a longer term basis, thus causing further delay of the commencement of the services by exercising its right to appeal a PUC decision that favors us or the Texas Commission for State Emergency Communications. If the PUC does not decide in our favor or places contingencies on the manner in which the services are provided, we may be prohibited from delivering further services to the State of Texas, may incur additional delays in that regard, may expend significant resources to appeal the PUC's decision or may expend additional costs to redesign the methodology by which the services are provided. In addition, if SBC Communications or Verizon exercise their right to appeal, we may be required to spend significant resources to defend our right to provide our services in the State of Texas.

As part of our new initiatives to market and sell our 9-1-1SafetyNet℠ products and services, we are in the process of obtaining certificates of operating authority in most if not all states across the United States to operate as a telecommunications provider and to become a bona fide beneficiary of the Telecommunications Act of 1996, including the right to interconnect with certain incumbent 9-1-1 network providers. It is our belief that these efforts and their relation to the provision of telecommunications services are contemplated by the Act, and we anticipate that we will be successful in those areas where third parties may challenge this kind of expansion of the Act's provisions. The success of our new initiatives depends largely on the success of these legal and regulatory initiatives, and we can not make assurances that they will be successful. Thus, the same kinds of delays or problems outlined above regarding matters pending in the State of Texas may also occur in other states, including all states which could have substantial and material impacts on the success of our business.

9-1-1 services generally are funded by a locally imposed fee per subscriber per month. A portion of this tax is paid to the local carrier providing the 9-1-1 services. We generally receive a monthly fee per subscriber from our customers for management of 9-1-1 data records, allowing the carrier to match our fixed revenue stream for 9-1-1 services with a fixed cost for record management. Changes by local governments in the funding mechanism for 9-1-1 services or the parties responsible for the provision of such services could have a material adverse effect on our business, financial condition and results of operations.

Our market is characterized by rapid technological change, and we could lose our competitive position and fail to grow our business if we do not develop and offer new products and services.

The market for our services is characterized by rapid technological change, frequent new product or service introductions, evolving industry standards and changing customer needs. We launched our Emergency Warning and

Evacuation, or EWE, product, in the fourth quarter of 1999, which allows PSAPs to call all numbers in a given area and warn citizens of imminent danger. We intend to offer other new products in the future, including 9-1-1 SafetyNet. The introduction of products and services embodying new technologies and the emergence of new industry and technology standards can render existing products and services obsolete and unmarketable in short periods of time. We expect other vendors to regularly introduce new products and services, as well as enhancements to their existing products and services, that will compete with the services and products offered by us. As a result, the life cycles of our services and products are difficult to estimate. We believe that our future success will depend in large part on our ability to maintain and enhance our current service and product offerings, to develop and regularly introduce new services and products that will keep pace with technological advances and satisfy evolving customer requirements, and to achieve acceptable levels of sales of our new services and products through our current customers that resell our solutions to their subscribers. However, we cannot assure you that we will not experience difficulties that could delay or prevent the successful development, introduction or marketing of such new services and products or that our new services and products will adequately meet the requirements of the marketplace and achieve market acceptance. Announcements of currently planned or other new service and product offerings by us or our competitors may cause customers to defer the purchase of our existing services and products. Our inability to develop on a timely basis new services or products, or the failure of such new services or products to achieve market acceptance, could have a material adverse effect on our business, financial condition and results of operations. The development of new, technologically advanced products and services is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends. We cannot assure you that we will successfully develop, introduce or manage the transition to new services and products. Furthermore, services and products such as those offered by us may contain undetected or unresolved errors when they are first introduced or as new versions are released. We cannot assure you that, despite extensive testing by us, errors will not be found in new services and products after commencement of commercial availability, resulting in delay in or loss of market acceptance and sales, diversion of development resources, injury to our reputation or increased service and warranty costs, any of which could have a material adverse effect on our business, financial condition and results of operations. Significant delays in meeting deadlines for announced service or product introductions or performance problems with such products or upgrades could result in an undermining of customer confidence in our services and products, which would materially adversely affect our customer relationships as well.

In addition, we plan to introduce transaction-based services and software products to industries different from those we have traditionally supported. We cannot assure you that we will be successful in developing and marketing these new services and products or that our current or new services and products will adequately meet the demands of our new markets. Because it is generally not possible to predict the time required and costs involved in reaching certain research, development and engineering objectives related to entering new markets, actual development costs could exceed budgeted amounts and estimated development schedules could require extensions. Furthermore, we cannot assure you that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these services and products. If we are unable to develop and introduce new services and products to these new markets in a timely manner, or if a new release of a product or service to such new markets does not achieve market acceptance, our business, financial condition and results of operations could be materially adversely affected.

Substantially all of our revenue is derived from our 9-1-1 data management solution, and our operating results will depend upon our ability to continue to sell this solution.

We currently derive substantially all of our revenue from the provisioning of our 9-1-1 data management solution to ILECs, CLECs, wireless carriers and state and local government agencies. Accordingly, we are susceptible to adverse trends affecting this market segment, such as government regulation, technological obsolescence and the entry of new competition. We expect that this market will continue to account for substantially all of our revenue in the near future. As a result, our future success will depend on our ability to continue to sell our 9-1-1 solution, maintain and increase our market share by providing other value-added services to the market, and successfully adapt our technology and services to other related markets. We cannot assure you that markets for our existing services and products will continue to expand or that we will be successful in our efforts to penetrate new markets.

Our operating results could be adversely affected if we underestimate costs on our fixed price contracts.

During the nine months ended September 30, 2000 and the year ended December 31, 1999, approximately 91% of our revenue was generated on a fixed price per subscriber basis respectively. We generally enter into contracts with two- to ten-year terms and we generally receive a fixed monthly fee based upon the number of subscribers and upon the services selected by the customer. Therefore, our failure to estimate accurately the resources required for a fixed price per subscriber contract could have a material adverse effect on our business, financial condition and results of operations.

We could incur substantial costs from product liability claims relating to our software.

Because our services and products are utilized by our customers to provide critical 9-1-1 services, the provisioning of services and licensing of software by us may entail the risk of product liability and related claims. Our agreements with our customers typically require us to indemnify our customers for our own acts of negligence. Product liability insurance is expensive and may not be available in the future. We cannot be sure that we will be able to maintain or obtain insurance coverage at acceptable costs or in a sufficient amount, that our insurer will not disclaim coverage as to a future claim or that a product liability claim would not otherwise adversely affect our business, operating results or financial condition.

Our success depends upon the continued growth of wireline and wireless telecommunications markets.

We provide our 9-1-1 data management solution to telecommunications carriers in the wireline and wireless markets. Although these markets have experienced significant growth and have been characterized by increased deregulation and competition in recent years, we cannot assure you that such trends will continue at similar rates or that we will be able to market and sell effectively our products and services in such markets. In addition, many of the new entrants in the telecommunications market are companies that lack significant financial and other resources. To cultivate relationships with such new market entrants, we may be required to offer alternative pricing arrangements, which may provide for deferred payments. However, we cannot assure you that we will be able to develop such relationships or that new carriers that become our customers will gain market acceptance for their telecommunications services. If we permit customers that do not have adequate financial resources to pay us for our services on a deferred basis, we ultimately may be unable to collect payments for such services. Because we historically have depended on a limited number of long-term customer relationships, our failure to develop relationships with, make sales to, or collect payments from new telecommunications carriers, or the failure of our customers to compete effectively in the telecommunications market, could have a material adverse effect on our business, financial condition and results of operations. In addition, the telecommunications industry is experiencing substantial consolidations and changes that are unpredictable, and any such consolidation or change could have a material adverse effect on our business, financial condition and results of operations.

Our operating results could be adversely affected by any interruption of our services because of system failure.

Our operations depend on our ability to maintain our computer and telecommunications equipment and systems in effective working order, and to protect our systems against damage from fire, natural disaster, power loss, telecommunications failure or similar events. Although all of our mission-critical systems and equipment are designed with built-in redundancy and security, we cannot assure you that a fire, natural disaster, power loss, telecommunications failure or similar event would not result in an interruption of our services. Any damage, failure or delay that causes interruptions in our operations could have a material adverse effect on our business, financial condition and results of operations. Furthermore, any future addition or expansion of our facilities to increase capacity could increase our exposure to damage from fire, natural disaster, power loss, telecommunications failure or similar events. We cannot assure you that our property and business interruption insurance will be adequate to compensate us for any losses that may occur in the event of a system failure or that such insurance will continue to be available to us at all or, if available, that it will be available on commercially reasonable terms.

Our failure to manage our growth effectively could adversely affect our ability to increase our revenue and could increase our operating expenses.

We have expanded our operations rapidly over the past several years, placing significant demands on our administrative, operational and financial personnel and systems. Additional expansion by us may further strain our management, operational, financial reporting, and other systems and resources. We cannot assure you that our systems, resources, procedures, controls and existing space will be adequate to support such expansion of our operations. Our future operating results will depend substantially on the ability of our officers and key employees to manage changing business conditions and to implement and improve our management, operational, financial control and other reporting systems. In addition, our future operating results depend on our ability to attract, train and retain qualified consulting, technical, sales, financial, marketing and management personnel. Failure to hire, train or retain qualified personnel necessary to keep pace with our development of products and services could have a material adverse effect on our business, financial condition and results of operations. Continued expansion will require our management to:

- enhance management information and reporting systems;

- standardize implementation methodologies of our operations;
- further develop our infrastructure; and
- continue to maintain customer satisfaction.

If we are unable to respond to and manage changing business conditions, the quality of our products and services, our ability to retain key personnel and our business, financial condition and results of operation could be materially adversely affected.

The market for 9-1-1 data management solutions is highly competitive, and we could lose our market position if we fail to compete effectively.

The market for 9-1-1 data management solutions is intensely competitive and we expect competition to increase in the future. We believe that the principal competitive factors affecting the market for 9-1-1 data management services include flexibility, reliability, manageability, technical features, wireless support, performance, ease of use, price, scope of product offerings, and customer service and support. We cannot assure you that we can maintain our competitive position against current and potential competitors, especially those with significantly greater financial, marketing, support service, technical and other competitive resources.

Our principal competitors generally fall within one of three categories:

- internal development departments of major carriers or consulting firms that support such departments;
- relatively smaller companies that offer applications featuring portions of our comprehensive set of E9-1-1 solutions; and
- larger companies that are either in the process of entering our market or have the potential to develop products and services that compete with our service offerings.

There are a number of companies that market and sell various products and services to telecommunications carriers, such as billing software and advanced telecommunications equipment, that have been broadly adopted by our customers and potential customers. In addition, vendors of telecommunications software and hardware in the future may enhance their products to include functionality that is currently provided by our solutions. The widespread inclusion of the functionality of our service offerings as standard features of other telecommunications software or hardware could render our services obsolete and unmarketable, particularly if the quality of such functionality were comparable to that of our services. Furthermore, even if the 9-1-1 functionality provided as standard features by telecommunications software or networking hardware is more limited than that of our services, we cannot assure you that a significant number of customers would not elect to accept more limited functionality in lieu of purchasing additional products or services.

Many of our competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical and marketing resources than we do. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products and services, than us. If these companies were to introduce products or services that effectively compete with our service offerings, they could be in a position to substantially lower the price of their 9-1-1 products and services or to bundle such products and services with their other product and service offerings.

We may be unable to protect our proprietary technology rights.

Our success and our ability to compete depends significantly upon our proprietary rights. We rely primarily on a combination of copyright, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions to establish and protect our proprietary rights. We cannot assure you that such measures will be adequate to protect our proprietary rights. Further, we may be subject to additional risks as we enter into transactions in foreign countries where intellectual property laws are not well developed or are difficult to enforce. Legal protections of our proprietary rights may be ineffective in such countries. Litigation to defend and enforce our intellectual property rights could result in substantial costs and diversion of resources, and could have a material adverse effect on our business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite our efforts to safeguard and maintain our proprietary rights, we cannot assure you that we will be successful in doing so or that the steps taken by us in this regard will be adequate to deter misappropriation or independent third-party development of our technology, or to prevent an unauthorized third party from copying or otherwise obtaining and using our technology. There also can be no assurance that others will not independently develop similar technologies or duplicate any technology developed by us. Any such events could have a material adverse effect on our business, financial condition and results of operations.

Claims by other companies that our products infringe their proprietary rights could adversely affect our financial condition.

As the number of entrants to our markets increases and the functionality of our services and products increases and overlaps with the products and services of other companies, we may become subject to claims of infringement or misappropriation of the intellectual property rights of others. In certain of our customer agreements, we agree to indemnify our customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. In some instances, the amount of the indemnities may be greater than the revenue we received from the customer. Any claims or litigation, with or without merit, could be time consuming, result in costly litigation or require us to enter into royalty or licensing arrangements. Any royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all, and could have a material adverse effect on our business, financial condition and results of operations.

We face additional risks from any international operations we undertake.

Although substantially all of our revenue is generated from sales to customers in the United States, we have generated revenue in Canada and intend to enter additional international markets, which will require significant management attention and financial resources. International sales are subject to a variety of risks, including difficulties in establishing and managing international distribution channels, and in translating products and related materials into foreign languages. International operations are also subject to difficulties in collecting accounts receivable, staffing, managing personnel and enforcing intellectual property rights. Other factors that can adversely affect international operations include fluctuations in the value of foreign currencies and currency exchange rates, changes in import/export duties and quotas, introduction of tariff or non-tariff barriers and economic or political changes in international markets. We cannot assure you that these factors will not have a material adverse effect on our future international sales and, consequently, on our business, financial condition and results of operations. Furthermore, any inability to obtain foreign regulatory approvals on a timely basis could have a material adverse effect on our business, financial condition and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States interest rates. These exposures are directly related to our normal operating and funding activities. Historically and as of September 30, 2000, we have not used derivative instruments or engaged in hedging activities.

Interest Rate Risk

The interest payable on our line of credit is variable based on the lender's prime rate or the one, two, or three month Libor rate plus 2.25% per annum, and, therefore, is affected by changes in market interest rates. At September 30, 2000, no amounts were outstanding under our line of credit, however, we may borrow up to 80% of qualified accounts receivable, not to exceed $2,000,000. Rates on our capital lease line are also dependent on interest rates in effect at the time the lease line is drawn upon. In addition, we invest excess funds in high-grade treasury bonds and commercial paper on which we monitor interest rates frequently and as the investments mature. We do not believe that reasonably possible near-term changes in interest rates will result in a material effect on our future earnings, fair values or cash flows.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings.

We are not a party to any litigation that we believe could have a material adverse effect on us or our business. Federal and state regulations governing 9-1-1 service provisioning have typically applied to local exchange services providers. We plan to provide 9-1-1 services directly to state and local governments rather than local exchange carriers in certain areas. Since this is the first time that such services have been provided in this manner, the regulations are being challenged and clarified for the first time. We believe that the services we provide are within the scope of the existing regulations and that any challenges to the regulations would be decided in our favor. However, if the regulations are challenged and are not decided in our favor, we may be prohibited from expanding our services to certain markets.

Item 2 – Changes in Securities and Use of Proceeds.

On June 29, 1998, we consummated our initial public offering of our common stock. The estimated net offering proceeds to us after deducting the underwriting discounts and commissions and other related,, fees and expenses were $25,988,400, of which $3,510,400 related to the exercise of the underwriters' over-allotment option on July 22, 1998. Through September 30, 2000, the proceeds of the offering had been applied as follows:

Aggregate offering price	$28,980,000
Direct and indirect payment to others for:	
Underwriting discounts and commissions	2,028,600
Other offering expenses	963,000
Construction of building and facilities	300,000
Capital lease payment to receive discount	2,878,500
Repayment of indebtedness	4,610,000
9-1-1 SafetyNet initiative	3,100,000

None of such payments were direct or indirect payments to our directors, officers, general partners or their associates or to persons owning 10% or more of any class of our equity securities or to our affiliates. We expect to use up to $13 million of our remaining net proceeds for research, development and marketing to expand our product offerings, as well as for general corporate purposes, including working capital. A portion of the net proceeds also may be used for the acquisition of businesses, products and technologies that are complementary to ours. We invested a portion of the remaining proceeds in an investment portfolio consisting mostly of high-grade bonds and commercial paper.

Item 3 – Defaults on Senior Securities.

None.

Item 4 – Submission of Matters to a Vote of Security Holders.

None.

Item 5 – Other Information.

None.

Item 6 – Exhibits and Reports on Form 8-K.

(a) Exhibits.
27.1 – Financial Data Schedule

(b) Reports on Form 8-K.
On October 17, 2000, we issued a press release announcing our signing of a definitive agreement to acquire specified assets, and assume specified liabilities associated with the business of Lucent Public Safety Systems, an internal venture of Lucent Technologies Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SCC Communications Corp. (Registrant)
November 14, 2000	\s\ George K. Heinrichs
Date	George K. Heinrichs, President and Chief Executive Officer
November 14, 2000	\s\ Michael D. Dingman, Jr.
Date	Michael D. Dingman, Jr., Chief Financial Officer

Exhibit 5
Managerial Qualifications
Consisting of 11 Pages
January 16, 2001

Key Personnel

KEY MEMBER NAME/TITLE:	George Heinrichs President & Chief Executive Officer
DEPARTMENT:	Executive

CURRENT RESPONSIBILITIES/DUTIES AT SCC:
George Heinrichs has been the President and a Director of the company since he co-founded it in 1979. Mr. Heinrichs has also served as Chief Executive Officer since February 1995.

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:
Mr. Heinrichs has worked the public safety field for over 10 years. This included active involvement in state and national advisory boards for law enforcement information systems. He left the public safety field to found SCC. Prior to founding the company, Mr. Heinrichs has served in a variety of public safety and criminal justice positions.

Mr. Heinrichs formal education was in the field of computer science. His professional affiliations include National Emergency Number Association (NENA), National Sheriff's Association, Association for Public Safety Communications Professionals (APCO), Cellular Telephone Industry Association, and the Association for Computing Machinery. In addition to his CEO duties at SCC, he also serves on the Advisory Board for the University of Colorado Center for Entrepreneurship and is a member of a local school board.

Key Personnel

KEY MEMBER NAME/TITLE:	Stephen Meer Vice President & Chief Technology Officer
DEPARTMENT:	Executive

CURRENT RESPONSIBILITIES/DUTIES AT SCC:
Mr. Meer is responsible for all network related product and services design, installation, and operations at SCC. Additionally, he is responsible for identifying and implementing key strategic technology and technology service relationships with other organizations. This includes system level design and architecture of SCC products involving computer telephony integration and design of data communications networks supporting the SCC National Data Services Center.

Mr. Meer has been responsible for the design, implementation, and operation of emergency voice, data, and radio communications networks that today support in excess of 100 million people's public safety.

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:
One of the original founders and principals of SCC for 17 years. Mr. Meer has over 20 years of telecommunications and RF experience, 10 of those years in public safety.

Mr. Meer was principal architect of numerous integrated CAD/911/Selective Routing systems throughout North America, RF designer and implementer of STORRM, Boulder County's Flash Flood Early Warning System.

As the past chairman of the Engineering and Research Committee of the Colorado chapter of the Associated Public Safety Communications Officers, Mr. Meer developed a program of technical assistance for Colorado agencies. This program has been adopted at the national level and is now available to virtually all government communications users in the country. He also developed the curriculum and organized the first technical communications seminar held for Colorado Public Safety Communications professionals. This seminar is now sponsored yearly by Colorado State University. Mr. Meer is also a contributing author to the national reference publication "Public Safety Communications Standard Operating Procedure Manual."

Mr. Meer is also a former police officer and paramedic, having over 10 years experience working and teaching in the areas of advanced life support, law enforcement operations, and systems and public safety communications.

Mr. Meer is certified by the State of Colorado Police Standards and Training Board to teach communications, communications system design, EMS Management, and Medical Practices. His honors include a Presidential Award of Excellence for the application of computer technology to environmental protection.

Key Personnel

KEY MEMBER NAME/TITLE:	Michael Dingman, Jr. Chief Financial Officer
DEPARTMENT:	Executive

CURRENT RESPONSIBILITIES/DUTIES AT SCC:

Responsible for financial planning and corporate finance at SCC.

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:

Michael Dingman brings more than 17 years of diversified financial management experience to SCC.

Prior to joining SCC, Mr. Dingman served as CFO and treasurer of RMI.NET, Inc., an Internet business solutions provider. At RMI.NET, Inc., Mr. Dingman was responsible for corporate finance and management of investment banking relationships, budgeting, cash flow forecasting, acquisition valuation, and overall financial management.

Mr. Dingman also has extensive experience in financial consulting as president and founder of an investment consulting firm. Early in his career he worked in mergers and acquisitions with Lazard Freres and Co.

Degrees: BS, MBA

COMPANY NAME	POSITION HELD	RELATED EXPERIENCE
RMI.NET, Inc.	CFO/Treasurer	Responsible for all financial aspects and capital requirements of a public e-commerce solutions firm, with $50MM in annual sales and 450 employees, providing products and services in both the software and connectivity segments of the Internet space.
Qwon Investment Consultants, Inc.	President/Founder	Responsible for overall aspects of business operation and management of a registered investment advisory firm and a fully disclosed non-clearing securities broker-dealer.
Owen-Joseph Companies	President	Responsible for overall aspects of business operation and management of a registered investment advisory firm (Owen-Joseph Asset Management) and a fully disclosed non-clearing securities broker-dealer (Owen-Joseph Securities).
Dingman Associates	President/Founder	Responsible for overall aspects of business origination and management of consulting and financial advisory engagements.
Lazard Freres & Co.	Associate/Mergers & Acquisitions	Responsible for preparation of selling documents, valuation analysis and financial modeling associated with the purchase or sale of U.S. and multinational businesses.

Key Personnel

KEY MEMBER NAME/TITLE:	Larry Jennings Sr. Vice President Business Operations
DEPARTMENT:	Executive

CURRENT RESPONSIBILITIES/DUTIES AT SCC:
Mr. Jennings is responsible for the day-to-day operations of the entire company and acts as liaison to the business unit vice president/general managers. Serves as executive representative in customer relations as required.

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:

Prior to joining SCC in June 1999, Larry Jennings served as Vice President of Sales for Teletrac, Inc., a mobile data/location services company. At Teltrac, Mr. Jennings was responsible for building a national organization to market integrated software applications. He also gained extensive operations experience with Premiere Page, a regional paging and voicemail services company where he was Vice President of Operations, leading the company's field operations through seven acquisitions and an IPO.

COMPANY NAME	POSITION HELD	RELATED EXPERIENCE
SCC Communications Corp.	Vice President/General Manager, ILEC Business Unit	Managed and directed the departments that are contained in the ILEC Business Unit (Sales, Product Management, Program Management, Data Operations)
	Vice President, Sales	Served as executive representative in customer relations.
Teletrac, Inc.	Vice President Sales	Responsible for building a national organization to market integrated software applications
Premiere Page	Vice President Operations	Led company's field operations through seven acquisitions and an IPO.
Centel Cellular	General Manager	

Key Personnel

KEY MEMBER NAME/TITLE:	Ron Mathis / Director Network Operations
DEPARTMENT:	Advanced Technology

CURRENT RESPONSIBILITIES/DUTIES AT SCC:
Direct installation, maintenance and operations of SCC's voice communications network. Responsible for switching system operations, trunk provisioning and maintenance, system alarm monitoring, system administration and system methods/procedures.

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:

Extensive background in Central Office switching system operations, maintenance, staff support, technology deployment and public safety telecommunication network systems design and implementation.

COMPANY NAME	POSITION HELD	RELATED EXPERIENCE
Southwestern Bell	Technical Sales Manager- E911 Texas (4 years)	Supervised and directed personnel responsible for 911 ALI database platform maintenance, 911 project management implementation of 911 Integrated Work Station Customer Premise Equipment, and 911 switching based feature sales and service.
Southwestern Bell	Area Manager – Technical Support (10 years)	Project managed personnel responsible for implementation of ISDN and SS7 technologies in multiple central offices in the Southeast Texas area. Assisted GHQ in 800 number portability implementation for SWB region. Also performed technical sales support for Major Accounts in Houston and Dallas, Texas areas.
Southwestern Bell	Area Manager – Network Maintenance (8 years)	Supervised and directed personnel responsible for operations, administration and maintenance of various analog/digital switching systems, facilities transport equipment and central office power systems.
Southwestern Bell	Manager – Network Maintenance (7 years)	Performed staff support for all switching entities in Texas. Technical support, conformance reviews, system performance evaluations, system performance trending, etc.

Key Personnel

KEY MEMBER NAME/TITLE:	Mark Drennan, Director of Network Architecture
DEPARTMENT:	Advanced Technologies

CURRENT RESPONSIBILITIES/DUTIES AT SCC: Ensure the timely design of the voice network and to head up the vision of the future voice technology for SCC. Responsible for providing technical and standards support to all operational and business units.

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:

Extensive wireless telephony background in CDMA voice and data communications with Sprint PCS to including such vendors as Lucent, Nortel, Motorola, Comverse and 3Com. Supported Nortel Network's Sales Team in call center technologies.

Degrees: BS, MA

COMPANY NAME	POSITION HELD	RELATED EXPERIENCE
Nortel Networks	Senior Sales Engineer for Periphonics	Aided in the design of new call center solutions for Sprint and MCI.
Sprint PCS	Senior Engineer; Network Design	Lead teams in the planning, development and engineering of the Northern California Lucent markets and the South East Motorola/Nortel Markets.
Sprint PCS	Release Manager	Responsible for the timely delivery of all Lucent software products to the testing lab and to project manage all related features.
Sprint PCS	Project Coordinator	Project manage the development and deployment of the Wireless Web product to market.

Key Personnel

KEY MEMBER NAME/TITLE:	Timothy J. Jenkins Vice President/General Manager ILEC Business Unit
DEPARTMENT:	Executive

CURRENT RESPONSIBILITIES/DUTIES AT SCC:
Mr. Jenkins manages and directs the departments in the ILEC Business Unit (Sales, Product Management, Program Management, Data Operations).

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:

Prior to coming to SCC in July 2000, Tim Jenkins had a 15-year career with Ameritech. At Ameritech Tim served as Director of Ameritech's 9-1-1 Operations, a large organization with responsibility for systems planning, development, implementation and ongoing customer service for 860 PSAPs in the five-state Ameritech region. He also managed the planning and implementation of Ameritech's relationship with SCC.

Degrees: BSEE, MBA

COMPANY NAME	POSITION HELD	RELATED EXPERIENCE
Ameritech	Director 9-1-1 Operations	Managed operations for 5-state Ameritech region. Managed creation, planning and implementation of Ameritech's work relationship with SCC 9-1-1 database service center. Worked extensively with Ameritech and SBC public safety services products on development of new products and services.
	Manager, Customer Accessed Systems Administration	Duties included personnel management of 70 employees and capital and expense budgets exceeding $13 million annually.
Ohio Bell Telephone Company	Manager, Network Systems Administration	Managed a team of Minicomputer System Administrators responsible for the operation and support of multiple systems impacting telecommunications network operations and service.
	Engineer, Distribution Services Rehabilitation Engineering	Managed a team responsible for identifying and engineering new cable facilities to replace or upgrade deteriorating existing telephone cable facilities.

Key Personnel

KEY MEMBER NAME/TITLE:	Mark R. Scott Vice President/General Manager CLEC Business Unit
DEPARTMENT:	CLEC

CURRENT RESPONSIBILITIES/DUTIES AT SCC: Vice President and General Manager of the CLEC Business Unit.

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:
Mark Scott joins SCC Communications from Motient™ Mobile Internet Corporation. While at Motient, Scott managed overall aspects of the terrestrial wireless data and satellite voice communications sale and implementation for a variety of commercial and government applications including emergency management, disaster recovery, wireless internet access and transportation for the Western United States. Prior to Motient, Scott held senior management positions at Qwest Communications and at LEXIS/NEXIS. Scott began his career with the Xerox Corporation where he held various positions in sales and management over an 8-year period.

Degrees: BS & BA

COMPANY NAME	POSITION HELD	RELATED EXPERIENCE
Motient, formally known as American Mobile Satellite Corporation and ARDIS.	Western Region Director (3 years)	Motient provides satellite voice and wireless data applications to a variety of commercial and government entities. Scott's organization implemented a variety of emergency satellite voice and/or wireless data communications to entities including the Port of Seattle (SeaTac), San Bernardino National Forest, FEMA, and the LA County Sheriff's Department.
Qwest	Director-Commercial (3 years)	Managed the Qwest 4 commercial sales channels (Direct, Indirect, Agent, and Affinity) in addition to the order provisioning, commercial marketing functions and business operations at Qwest.
Lexis/Nexis, formally known as Mead Data Central	Western Region Director (7 years)	Managed a multi-state/multi-channel organization for Mead Data Central, providers of the Lexis/Nexis® databases for legal applications. Commercial entities, state and local governmental agencies, law firms and State Bar Associations both made use of, and/or resold the database, in a variety of legal, investigative and law enforcement applications.

Key Personnel

KEY MEMBER NAME/TITLE:	Teri L. DePuy Vice President & General Manager, Direct Business Unit
DEPARTMENT:	Executive

CURRENT RESPONSIBILITIES/DUTIES AT SCC:

As Vice President & General Manager, Direct Business Unit, Ms. DePuy is responsible for managing and directing the departments in the Direct Business Unit (Sales, Product Management, Program Management, Data Operations).

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:
Twenty years of public safety and telecommunications experience in a variety of operational, managerial and director level positions within the public and private sector.

COMPANY NAME	POSITION HELD	RELATED EXPERIENCE
SCC Communications Corp.	Vice President & General Manager, CLEC Business Unit	Managed and directed CLEC Business Unit.
SCC Communications Corp.	Director Data Operations	Responsible for the day to day business operations and budget for several functional groups charged with provisioning of 9-1-1 data management services for large telecommunications service providers. Manage 70+ million records for three major Local Exchange Carriers. Development and management of a multimillion dollar operating budget, and organizational staff of 90+ employees and supervisors.
SCC Communications, Corp.	Director System Engineering & Integration (CAD Group)	Directly responsible for the management of all systems integration resource organizations (Engineering, Systems Integration, Quality Assurance, Training and Support).
	Customer Service Manager	Accountable for the development and adherence for achieving revenue and cash collection goals for the business unit.
SCC Communications Corp.	Trainer	Development and management of multimillion dollar operating budget and project revenue. Directed and managed a wide range of complex integration projects requiring interaction and coordination with multiple-vendors, contract management and administration duties, pricing and proposal development and the creation and management of implementation schedules and project cost controls.

Boulder Regional Communications Center	Communications Supervisor	Responsible for the day to day operations for a multi-agency public safety communications center serving a population of 250,000 people in 1,000 square miles.
	Trainer	Developed a comprehensive dispatcher's training program, modeled after a nationally renowned field training officer's program established in San Jose, California. This program included the definition and development of course materials, a dispatcher's training manual, evaluation standards, instructor training, and the implementation of the ongoing processes for review and assessment of course content, evaluation tools and program administration.
	Dispatcher	Served as committee chair for a task force responsible for the revision and publication of national Standard Operating Procedures for a national dispatchers organization.

Key Personnel

KEY MEMBER NAME/TITLE:	Gary A. Klug Director – Regulatory Compliance
DEPARTMENT:	Legal and Government Affairs

CURRENT RESPONSIBILITIES/DUTIES AT SCC:

Ensures compliance with rules and regulations of federal and state agencies, including management of compliance filings with state agencies. Evaluates federal and state regulations and sets regulatory policy and strategic direction. Acts as subject-matter expert and participates in local, state and national public safety and 911 forums.

KEY MEMBER EMPLOYMENT HISTORY

SUMMARY OF EMPLOYMENT HISTORY:

Mr. Klug has an extensive background in the telecommunications and regulatory fields, holding a variety of positions with several telecommunications providers and also the Colorado PUC.

Degrees: BS & MS

COMPANY NAME	POSITION HELD	RELATED EXPERIENCE
Colorado PUC	Senior Professional Engineer III (12 years)	Testified in numerous dockets before the PUC; developed the Colorado Rules Prescribing The Provision of Emergency 9-1-1 Services For Emergency Telecommunications Service Providers and Basis Local Exchange Carriers; established the Colorado 9-1-1 Task Force; responsible for membership selections for the 9-1-1 Task Force. Facilitated Colorado 9-1-1 Task Force meetings. Developed Colorado Rules on Interconnection. Advisor to the Colorado Commissioners including dockets on interconnection and collocation.
US West	Staff Manager (3 years)	Responsible for the development of interstate switched access rates and tariffs and repricing of access services for US West.
AT&T	Staff Manager (3 years)	Responsible for development of intrastate private line rates and tariffs and the rate witness for AT&T for the Mountain States Region.
Mountain Bell	Staff Manager/Manager/ Planner/Equipment Engineer (11 years)	Held various positions responsible for basic local exchange service rates and tariffs, rural area service rates and tariffs, measured service rate development, measured service computer model development, as a Planning Engineer developed the plans for the first 4ESS switch in Mountain Bell. Held the position as an Equipment Engineer for the engineering, installation and testing of Step, X-BAR, and ESS switching equipment, test center equipment, power systems, and carrier systems.

Exhibit 6
Small and Minority Owned Telecommunications
Business Participation Plan
Consisting of 3 Pages
January 16, 2001

SCC COMMUNICATIONS CORP.
SMALL AND MINORITY OWNED
TELECOMMUNICATIONS BUSINESS PARTICIPATION PLAN

Pursuant to the T.C.A. §65-5-212, as amended, SCC Communications Corp. ("SCC") submits this proposed Small and Minority-Owned Telecommunications Business Participation Five Year Plan ("the Plan").

I. PURPOSE

The purpose of §65-5-212 is to provide opportunities for small and minority-owned businesses, meeting the definition or certified by the State as historically underutilized businesses (HUBs), who are impeded from normal entry into the economic mainstream because of race, religion, sex and national origin. SCC is committed to complying with state requirements under §65-5-212 and hereby submits its Five Year Plan relating to underused business. SCC will attempt to provide opportunities for HUBs to compete for contracts and subcontracts for goods and services. As part of its procurement process, SCC will attempt to identify and inform such minority-owned and small businesses that are qualified and capable of providing goods and services to SCC. SCC will identify local organizations with small business membership emphasis and participate in or communicate through these local organizations and through the use of the State's Department of Economic and Community Development, the Administrator of the Small and Minority-owned Community Development, the Administrator of the Small and Minority-Owned Telecommunications Assistance Program, to promote business opportunities with SCC.

II. DEFINITIONS

HUBs or Small and Minority-owned businesses as defined by §65-5-212, means a business that is 51% owned and controlled by U.S. citizens who are socially disadvantaged because of their identification as members of certain groups, including African-American, Hispanic, Native American, or Asian Pacific and Women, and such business has annual gross receipts of less than $4 million.

III. ADMINISTRATION

SCC's Plan will be overseen and administered by the individual named below, hereinafter referred to as the Administrator, who will be responsible for carrying out and promoting SCC's full efforts to provide equal opportunities for HUBs. The Administrator of the Plan will be:

Victoria Webster
SCC Communications Corp.
6285 Lookout Road
Boulder, CO 80301

Telephone Number:
(303) 581-5600
FAX Number
(303) 581-0900

The Administrator's responsibilities will include:

1. Maintaining a Plan which complies with the requirements of §65-5-212 and the Rules and orders of the Tennessee Regulatory Authority;
2. Developing policies and procedures necessary for the successful implementation of the plan;
3. Submitting such forms as may be required by the Tennessee Regulatory Authority;
4. Serving as the primary contact with the Tennessee Regulatory Authority, other agencies of the State of Tennessee and small and minority-owned businesses to locate and use qualified HUBs as defined in §65-5-212;
5. Investigating the opportunity to use qualified HUBs;
6. Providing records and reports in cooperation with any authorized surveys as required by the Tennessee Regulatory Authority;
7. Maintaining adequate records to track qualifies HUBs which have attempted to obtain a contract with SCC for the provision of technical assistance;
8. Provide information to SCC's employees which will aid in the promotion of small and minority-owned business contracts for the provision of technical services.

The Administrator will use all necessary resources in the performance of the foregoing duties.

IV. RECORDS AND COMPLIANCE REPORTS

SCC will attempt to maintain records of qualifies small and minority-owned businesses and its efforts to use the goods and services of such businesses. SCC will also attempt to maintain records of educational activities conducted or attended by its employees.

Exhibit 7
Certificate of Service and Copy of
Notice of Application Filed
Consisting of 4 Pages
January 16, 2001

CERTIFICATE OF SERVICE

I, Rebecca L. Boswell, hereby certify that on this 15th day of January, 2001, a copy of the foregoing notice was served via first class U.S. Mail on the following:

Ardmore Telephone Company, Inc.
P. O. Box 549
517 Ardmore Avenue
Ardmore, TN 38449

BellSouth
333 Commerce Street
Nashville, TN 37201-3300

Century Telephone of Adamsville
P. O. Box 405
116 N. Oak Street
Adamsville, TN 38310

Century Telephone of Claiborne
P. O. Box 100
507 Main Street
New Tazewell, TN 37825

Century Telephone of Ooltewah-Collegedale, Inc.
P. O. Box 782
5616 Main Street
Ooltewah, TN 37363

Citizens Communications Company of Tennessee
P. O. Box 770
300 Bland Street
Bluefield, WV 24701

Citizens Communications Company of the Volunteer State
P. O. Box 770
300 Bland Street
Bluefield, WV 24701

Loretto Telephone Company, Inc.
P. O. Box 130
Loretto, TN 38469

Millington Telephone Company, Inc.
4880 Navy Road
Millington, TN 38053

Sprint-United
112 Sixth Street
Bristol, TN 37620

TDS Telecom-Concord Telephone Exchange, Inc.
P. O. Box 22610
701 Concord Road
Knoxville, TN 37933-0610

TDS Telecom-Humphreys County Telephone Company
P. O. Box 552
203 Long Street
New Johnsonville, TN 37134-0552

TDS Telecom-Tellico Telephone Company, Inc.
P. O. Box 9
102 Spence Street
Tellico Plains, TN 37385-0009

TDS Telecom-Tennessee Telephone Company
P. O. Box 18139
Knoxville, TN 37928-2139

TEC-Crockett Telephone Company, Inc.
P. O. Box 7
Friendship, TN 38034

TEC-People's Telephone Company, Inc.
P. O. Box 310
Erin, TN 37061

TEC-West Tennessee Telephone Company, Inc.
P. O. Box 10
244 E. Main Street
Bradford, TN 38316

United Telephone Company
P. O. Box 38
120 Taylor Street
Chapel Hill, TN 37034

Rebecca E. Boswell
Name

Subscribed and sworn to before me this
15th day of January, 2001.

Notary Public
State of Colorado

My Commission expires: 2/10/04

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN THE MATTER OF THE APPLICATION OF SCC COMMUNICATIONS CORP. FOR A CERTIFICATE TO PROVIDE COMPETING LOCAL TELECOMMUNICATIONS SERVICES WITHIN THE STATE OF TENNESSEE

January 16, 2001

NOTICE OF APPLICATION FILED

Pursuant to applicable Tennessee Statutes and the Rules and Regulations of the Tennessee Regulatory Authority and Section 253 of the Federal Telecommunications Act of 1996 ("Act"), SCC Communications Corp. ("SCC") respectfully requests that the Tennessee Regulatory Authority ("TRA") grant to SCC a Certificate of Public Convenience and Necessity, pursuant to 65-4-201 *et. seq.* of the Tennessee Code Annotated and the TRA's Rules and Regulations, authorizing Applicant to provide facilities-based and resold local exchange and intrastate, interexchange (interLATA and intraLATA) telecommunications services as a competitive telecommunications service provider within the State of Tennessee.

This is to notify you that the above-referenced application was filed with the Tennessee Regulatory Authority ("Authority") on January 16, 2001. A copy of the application can be obtained from the Authority.

SCC Communications Corp.

By: Rebecca E. Boswell

Rebecca E. Boswell
Regulatory Counsel
6285 Lookout Road
Boulder, CO 80301-3343
FAX: 303-581-0090
Phone: 303-581-5600
e-mail: rboswell@sccx.com

Exhibit 8
Articles of Incorporation
Consisting of 5 Pages
January 16, 2001

6-27-98

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF SCC COMMUNICATIONS CORP.

a Delaware corporation

SCC Communications Corp. (the "corporation"), a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The original Certificate of Incorporation of the corporation was filed with the Secretary of State of the State of Delaware on September 17, 1993. The Certificate of Incorporation of the corporation was amended pursuant to a Certificate of Amendment of Certificate of Incorporation of the corporation filed with the Secretary of State of the State of Delaware on each of April 28, 1994; January 26, 1995; and March 5, 1996.

2. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, the Amended and Restated Certificate of Incorporation was adopted by the corporation's Board of Directors and stockholders, the stockholders of the corporation having approved the Amended and Restated Certificate of Incorporation by the written consent of the holders of at least a majority of the outstanding share in accordance with Section 228 thereof, and written notice having been given in accordance with the requirements of such Section. The Amended and Restated Certificate of Incorporation restates, integrates and amends the provisions of the Certificate of Incorporation of this corporation.

3. The text of the Certificate of Incorporation as heretofore amended or supplemented is hereby restated and further amended to read in its entirety as follows:

ARTICLE I

The name of this corporation is SCC Communications Corp.

ARTICLE II

The address of this corporation's registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE III

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may now or hereafter be organized under the Delaware General Corporation Law.

ARTICLE IV

1. Classes of Stock. This corporation is authorized to issue two classes of stock, denominated Common Stock and Preferred Stock. The Common Stock shall have a par value of $0.001 per share and the Preferred Stock shall have a par value of $0.001 per share. The total number of shares of Common Stock which the Corporation is authorized to issue is Thirty Million (30,000,000), and the total number of shares of Preferred Stock which the Corporation is authorized to issue is Fifteen Million (15,000,000), which shares of Preferred Stock shall be undesignated as to series. Upon the filing of this Amended and Restated Certificate of Incorporation, each three (3) outstanding shares of Common Stock shall be converted into one (1) share of Common Stock, as the case may be (the "Stock Split"). No fractional shares of Common Stock or Preferred Stock, as the case may be, shall be issued upon the Stock Split.

2. Issuance of Preferred Stock. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, by filing one or more certificates pursuant to the Delaware General Corporation Law (each, a "Preferred Stock Designation"), to fix or alter from time to time the designations, powers, preferences and rights of each such series of Preferred Stock and the qualifications, limitations or restrictions thereof, including without limitation the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and the liquidation preferences of any wholly-unissued series of Preferred Stock, and to establish from time to time the number of shares constituting any such series and the designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be decreased in accordance with the foregoing sentence, the shares constituting such decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

3. Rights, Preferences, Privileges and Restrictions of Common Stock

(a) Dividend Rights. Subject to the prior or equal rights of holders of all classes of stock at the time outstanding having prior or equal rights as to dividends, the holders of the Common Stock shall be entitled to receive, when and as declared by the Board of Directors, out of any assets of the corporation legally available therefor, such dividends as may be declared from time to time by the Board of Directors.

(b) Redemption. The Common Stock is not redeemable upon demand of any holder thereof or upon demand of this corporation.

(c) Voting Rights. The holder of each share of Common Stock shall have the right to one vote, and shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of this corporation, and shall be entitled to vote upon such matters and in such manner as may be provided by law.

ARTICLE V

1. Exculpation. A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is hereafter amended to further reduce or to authorize, with the approval of the corporation's stockholders, further reductions in the liability of the corporation's directors for breach of fiduciary duty, then a director of the corporation shall not be liable for any such breach to the fullest extent permitted by the Delaware General Corporation Law as so amended.

2. Indemnification. To the extent permitted by applicable law, this corporation is also authorized to provide indemnification of (and advancement of expenses to) such agents (and any other persons to which Delaware law permits this corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the Delaware General Corporation Law, subject only to limits created by applicable Delaware law (statutory or non-statutory), with respect to actions for breach of duty to the corporation, its stockholders, and others.

3. Effect of Repeal or Modification. Any repeal or modification of any of the foregoing provisions of this Article V shall be prospective and shall not adversely affect any right or protection of a director, officer, agent or other person existing at the time of, or increase the liability of any director of the corporation with respect to any acts or omissions of such director occurring prior to, such repeal or modification.

ARTICLE VI

Elections of directors need not be by written ballot except and to the extent provided in the Bylaws of the corporation.

ARTICLE VII

No holder of shares of stock of the corporation shall have any preemptive or other right, except as such rights are expressly provided by contract, to purchase or subscribe for or receive any shares of any class, or series thereof, of stock of the corporation, whether now or hereafter authorized, or any warrants, options, bonds, debentures or other securities convertible into, exchangeable for or carrying any right to purchase any share of any class, or series thereof, of stock; but such additional shares of stock and such warrants, options, bonds, debentures or other securities convertible into, exchangeable for or carrying any right to purchase any shares of any class, or series thereof, of stock may be issued or disposed of by the Board of Directors to such persons, and on such terms and for such lawful consideration as in its discretion it shall deem advisable or as the corporation shall have by contract agreed.

ARTICLE VIII

The corporation is to have a perpetual existence.

ARTICLE IX

The corporation reserves the right to repeal, alter, amend or rescind any provision contained in this Amended and Restated Certificate of Incorporation and/or any provision contained in any amendment to or restatement of this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation.

ARTICLE X

The Board of Directors may from time to time make, amend, supplement or repeal the Bylaws by the requisite affirmative vote of Directors as set forth in the Bylaws; provided, however, that the stockholders may change or repeal any bylaw adopted by the Board of Directors by the requisite affirmative vote of stockholders as set forth in the Bylaws; and, provided further, that no amendment or supplement to the Bylaws adopted by the Board of Directors shall vary or conflict with any amendment or supplement thus adopted by the stockholders.

ARTICLE XI

No action shall be taken by the stockholders of the corporation except at an annual or special meeting of stockholders called in accordance with the Bylaws, and no action shall be taken by the stockholders by written consent.

ARTICLE XII

Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the corporation shall be given in the manner provided in the Bylaws of the corporation."

SIGNATURES

IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been signed under the seal of this corporation this 29th day of June, 1998.

SCC COMMUNICATIONS CORP.,
a Delaware corporation

By: [signature]
John G. Lewis
Assistant Secretary

STATE OF COLORADO)
) ss.
CITY & COUNTY OF DENVER)

Subscribed and sworn to before me this 29th day of June, 1998, by John G. Lewis as Assistant Secretary of SCC Communications Corp., a Delaware corporation.

WITNESS my hand and official seal.

Shirley K. Jantz
Notary Public

My commission expires: March 31, 2001

[SEAL] SHIRLEY K. JANTZ NOTARY PUBLIC STATE OF COLORADO

COR-DOC\99999.1\7309.0220

Verification
Consisting of 1 Page
January 16, 2001

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN THE MATTER OF THE APPLICATION	)	
OF SCC COMMUNICATIONS CORP. FOR A	)	
CERTIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY TO PROVIDE COMPETING	)	**DOCKET No. __________**
LOCAL TELECOMMUNICATION SERVICES	)	
WITHIN THE STATE OF TENNESSEE	)	

VERIFICATION

The undersigned attests that he has reviewed this filing of behalf of SCC Communications Corp. ("Applicant") in the above-mentioned proceeding; that it appears to be true and correct; and that it is hereby adopted on behalf of Applicant. By this application, and participating in all proceedings necessary to effect certification, Applicant hereby asserts it willingness and ability to comply with all rules and regulations that the Tennessee law is now or hereafter enacted.

SCC COMMUNICATIONS CORP.

____

Gary A. Klug
Director – Regulatory Compliance

Subscribed and sworn to before me, this 15th day of January, 2001.

____
Notary Public

My Commission expires on 2 10/04.