By multex.com

# The Internet Analyst℠

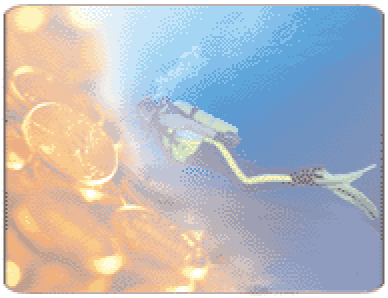
Exclusive financial data on Internet companies and executives

Print Edition

Issue #71

August 3, 2000

## 1. Strong Buys



## Clarent Gets Scalped Despite Analyst Plaudits

By Paul DeMartino

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

**CLARENT (CLRN):** On July 26, U.S. Bancorp Piper Jaffray reiterated its STRONG BUY on the shares of CLARENT. The company, a leading provider of Internet-based telephony infrastructure, announced that it had acquired privately owned Peak Software for $60 million in cash and stock. The acquisition of Peak, an IP-based communications software development and consulting company, should reduce the time that it takes CLARENT to get new products to market, according to U.S. Bancorp. In addition, the firm believes that the acquisition strengthens CLARENT's ability to enter the wireless market. On July 27, CLARENT reported second quarter results that exceeded U.S. Bancorp's estimates. Revenue of $28.3 million was 5% better than forecast and 15% higher than the first quarter. Net income was $0.01 a share; the firm had forecast a loss of $0.01 a share.

ABOUT THE INTERNET ANALYST℠
The Internet Analyst℠ is an on-line publication.

To subscribe, send an e-mail to tia@multex.com with SUBSCRIBE in the subject line, and include your name in the body of the message. Also specify whether you would like the Professional Edition (for institutional money managers) or the Individual Investor Edition (for serious investors).

Professional Edition: www.theinternetanalyst.com
Individual Investor Edition: www.theinternetanalyst.com

The Internet Analyst℠ Magazine by Multex.com
Publisher: . . . . . . . . . . . . . Lauren Keyson
Publishing Assoc. . . . . . . . . Eric Lopkin
Managing Editor: . . . . . . . James C. Condon
Senior Editor: . . . . . . . . . . Paul DeMartino
Production Manager: . . . . Mitch Burkhardt
Web Designer: . . . . . . . . . Robin Barrett
Senior Production Associate: Rika Marubashi
Customer Service: . . . . . . David Allikas

Comments and Information send an e-mail to tia@multex.com.
The Internet Analyst,℠ Multex.com, 33 Maiden Lane, New York, NY 10038
To advertise in TIA, please call 212-859-9962 or email us at advertise@multex.com.
Reprints now available. Send e-mail to Burkham@multex.com requesting a price sheet.

**TIA's premier date:** April 1, 1999

The firm maintained its 12-month price target is $115, based on a price-to-sales relative valuation model. The market, however, chose to focus on the lower prices CLARENT was getting for hardware products and its plans to increase research and development spending. CLARENT fell 39% on July 28 to close at $45.06. Research on the company was read 440 times during the week of July 17 to 23, and three new reports were contributed to the Multex.com database during that period.

### IN THIS ISSUE



**EBAY (EBAY):** C.E. Unterberg, Towbin reiterated its STRONG BUY on EBAY on July 26, after the Internet auction site reported second quarter results. Earnings of $0.05 a share beat Unterberg Towbin's projection by $0.01, but the firm lowered its price target to $75 from $108. Unterberg Towbin values EBAY's shares using a discounted cash-flow model, in which future cash flows are discounted by dividing them by the market's "riskless rate" – usually the yield on Treasurys – plus a risk premium. Since the firm believes that the stock market has raised the risk premium for e-commerce stocks, its valuation of EBAY must be lowered. However, according to Unterberg Towbin, the new target price "should be read as indicative of our pragmatic approach to valuation, and not as being an indication of a decrease in our optimism on the company." The firm projects earnings of $0.19 a share in 2000 and $0.39 a share in 2001. Shares of EBAY closed at $46.88 on July 28. Research on EBAY was accessed 1,617 times and 67 new reports were added to the Multex.com database during the week of July 17 to 23.



**TICKETMASTER ONLINE-CITYSEARCH (TMCS):** On

Next

July 26, Thomas Weisel Partners reiterated its STRONG BUY on TICKETMASTER ONLINE-CITYSEARCH after the company reported better-than-expected second quarter results. TICKETMASTER lost $0.52 a share; Weisel Partners had expected a loss of $0.57 a share. Revenue was higher than expected at both the online-ticketing and the City Guide segments. In addition, the company announced an initiative that is designed to accelerate profitability on an EBITDA-basis in this year's fourth quarter, a quarter ahead of schedule. Under the initiative, about 150 local salespeople, 11% of TICKEMASTER's total workforce, were fired. The layoffs were made in areas where, according to Weisel Partners, "regional or national efficiencies are being realized." In addition, the company is revamping its City Guide sites, adding information and functionality. Weisel Partners responded by reducing its estimated 2000 loss to $2.21 a share from $2.26 a share. For 2001, the estimated loss was cut to $1.95 a share from $2.07 a share. Its target price for TICKETMASTER shares is $51, based on an enterprise-value-to-sales relative valuation. TICKETMASTER ONLINE shares closed at $19.88 on July 28. Research reports on the company were accessed 242 times and nine new reports were added to the Multex.com database during the week of July 17 to 23.

## 2. The Sell Report

*eBay*

# Hold Off, It's Still too Aggressively Valued

By Aram Fuchs

Since my initial article on EBAY (EBAY) (The Sell Report, The Internet Analyst, May 4, 2000), the stock is down 33%. As I read through the company's latest results and listened to the conference call, I wanted answers to a question: Should I still be negative on EBAY, or has the stock dropped enough for me to change my mind? Well, after doing my due diligence, I'm coming back to the readers of The Sell Report to tell them "it ain't time to buy, yet."

Many of the basic operating and financial metrics were stronger than I expected:

• The company's revenue growth doubled, and registered users increased by 183%.

• Earnings came in at a respectable $0.05 a share.

• Cash flow from operations grew to $28.3 million for the quarter.

• Vehicle listings increased 56% since the launching of eBay Motors in April.

But we think that if you stick to analyzing just these basic operating and financial metrics, you are missing something as big as a watermelon.

Most of its pretax earnings – $11.3 million out of a total of $20 million – was interest earned on the money EBAY received from its well-timed 1999 secondary stock offering, in which 13 million shares were sold at $85 a share. It's important to realize that without that interest income, the company would be just breaking even. Does that kind of performance deserve to be valued at an aggressive 260-times the Multex.com consensus 2000 earnings estimate?

Fertilemind.net says the answer is a resounding "no." Although the company is one of the few on the Internet that will enjoy pricing power (because of the obvious barriers to entry), the stock will have to dramatically outperform the consensus to justify such an aggressive valuation. On the conference call, management was unwilling to guide estimates higher. We think that is because the company will have to spend money on marketing and international expansion to prevent upstart competition from YAHOO! (YHOO) and AMAZON.COM (AMZN). Once management is content with the company's market position, it will be able to lower marketing costs and benefit from high gross margins of 76%.

But by then, the market will have realized that the growth in the operating metrics will not be as strong as they are today and the stock will carry a much lower P/E ratio. The company may have reported impressive growth in most operating metrics, but the results were not strong enough to keep this incredibly expensive stock aloft. It still needs to come down substantially for me to turn bullish.

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

## 3. The Independent View

# What Standing at the Brink Has Taught Us

By Greg A. Kyle
President and CEO of Pegasus Research

What a difference a few months make.

In 1999, the formula was simple: Internet + Stocks = Lotto Fever. In two years, from 1998 to early 2000, the Nasdaq had climbed an unprecedented 160% with Internet stocks as measured by the Pegasus Internet INTDEX climbing 600%. The strength was also broad based, with 80% of all Internet stocks finishing with gains in 1999.

Then came March 2000, and the formula changed to Internet + Stocks = Scarlet Fever. Between the peak of the Nasdaq on March 10 and its low in April, Internet stocks lost over half of their value on average. Some like PLANETRX.COM (PLRX), VALUE AMERICA (VUSA) and FOGDOG (FOGD) saw their market value drop 85% or more. In the aftermath of the pullback, 90% of all Internet stocks are in the red this year. Over 45 stocks – slightly more than 10% of the Internet universe – are trading below $3 a share. A number of others including MOTHERNATURE.COM (MTHR), QUEPASA.COM (PASA) and MUSICMAKER.COM (HITS) are trading for around $1 a share. With technology stocks, a $1 price can be a kiss of death because it is the Nasdaq's required minimum bid price. Companies whose stock price falls below $1 face being delisted by the Nasdaq and orphaned by the analyst community.

Is there a future for these companies? For some yes, but for others no. The lucky ones will be rescued from the brink of pink-sheet obscurity – or bankruptcy – by being acquired. The acquiring companies are now likely to be from the bricks-and-mortar world. PEAPOD's (PPOD) last-minute savior, AHOLD (AHO), the giant Dutch food company, and CDNOW's knight in shining armor, Bertelsmann, are two examples of this trend.

Others will be less fortunate and are destined to go the way of the Edsel – an interesting concept at the time, but lacking a strong and sustainable business model, soon to be but a fading memory of the dot-com heydays.

What lessons can investors draw from this Internet investing roller-coaster? Are the naysayers and the Internet bears correct in saying that dot-com investing is all hype and no substance? Is dot-coma heading toward dot-R.I.P.? Or, is there still life pulsing in the veins of the Internet economy?

Despite the naysayers, there is light at the end of this tunnel. Internet investing is just beginning. Investors should keep in mind that the Internet economy is barely six years old and already, the market value of the sector exceeds the amount of currency in circulation in the United States. Within a few years, Web-centric companies could account for 15% of total equities in the U.S., up from just a fraction today. Remember, in the space of these six short years, 40% of U.S. households have moved onto the Net, e-mail has surpassed snail-mail by a factor of 10 to 1, and 10 million investors are trading online. Not bad for a sector that is still in its infancy.

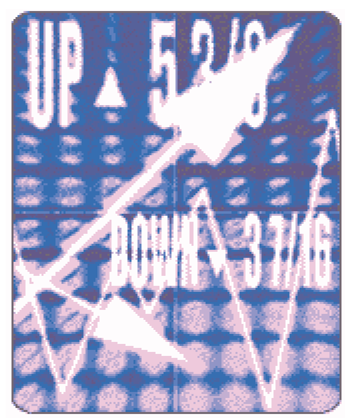
Pegasus Research is an independent research firm that provides unbiased, objective analysis on the emerging Internet economy. For more information, contact Pegasus at (212) 687-1522.

***Pegasus Research is a sponsor of The Independent View.***

## 4. Upgrades & Downgrades

# A Difference of Opinion on S1

By Shannon Swingle




**S1 (SONE):** ABN AMRO moved its rating on the shares of S1 to OUTPERFORM from BUY on July 25. The downgrade of this provider of Internet-based solutions for financial institutions is based on the "increasingly difficult pricing environment for S1's VerticalOne solution." VerticalOne users submit a single name and password and the software gathers all of the user's password-protected information from other Web sites, each of which may have different names and passwords. S1's product allows consumers to track credit card statements and bills; investments; bank accounts; and rewards programs.

VerticalOne has seen increasing demand, but at the same time it's facing increased competition, particularly from privately held Yodlee. Yodlee has signed up AMERICA ONLINE (AOL), CIT-

IGROUP ([C]) and INTUIT (INTU) as clients by pricing its product very aggressively, according to ABN AMRO. The firm believes that S1 will respond in kind to win market share. In this environment, it is lowering its 2000 revenue expectations for VerticalOne to $5 million from $10 million. In addition, the brokerage now sees a loss of $8.75 a share in 2000, slightly wider than its previous estimate of $8.70 a share. ABN AMRO's initial 2001 estimate calls for a loss for S1 of $7.85 a share, and the firm lowered its 12-month target price to $35 a share from $65. S1 shares closed at $21.13 on July 28. Research about S1 was accessed 567 times, and 17 new documents were added to the Multex.com database during the week of July 17 to 23.

**INTRUSION.COM (INTZ):** After this provider of security technology reported worse-than-expected second quarter results, SunTrust Equitable Securities cut its rating on the company to LONG-TERM ATTRACTIVE from BUY. INTRUSION, formerly ODS Networks, is in the process of shedding its networking business to focus solely on security and the brokerage says that disruption to the sales force from the transition led to a shortfall in revenue. Security revenue came in at $5.1 million; SunTrust had expected $6.9 million. INTRUSION also reported an operating loss of $0.36 a share, wider than SunTrust's expected loss of $0.32 a share. SunTrust has lowered estimates for 2000 revenue $30.5 million from $37.8 million. In addition, the firm now sees a wider loss for 2000 – $1.08 a share instead of $0.94 a share. INTRUSION closed at $10.44 on July 28.

Another brokerage, Legg Mason Wood Walker, initiated coverage of S1 with a STRONG BUY on July 19, 2000. See Strong Buys, The Internet Analyst, July 27, 2000. And, for a look at CORILLIAN (CORI), another supplier of software that lets consumers manage their financial information over the Web, please see this week's Microcap Scope.

**VENTRO (VNTR):** On July 21, Robertson Stephens downgraded VENTRO, an operator of B2B e-marketplaces that specialize in life-sciences, hospital supplies and specialty medical supplies, to LONG-TERM ATTRACTIVE from BUY. The firm's chief concern is that VENTRO's second quarter revenue of $25.5 million came in 20% below expectations. Although the company's operating loss of $0.74 a share beat expectations, Robertson Stephens says the revenue shortfall, and uncertainty about future revenue as VENTRO introduces higher margin services, make it more cautious on the stock. The brokerage cut its revenue estimates. For 2000, it now sees $119 million, down from $145.8 million, and for 2001, it forecasts $378 million, down from $445 million. In addition, Robertson Stephens now sees wider operating losses of $3.14 a share in 2000, and $3.31 a share in 2001. VENTRO closed at $11.98 on July 28, down 41% since the earnings announcement.

*The number of contributed and downloaded documents, where available, are based on the number of new documents contributed to Multex.com from brokerage firms worldwide during the week of July 17 to 23.*


## Engage: Selling Ads, and More

By Craig Columbus
President, insiderSCORES.com

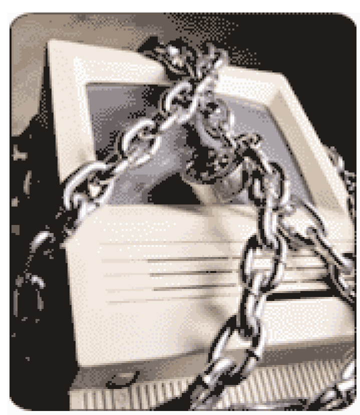
Selling advertisements isn't the only kind of selling going on at Internet ad network ENGAGE (ENGA). From June 22 to 27, four insiders sold 354,995 shares at $13.44 to $15.72 a share. Daniel J. Jaye, chief technology officer, sold 279,995 shares. Other insiders who sold were: Paul L. Schaut, chief executive officer, 50,000 shares; Fredric D. Rosen, a director, 15,000 shares; and Stephen A. Royal, chief financial officer, 10,000 shares.

These were the first insider sales since the company went public on July 20, 1999. In addition, the sales were made by high-level executives and came on the heels of a $50-million investment in ENGAGE made by CMGI (CMGI). At the time of the sales, the stock was trading considerably below its high of $94.50, reached on March 7, 2000. Since the insider activity, the ENGAGE has continued to drop and closed at $10.44 on July 28. *– Eric Lopkin*

## 5. Keyson's Hot Lunch

*Part II: The Cloak of Invisible Security*

**Steven K. Sprague, President and CEO, Wave Systems**



Interviewed by Lauren Keyson

My discussion with Steven Sprague, president and chief executive officer of WAVE SYSTEMS (WAVX), continued at the 14 Wall Street Restaurant, high above the financial district in New York. WAVE SYSTEMS is creating a programmable set-top box that will act as a secure intermediary between the Internet and a computer – or any other device.

[LAUREN KEYSON] You've mentioned "trusted client" a few times. Is that a brand name?

[STEVEN SPRAGUE] Actually it's a name we're not going to brand. We see trusted client as a whole category of devices, of which Embassy is our implementation. A perfect example is what we are building with a company called Cyber-COMM. Cyber-COMM is owned by the nine largest French banks and has FRANCE TELECOM (FTE) and a number of others as customers. We're building a terminal that is designed to go to the consumer's phone. It has the ability to accept a smart card – you type your PIN number into it. One of the most important aspects of the device is that the PIN number that you type in, or the keyboard that you type with, is completely firewalled from the operating system of your home PC. So for the first time, you can enter your network password, and it can be secured in the device and delivered to the server. The operating system never saw it, which means it's impossible to write a virus to capture that password. This is the first time you can log-on to your trading account, your bank or get your e-mail in a manner that guarantees you are the only one who can get in, because you're the only one who knows what the PIN number is.

[LK] What if you forget your password?

[SS] That problem always exists, but you can recover your password. However, when you typed your password using a keyboard, the ILOVEYOU Trojan-horse virus sent that password, if it was stored locally on your PC, to the Philippines. Other viruses could watch for keystrokes and then send the keystrokes elsewhere. They don't have to know your password – they steal it off your computer. What we can do is offer a firewall that sits between the computer and the keyboard, and we're not doing this with a customized device. We're doing this with a programmable device. So Cyber-COMM's application is an applet that runs on our chip and creates this secure PIN-entry system. That same device could be used for a Web server or your e-mail or a variety of other things. Is this capability of having secure password entry an important feature of a PC? We believe so. It belongs on every single PC. If it's not there, your platform is insecure.

[LK] Who are your competitors? Would they include such traditional Internet security providers as privately held SSH Communications Security or INTERNET SECURITY SYSTEMS (ISSX)?

[SS] Those companies generate applets – they have a problem. They're building a whole set of software infrastructure to make it easy to use and sell the service of security. But they can't do that until they have a way to authenticate the end user, which they don't have. They have your password – which you typed in and my virus snooped and sent to someone else. It's as good as the state-of-the-art is today, but clearly, what's coming next is the infrastructure to make it truly secure.



[LK] So, who do you consider your competitors?

[SS] We see competitors in each of the vertical spaces. We're doing access control for new media and there are certainly companies doing subscriber management systems like U.K.-based NDS GROUP (NNDS), General Instrument [now MOTOROLA's (MOT) broadband unit], INTERTRUST TECHNOLOGIES (ITRU) and some others. If we build features and functions in that space, then we compete with those companies. At the same time, we expect those companies to use Embassy as a platform to offer their security.

A good example: Cyber-COMM has a supplier called ACTIVCARD (ACTI) that is building a Cyber-COMM device. If ACTIVCARD used our chipset instead of their own, then their device could also handle transactions for music, video and the like. So while we compete with ACTIVCARD today, we would actually love to have them adopt our chip and abandon their security efforts – because they're really not a security company, they're a smart-card reader company.

[LK] What kinds of trends do you see in the security industry?

[SS} I think we're going to see a trend towards convenience. Right now, we have inconvenient security – the best analogy is the old, brick-sized cell phone. If you remember the old cell phones, every time you would go up the West Side highway your number would get cloned, and you would have to get a new phone. Then you had PIN numbers, so every time you made a phone call you had to type in a PIN number. What a pain in the neck. Now, finally it works. The security has become invisible. You just dial the phone, hit send and it connects.

[LK] So the trend is invisible security.

[SS] The best security is invisible. People don't like to have metal detectors at the airport they have to walk through. By bringing the security to the client, we enable things like anonymous membership in a group. So I know you're an AMERICAN EXPRESS (AXP) member, but I don't know who you are. This is really important because it protects your privacy, but it also gives you the benefit of membership. Membership is a very important concept on the Internet. What we're really talking about is moving away from portals, which track everything you do in order to generate revenue, and moving toward networks. I'm a YAHOO! (YHOO) member, an AMERICA ONLINE (AOL) member, an AMAZON.COM (AMZN) member or a member of all of the above. And because I'm a member I get special perks, but without spreading my identity all over the Web.

[LK] What's the biggest security risk on the Web?

[SS] The most significant thing that's happened in the marketplace today is AMERICAN EXPRESS dropping its support for doing credit card transactions in the adult entertainment industry. It's not about AMERICAN EXPRESS censoring the content. It's because today, it's impossible to use your credit card to buy a virtual good on the Web in a way that protects the merchant against fraud. There are no tools or methods today to detect it. Having AMERICAN EXPRESS drop its support for an entire industry says, well, music is the same thing. Is the company going to drop its support for virtual music sales? Without a technology that solves the problem of authenticated identity and delivery for virtual goods, the whole services and content distribution on the Web will not happen.

We had the same experience at WAVE. For a short period of time, we were selling "levels" of the computer game, Doom. We had a fraud rate of almost 50%. It's impossible to track a person down, because you get a valid credit card number, name, e-mail and shipping address, but because you're not shipping any goods, none of that matters. The entire infrastructure for credit card transactions online is based on a physical address. In virtual goods, you're not shipping anything so you don't care what the physical address is. And, you don't hear back that it was a bad transaction until 20 or 30 days later when you get a caller saying, "I didn't charge that on my credit card." There is no way to track the fraud. That's the biggest problem right now on the Web.

[LK] What piece of technology can't you live without?

[SS] Probably my cell phone. If I had to choose one thing that, if taken away, would leave me feeling naked, it would be my cell phone.

[LK] What kind of cell phone do you have?

[SS] Actually, I just broke my cell phone, so I ran out and bought one of the new MOTOROLA StarTACs. I'm addicted to being able to communicate all the time. I get frustrated when I pick up the phone and can't reach somebody. We have a distributed company where you can pretty much get anyone on the phone, 24-7.

[LK] And if they don't like it?

[SS] Our wives try to find obscure places, where there is no cell phone coverage.

[LK] What about e-mail? Do you rely on that too?



[SS] I certainly rely on it, but less so. I could live without my e-mail and not miss it. But don't take away my cell phone. I'm less concerned with people reaching me than I am with my ability to pick up the phone and reach someone else.

[LK] What's the strangest e-mail you've ever received?

[SS] I don't know if I've got a strangest e-mail, but here's a "different" story. I lost a filling in my tooth while I was in Florida, and I went to a dentist recommended by my father-in-law. I show up at the office and the dentist says, "Steven Sprague, I know you. I'm an investor in your company." And the one question I really want to know when he turned out to be an investor was, when did he buy.

[LK] Was he gentle?

[SS] He was in the money, so it was OK.

## 6. Executives Zero In

*Getty Images*

## Jonathan D. Klein, Co-Founder and CEO

Interviewed by George S. Mack

**Jonathan D. Klein**
Getty Images

Do you ever wonder where magazines, newspapers and Web sites get high quality, revealing photographs of newsmakers and recent events that may have occurred half a world away? GETTY IMAGES (GETY) is the world's leading provider of everything from photographs shot more than a hundred years ago, to shots snapped at last night's game. In addition, the company supplies all types of film footage to producers of motion pictures, documentaries, commercials and, increasingly, to companies programming on the Internet. GETTY IMAGES also has a consumer business, which supplies prints and posters through its Art.com Web site. The Seattle-based company's growth has been fueled by recent acquisitions and by strong growth in Internet sales. First quarter revenue of $104.8 million beat analysts' estimates and more than doubled from the year-earlier quarter. For the period, organic growth, which excludes the impact of acquisitions, grew more than 30% year-over-year.

[THE INTERNET ANALYST – GEORGE S. MACK] Give me a brief thumbnail sketch of GETTY IMAGES.

[JONATHAN D. KLEIN] The company is five years old, founded in 1995 by [J. Paul Getty's grandson] Mark Getty and me. Our first day of trading as a public company was on July 2, 1996. We've made a lot of acquisitions to consolidate a fragmented industry, and we have applied technology to take an analog business and put it on the Web. We now have e-commerce revenue, which makes us very significant in the e-commerce space – not just in our industry, but also pretty much in any industry now.

[GSM] Where do your images come from?

[JDK] The largest category – in terms of numbers of images – are the ones we actually own. These are mainly historic or archival images that we have bought over the last five years. They are pictures of every single personality and event since the invention of the camera in 1840. We own that category. We also have a small number of photographers who actually work for us – as in our sports business – and therefore those pictures are also owned by us.

[GSM] Where does your revenue come from?

[JDK] Most of our revenue comes from pictures taken by photographers who have a contract with us. We assist the photographers by telling them what to shoot and how to shoot it. We then select pictures and distribute them both online and offline and give the photographers a share of the revenue. Every time one of those pictures is sold, the photographer is advised of the sale and receives a check on a monthly basis.

[GSM] Sounds like a good market for photographers.

[JDK] It's been very effective for them, because we have the market knowledge and the customer contacts. We also have the infrastructure in every major city in the world, all of the technology they need, as well as 24-7 call centers to support all those features. Our ability to maximize the revenue from their pictures is great and the photographers' ability to shoot the right picture is also great. It's a very effective relationship, and it's been tried and tested over many years in the stock photography and photojournalism business. It's also working increasingly well for filmmakers.

[GSM] What's the size of your markets?

[JDK] We can only estimate. Unlike many industries, ours is pretty new and doesn't have sophisticated data or research or a trade group with reliable information. And except for us, there is no publicly traded company in our business. Having said that, the total market for visual content – photography and film – is about $6 billion and about $9 billion more in the overall art market. So we see ourselves operating today in about a $15 billion market. But I should stress that the business-to-business market, which we're addressing, is a $6 billion market.

[GSM] You've made some major acquisitions. Are you going to continue with that strategy?

[JDK] I don't think that's as safe an assumption now as it would've been a few years ago. In our view, the consolidation of the industry is almost complete. In the last nine months, we have bought our second- and third-largest competitors. In the stock photography business there is very little else we'd be interested in acquiring. But in the news or photojournalism business there remain one or two assets [of interest] out there.

[GSM] So you're slowing down your acquisition activity?

[JDK] Correct.

[GSM] What is your strategy now?

[JDK] Our key theme has now moved to enabling e-commerce in our industry. We've made significant progress in that regard, but we have way to go. Our second key theme is to build up our vertical portals. We plan to have four, each addressing a different customer base and providing not just pictures, but other products and services that our customers tend to buy at the same time as they buy images.

[GSM] Your higher margin e-commerce sales accounted for about 38% of first quarter revenue, nearly double the share of a year-earlier. How big can this be for you?

[JDK] We believe that within five years our entire business will be on the Internet, because our product, a picture, is one of the few products you can put into digital form. We can enable the whole process to take place online and in real time from beginning to end. It saves customers time and money, gives them a greater choice and lets them buy pictures more easily. For us, when we want to add more content or product, we don't need to worry about warehousing, complex supply chains or distribution issues.

[GSM] Based on your first quarter results, analysts have revised revenue estimates upward, and you're now expected to grow revenue more than 90% this year versus last year. What's the driver for all this new business?

[JDK] There are a few growth drivers. The first is the number of places that use pictures has significantly increased – there's more demand. Technology has enabled anybody to produce printed material with a picture in it. Also, there are more magazines now than ten years ago – by a factor of ten, and they are twice as fat, stuffed full of pictures. In addition, we're expanding geographically, as the Web becomes more prevalent outside North America.

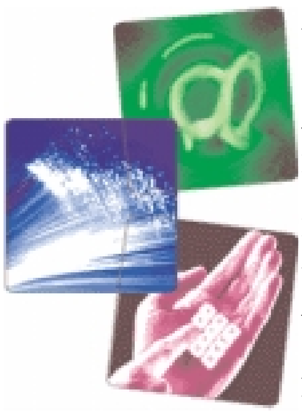
**Vital Statistics**
**GETTY IMAGES (GETY)**

| | |
|---|---|
| **Market Cap** | $1.69 billion |
| **Shares Outstanding** | 49.1 million |
| **Recent Stock Price** | $34.50 (7/28/00) |
| **52-Week Range** | $64.38 – $16.25 |
| **Price to Est. (2000) Revenue** | 3.6-times |

| Years end December | EPS | Revenue (millions) |
|---|---|---|
| **1999A** | ($1.92) | $247.8M |
| **2000E** | ($2.41) | $474.8M |
| **2001E** | ($1.98) | $599.0M |

*Source: Robertson Stephens*

## 7. The Convergence Industry



*Blockbuster Video:*
# Convergence by Alliance

By Eric Lopkin

How does a company make its way into the convergence industry?

Well, BLOCKBUSTER VIDEO (BBI) has adopted the by now, well-honed Internet industry strategy of forming "alliances" to make way into the convergence space. BLOCKBUSTER, which is 82% owned (96% controlled) by VIACOM (VIA), jumped into the convergence pool with both feet by creating Blockbuster Digital Networks. This new division is charged with bringing BLOCKBUSTER into the video-on-demand business. The company plans to deliver 200 to 300 movies and games over the new framework and hopes to entice its 65 million customers to use the new service.

BLOCKBUSTER began making online alliances last November when it signed a multiyear agreement with AMERICA ONLINE (AOL). BLOCKBUSTER got a co-branded AOL Web site and in turn agreed to take several steps to promote AOL offline in its stores.

In January the company formed an alliance with TIVO (TIVO), which is already included in our Convergence Index. The companies will work together to develop and deploy a service resembling video-on-demand. TIVO subscribers will be able to obtain a selection of movies for viewing through their set-top receivers. "We are looking forward to working with TIVO to deploy this video-on-demand service," said Santo Politi, president of BLOCKBUSTER's new media group, "and to giving TIVO customers more choice and more control to watch what they want, when they want it."

BLOCKBUSTER continued its foray into pay-per-view in May with a similar agreement with DirecTV, the leading satellite TV service distributed by HUGHES ELECTRONICS (GMH), which is a subsidiary of GENERAL MOTORS (GM). The companies will establish a co-branded pay-per-view service distributed over DirecTV. In addition, BLOCKBUSTER will promote and sell the DirecTV hardware and service in its 5,000 stores.

And in mid-July, the company announced plans to deliver movies directly over the Internet. BLOCKBUSTER signed a 20-year agreement with ENRON (ENE) to deliver video-on-demand over ENRON's nationwide broadband fiber-optic network. The companies plan to have pilot programs set up in two cities by year-end serving 5,000 to 10,000 customers. BLOCKBUSTER and ENRON say the service will be available nationwide by the end of 2001, and are hoping to generate revenue of $100 million by 2005.

The companies eventually want to distribute video games and Internet service and plan to distribute the package internationally, as well. For the time being, ENRON is partnering with digital subscriber line suppliers – including, SBC COMMUNICATIONS (SBC), VERIZON (VZ), QWEST (Q) and COVAD COMMUNICATIONS (COVD) – to be the "last mile" delivery mechanism to get the service into homes. As the service expands however, BLOCKBUSTER and ENRON will clearly try to interest cable operators in providing the service.

Most analysts praised the latest deal. SG Cowen described the deal as offering true video-on-demand with VCR functionality. Salomon Smith Barney issued a report stating "We believe this partnership, along with other recently announced partnerships, are evidence that BLOCKBUSTER will be an important player in home delivery of entertainment even as new technologies emerge." (Interestingly, PaineWebber upgraded shares of ENRON, the world's largest integrated natural gas and electricity company, to BUY citing the company's deal with BLOCKBUSTER.)

"The ultimate winners in entertainment on-demand will be determined by marketing expertise and brand strength, resources, innovation and commercial alliances. BLOCKBUSTER, ENRON and our distribution providers are uniquely positioned to succeed," said John Antioco, Blockbuster chairman and CEO. "These agreements give first-mover advantage to the involved companies that should enable each of us to capture a significant share of what industry experts project will be a multi-billion dollar annual business. It's the ultimate 'bricks, clicks and flicks' strategy."

Now, let's take a look at the convergence scorecard. Content: video and games. Telecommunications: use of the broadband network that is owned by ENRON, and distribution via DirecTV's satellite system. Computers: The alliance with TIVO and DirecTV gives access to their set-top boxes. Internet: the AOL co-branded Web site and the plans to provide access through the venture with ENRON. If BLOCKBUSTER isn't converged yet, it sure looks like it's getting close.

## Convergence Industry Index

**(in alphabetical order)**

**Company / URL, Ticker, Stock price*, EPS***
**Market cap*, Location**
**Description**

**Public:**

1 **ACTV**
www.actv.com (IATV) $15.38 -$0.46
763.29M New York, NY
Software to synchronize TV programming with Net content delivery

2 **AT&T**
www.att.com (T) $32.00 $1.93
100.65B New York, NY
Telecom, Internet, computers, cable TV

3 **BellSouth**
www.bellsouthcorp.com(BLS) $39.25 $2.06
73.85B Atlanta, GA
Telecom, Internet, cable and digital TV, wireless access

4 **Chequemate International**
www.3d.com (DDD) $2.81 -$0.82
26.16M Marina Del Rey, CA
3-D TV network; Net-transmitted video; special effects software

5 **Datalink.net**
www.datalink.net (DLK) $21.13 -$0.59
295.96M San Jose, CA
Web-to-wireless platform for delivery of content; software

6 **Deutsche Telekom**
www.dtag.de (DT) $45.50 $0.43
137.85B Bonn, Germany
Telecom, cable TV, radio, Internet, programming

7 **General Electric**
www.ge.com (GE) $52.50 $1.17
519.40B Fairfield, CT
Telecom, broadcast and cable TV, Internet, computers

8 **Gemstar-TV Guide International**
www.tvguide.inc.com (GMST) $65.19 $0.42
13.59B Pasadena, CA
Technology for delivering cable & Net content to various platforms

9 **Handspring**
www.handspring.com (HAND)$36.63 N/A
5.23B Mountain View, CA
Handheld computers offering wireless Net and modem connection

10 **InfoSpace**
www.infospace.com (INSP) $34.50 -$0.54
7.92B Redmond, WA
Content for Web sites and wireless; software

11 **Liberate Technologies**
www.liberate.com (LBRT) $25.81 -$1.14
2.33B San Carlos, CA
Software platform for content to delivery via Net and telecom

12 **Lucent Technologies**
www.lucent.com (LU) $47.00 $0.89
153.05B Murray Hill, NJ
Telecom equipment, Internet, content, computer net working

13 **Microsoft**
www.microsoft.com (MSFT) $69.38 $1.71
365.08B Redmond, WA
Internet, telecom, computer hardware, cable TV

14 **Nokia**
www.nokia.com (NOK) $41.06 $0.64
191.73B Espoo, Finland
Mobile phones, Internet, computer hardware, inter active TV

15 **Oracle**
www.oracle.com (ORCL) $75.06 $2.09
213.06B Redwood City, CA
Database software enabling Net access from PCs and appliances

16 **Palm**
www.palm.com (PALM) $35.56 $0.09
20.07B Santa Clara, CA
Handheld computers offering wireless Internet con nection

**17** **Real Networks**
www.realnetworks.com (RNWK) $37.75 -$0.25 5.86B Seattle, WA Software for playing audio and video over the Internet & broad band

**18** **Research in Motion**
www.rimm.net (RIMM) $55.00 $0.15 3.91B Waterloo, Canada
Handheld computers offering wire less Net and modem connection

**19** **SBC Communications**
www.sbc.com (SBC) $42.81 $1.90 145.64B San Antonio, TX
Telecom, Internet, cable TV, networking

**20** **Scientific-Atlanta**
www.sciatl.com (SFA) $79.00 $0.88 12.58B Norcross, GA
Set-top boxes for cable and Net transmission; net working services

**21** **Sony**
www.world.sony.com (SNE) $94.25 $1.94 84.86B Tokyo, Japan
Media, Internet, computer monitors, telecom

**22** **Source Media**
www.sourcemedia.com (SRCM) $5.94 -$2.72 79.29M Dallas, TX
Streaming media content via Net, cable; networking services

**23** **TiVo**
www.tivo.com (TIVO) $21.75 -$0.90 820.39M San Jose, CA
Set-top boxes for cable and Net transmission

**24** **United Pan-Europe Communications**
www.upccorp.com (UPCOY) $28.31 -$0.37 12.35B Beverly Hills, CA
Set-top boxes for cable & Net transmission, telephony

**25** **USA Video Interactive**
www.usvo.com (USVO) $2.63 N/A 207.22M Mystic, CT
Video on demand systems and software via Web and telecom

**26** **Virage**
www.virage.com (VRGE) $18.50 N/A 502.66M San Mateo, CA
Software for distributing media via Internet and telecom

**27** **Wave Systems**
www.wavesys.com (WAVX) $18.25 -$0.76 844.41M Lee, MA
Secure delivery of content over Net by cable, satel lite; software

**Private**:
**1** **IBlast Networks**
www.iblast.com — — — — Beverly Hills, CA
Network for over the air broadcast of digital media; software

N/A

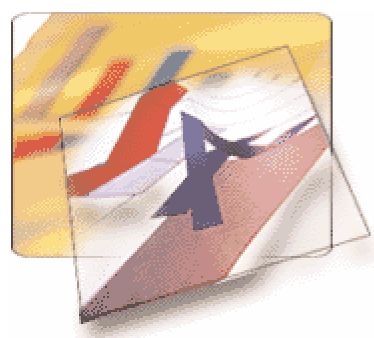
* Based on closing Nasdaq prices on 7/20/00. Market caps unavailable from Nasdaq are taken from Market Guide (www.marketguide.com).

*Companies included in the Convergence Index are taking advantage of the evolving interconnections between: computers (hardware, software, networking); telecommunications (landline/wireless telephony, broadcasting, communications equipment/infrastructure); the Internet; and media (enabling/delivering content, information or data). The companies must have a presence in all four areas.*

## 8. Table Pounders

*priceline.com*

# This Internet Franchise Is Priced to Buy



By Paul de Leon
Fund Manager, de Leon Internet 100 Fund

Shares of PRICELINE.COM (PCLN) have corrected sharply since the release of its second-quarter earnings on July 24, despite results that were generally ahead of expectations. With the shares now trading below $25, we believe it is an optimal time to start building a position in one of the premier Internet franchises.

PRICELINE.COM's excellent operating results clearly illustrate the continued momentum and scalability of its business model. Revenue of $352 million was up 216% from the same period a year ago, while gross margins improved to 15.7% from 9.8%. A loss of $0.01 a share was $0.02 a share better than expectations.


PRICELINE added more than 1.5 million new customers during the quarter, bringing the total to 6.8 million. A record repeat customer rate of 39% demonstrates a high level of customer loyalty. It's also important to note that while other e-commerce companies are increasing their spending on marketing to attract new customers, PRICELINE's marketing expenditures are steadily declining. Its cost to acquire new customers dropped to $10.81 a customer in the most recent quarter from $13.23 a customer in the year-ago quarter.

So why has PRICELINE's stock been so weak despite these solid results? The main concern revolves around a decline in the company's higher-margin fee-based revenue to $22.9 million from $26.7 million. This represents roughly 6.5% of total revenue. Fee-based revenue is derived primarily from PRICELINE's non-travel businesses, such as new-car sales and mortgages, and adaptive marketing program fees that are received from sponsors offering promotions on the company's Web site.

We believe that too much emphasis has been placed on the decline in fee-based revenue. More than 93% of PRICELINE's revenue is still derived from transaction-based sources, primarily from its core travel segment. In addition, the decline in fee-based revenue appears to have been caused by weakness in the adaptive marketing fees segment, as PRICELINE refocused its marketing emphasis. All other segments demonstrated solid growth, and we expect overall fee-based revenue to increase in future quarters.

We believe the shares of PRICELINE.COM are a compelling buy at these levels for several reasons. PRICELINE.COM is the one of the few e-commerce companies that is able to grow revenue rapidly while also moving quickly toward profitability. Its revenue has grown despite reduced advertising expenditures, increasing overall profitability for the company.

In fact, the de Leon Internet 100 Fund is not alone. Through a complex transaction, Paul Allen's venture capital-capital firm, Vulcan Ventures, and LIBERTY MEDIA (LMGA), which is run by legendary investor John Malone and is a tracking stock controlled by AT&T (T), agreed to jointly buy 12.5% of founder Jay Walker's stake in PRICELINE. This was the first time that Mr. Walker has sold PRICELINE shares and he will retain 33% ownership in the company. He intends to invest the proceeds in WebHouse Club, a private company that sells groceries and gasoline through the priceline.com Web site.

The transaction is structured so that LIBERTY MEDIA, which will increase its stake to 3% of PRICELINE, and Vulcan, which will own 5.4%, will not get the shares for a year. The deferral is to avoid putting pressure on the stock. Goldman Sachs, in commenting on the transaction on Aug. 2, noted that one of the key implications of the $190 million investment by LIBERTY MEDIA and Vulcan Ventures – which cannot be liquidated for at least one year – is that it is "a clear indicator of the underlying appreciation opportunity in PRICELINE shares over the next 12 to 24 months.

We expect PRICELINE to be profitable by the fourth quarter of this year, placing it among a select few in the e-commerce space. PRICELINE is leveraging its leadership position to expand its highly scalable model across new verticals in addition to travel, financial services, autos, and telephony. We expect continued rapid growth for PRICELINE as it rolls out its services across new verticals and expands services within its current verticals, for both the business-to-business and business-to-consumer markets.

Paul de Leon currently holds a long position in shares of PRICELINE.COM in the de Leon Internet 100 Fund.

For further information on indexing the Internet sector, please visit our Web site at www.internet100fund.com, or call us toll-free at (877) 655-1110.



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

*http://www.theinternetanalyst.com/individual/000803sections/strongbuys.asp*

*You;ll find Top Global Indexes, Top Report Lists and other links. Enjoy!*

## 9. Microcap Scope

*Corillian*

# A Key Partnership Brightens the Outlook

By Michael Middleton and Timothy Middleton

If you can't beat them, form a partnership with them.

CORILLIAN (CORI) of Beaverton, Ore., announced in July that it had formed an alliance with Yodlee Inc., a private company that enables e-businesses to offer customers the ability to consolidate and manage their online financial information. According to Chase H&Q analyst Adam Holt, who rates CORILLIAN shares a BUY, the deal saves CORILLIAN from having to contend with Yodlee, which has relationships with 700 Web sites, as a future competitor in the online aggregation systems race. Mr. Holt, whose firm was a co-manager of CORILLIAN's April 12, 2000 initial public offering, says "CORILLIAN would have had to invest heavily to compete effectively."

CORILLIAN is the maker of Voyager software, which lets users manage personal finances online, and the OneSource service, which aggregates data from different sources to give complex, but consolidated, pictures of personal finances. Customers are financial institutions such as banks and brokerage houses.

Under the terms of the partnership, CORILLIAN and Yodlee.com will jointly market a bundled online banking and account aggregation package to financial institutions, and CORILLIAN will stop marketing legacy account aggregation subscription solutions. James Marks, an analyst with Credit Suisse First Boston (lead manager for CORILLIAN's IPO), says that through the deal, CORILLIAN is "essentially outsourcing its account aggregation offering. We believe this makes sense for CORILLIAN, in that it allows the company to focus on improving both its OFX [open financial exchange]-based connectivity and its Voyager e-finance suite of products," he added.

The benefits of the deal are both immediate and long term. In the near term, Mr. Holt notes, CORILLIAN will benefit from how it is paid for its products. OneSource revenue for CORILLIAN is expected to hover around 5% through 2001, but "Yodlee royalties carry a higher profit margin than would revenue from OneSource," he says. And in the years to come, Yodlee.com and CORILLIAN would otherwise have been competing for shares of the same space. "Yodlee.com is rapidly emerging as a leader in the account aggregation space," said Mr. Holt, noting that it recently landed such customers as CHASE MANHATTAN (CMB), Citibank, whose parent is CITIGROUP (C) and AMERICA ONLINE (AOL).

CORILLIAN's second quarter results exceeded the expectations of both analysts. Revenue of $5.7 million up 76% from the previous quarter and about 35% better than either had predicted. The company's operating loss was in line with the analysts' estimate, and Mr. Holt says that the company is still on track to break even in the first half of 2002. Mr. Marks of CSFB predicts losses of $0.87 a share in 2000 and $0.51 a share in 2001. Mr. Holt of Chase H&Q sees a losses of $1.00 a share in 2000 and $0.51 a share in 2001. Both analysts raised their revenue forecasts for this year and next after the second quarter report. Mr. Holt's 2000 estimate rose to $22.5 million from $17.8 million. Mr. Marks raised his forecast to $22.7 million from $18.7 million. Both see 2001 revenue of more than $40 million.

**Vital Statistics**
**Corillian (CORI)**

| | | |
|---|---|---|
| **Market Cap** | $324.8 million | |
| **Recent Stock Price** | $11 (7/31/00) | |
| **Shares Outstanding** | 29.5 million | |
| **52-Week Range** | $32.81 – $6.88 | |
| **Years end December** | **EPS** | **Revenue (millions)** |
| **2000E** | ($0.87) | $22.7 |
| **2001E** | ($0.51) | $40.7 |

*Source: Credit Suisse First Boston*

## 10. The Analyst's Spotlight

*Commerce One and Ariba*

# Jeanette Sing, E-business software and services Analyst, Wasserstein Perella

**Jeanette Sing**
Wasserstein Perella

Interviewed by Nate Hardcastle

The Internet Analyst℠ *recently spoke with Jeanette Sing, an analyst at Wasserstein Perella about the competition between business-to-business (B2B) e-commerce enablers COMMERCE ONE (CMRC) and ARIBA (ARBA). Ms. Sing, who watches the e-business software and services space, says that her firm has not underwritten a public equity offering for either company and currently, she does not own shares in COMMERCE ONE or ARIBA.*

## About TIA

| | |
|---|---|
| **Total subscribers:** | 985,000 |

| **Gender:** | **Percent** |
|---|---|
| **MALE** | 79.81%, |
| **FEMALE** | 19.41%, |

**Top 10 countries where our readers are located*:**

| | |
|---|---|
| 1. United States | 6. France |
| 2. Canada | 7. Italy |
| 3. United Kingdom | 8. Australia |
| 4. Germany | 9. Belgium |
| 5. Switzerland | 10. Japan |

**Top 10 occupations of TIA readers*:**

| | |
|---|---|
| 1. Director/Manager | 6. Consultant |
| 2. Individ. Investor | 7. Vice President |
| 3. Professional Office | 8. President/CEO |
| 4. Financial Advisor | 9. Doctor/other health care |
| 5. Engineer | 10. Sales/Marketing |

**Top 5 most popular pages for last week:***

1. Strong Buys
http://www.theinternetanalyst.com/individual/000727.html

2. The Sell Report
http://www.theinternetanalyst.com/individual/000727sections/sellreport.html

3. Upgrades & Downgrades
http://www.theinternetanalyst.com/individual/000727sections/updowngrade.html

4. Top U.S. Picks
http://www.theinternetanalyst.com/individual/000727sections/toppicks_us.html

5. Analyst's Spotlight
http://www.theinternetanalyst.com/individual/000727sections/spotlight.html

*demographics are based on a weekly TIA e-mail survey for 7/17 through 7/23/2000

[THE INTERNET ANALYST – NATE HARDCASTLE] COMMERCE ONE just announced an alliance with GENERAL ELECTRIC's (GE) Global Exchange Services unit. How important is that deal to COMMERCE ONE?

[Jeanette Sing] It's still very early to say exactly how the deal will affect the company, but it looks like very positive news. GENERAL ELECTRIC has one of the largest electronic data interchange (EDI) systems – the pre-Internet systems that allow buyers and suppliers to do business electronically. Those systems are rapidly switching to Internet-based extensible markup language (XML), and GENERAL ELECTRIC wants to bring that capability to its customer base. That arrangement should provide COMMERCE ONE much greater liquidity in its e-marketplace.

[NH] COMMERCE ONE's competitor, ARIBA, has an important partnership with INTERNATIONAL BUSINESS MACHINES (IBM). Is COMMERCE ONE's deal with GENERAL ELECTRIC a response to that alliance?

[JS] The two deals are somewhat different, but they both signal that ARIBA and COMMERCE ONE are racing to increase liquidity in their marketplaces and get into as many markets as possible. It is too early to say which company is in the lead – both have been very successful to this point, and there is a lot of growth to go in the B2B-enabling market.

[NH] How big could the B2B-enabling market be?

[JS] Again, it's very early to say with any certainty. All we know for sure right now is that it will be very big. And the companies' business models will evolve over time. Currently, ARIBA and COMMERCE ONE are paid for setting up business-to-business networks, meaning a lot of revenue comes from software licensing. As more businesses buy and sell to each other online, services and fees will become more important parts of the B2B enablers' revenue streams.

[NH] What are your revenue estimates for the two companies?

[JS] ARIBA's fiscal year ends in September. I expect the company's revenue to be $245 million this year, and hit $573 million next year. I have a price target of $160 for ARIBA. [ARIBA closed at $115.94 on July 31.]

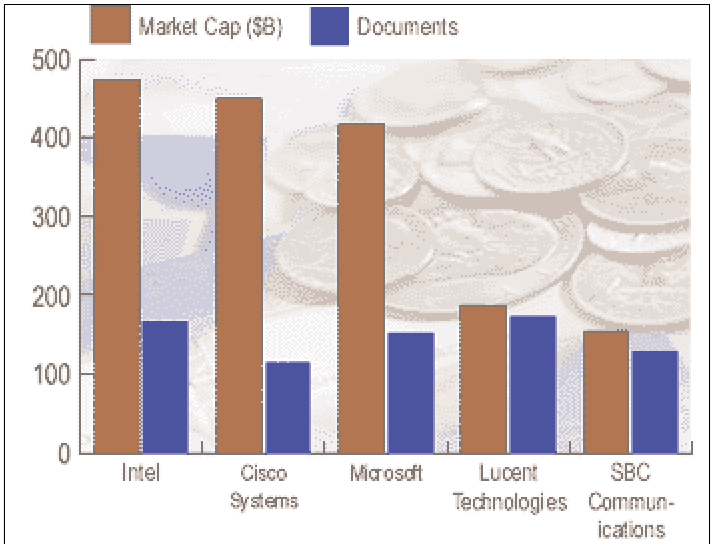
COMMERCE ONE's fiscal year ends in December. The company's revenue should reach $259 million this year and $454 million next year. I have a $125 price target on the stock. [COMMERCE ONE closed at $42.06 on July 31.]

| Vital Statistics<br>Jeanette Sing,<br>Wasserstein Perella | |
|---|---|
| **Education** | MBA from New York University's Leonard N. Stern School of Business |
| **Industry** | E-business software and services |
| **Companies** | ARIBA (ARBA), COMMERCE ONE (CMRC) CLARUS CORPORATION (CLRS), USINTERNETWORKING (USIX), INTERLIANT (INIT) |

## 11. Top U.S. Picks

# The Biggest Are Getting Even Bigger

By Dyan James




| | | |
|---|---|---|
| 1 | Intel (INTC)<br>166 Documents | MarketCap $472.84 |
| 2 | Cisco Systems (CSCO)<br>115 Documents | MarketCap $448.65 |
| 3 | Microsoft (MSFT)<br>151 Documents | MarketCap $415.78 |
| 4 | Lucent Technologies (LU)<br>172 Documents | MarketCap $186.43 |
| 5 | SBC Communications (SBC)<br>127 Documents | MarketCap $152.86 |

LUCENT TECHNOLOGIES tops the list with 172 documents, and no wonder. This leading global supplier of telecommunications gear generated a lot of news recently. LUCENT's earnings in its fiscal third quarter, which ended June 30, confused investors, divided analysts and sent its shares skidding 16% on the day of the report. That day, the company also said it would spin off its microelectronics business, which includes its opto-electronics components and integrated circuits divisions, by the end of the first calendar quarter of 2001. Less than a week later, LUCENT said it would acquire privately held Spring Tide Networks, a leading provider of advanced switching equipment that allows telecom service providers to offer such enhanced services as virtual private networks (VPNs). LUCENT will pay about $1.34 billion in stock for Spring Tide and expects the acquisition to close by Sept. 30, 2000. Research on LUCENT was accessed 3,679 times in the latest week.

INTEL, the world's largest chipmaker, is making another move into the telecom space. INTEL said it would acquire privately held Trillium Digital Systems for around $300 million in cash and stock. Trillium is a leading supplier of high-performance, standards-based communication software that is used by equipment manufacturers, system integrators and application developers to build computer and communications products. According to INTEL, Trillium's software offerings will complement its chips designed for networking and communications services, particularly in the wireless area. In the latest week, research on INTEL was accessed 2,385 times.

MICROSOFT, the giant software and media company, announced the first wave of actions in its new anti-piracy crackdown. The company said it has taken legal action against more than 7,500 Internet, Web and auction-site postings offering allegedly counterfeit copies of software. The illegal content resided on Internet servers located in 33 countries on six continents. MICROSOFT is using new technology to support the worldwide campaign, including an automated search tool that trolls the Internet 24 hours a day, seven days a week, to identify pirate sites or illegal online offerings. This week, research on the company was accessed 2,799 times.

CISCO SYSTEMS, the world's top maker of networking gear, recently announced three strategic acquisitions. CISCO said it would buy privately held Komodo Technology for $175 million in stock. Komodo is a provider of VoIP devices that allow analog telephones to place calls over Internet-protocol networks. CISCO says the acquisition should be completed by Oct. 31, 2000. The company will also acquire NuSpeed Internet Systems for $450 million in stock. NuSpeed, also privately held, makes technology that connects storage area networks to IP networks. The acquisition is also expected to close by Oct. 31. Most recently, CISCO announced the acquisition IPmobile for $425 million in stock. IPmobile, another privately company, provides software to telecom service providers that facilitates the deployment of next-generation, IP-based wireless infrastructure – the so-called 3G networks. CISCO also expects the IPmobile acquisition to close by Oct. 31. Research on CISCO was accessed 2,980 times this week.

SBC COMMUNICATIONS recently signed a long-term contract with NOKIA (NOK), under which the Finnish telecom equipment maker will provide wireless application protocol (WAP) services on both GSM and TDMA networks for SBC Wireless customers. While NOKIA did not divulge the contract's value, it did say that it covers the deployment and integration of NOKIA's Artuse messaging platform and its MAX platform, a portal services technology, as well as a range of wireless Internet services. NOKIA's technology will enable SBC Wireless to customize and brand home pages for its wireless Internet services. This week, research on SBC COMMUNICATIONS was accessed 1,358 times.

*Companies ranked No. 1 through No. 5 in* The Internet Analyst's[SM] *Internet Industry 150. Market caps based on July 14 closing stock prices. When available, documents are the number of new documents contributed to the Multex.com database from brokerage firms during the week of July 17 to 23.*

## 12. Top Non-U.S. Picks

# An American Export Success: The Web

By Mike Robbins

Looking for foreign Internet content plays? Investors in the United States might do well to start their search right in their own backyards, according to a recent survey by Nielsen Media Research, a division of ACNIELSEN (ART), and NETRATINGS (NTRT). The survey examined Internet usage in five non-North American predominantly English-speaking nations and found that the most-popular Internet sites in those countries tended to have a decidedly American flavor.

In four of the five nations – the United Kingdom, Ireland, Australia, and Singapore (Singapore has a number of official languages, but English is increasingly the nation's common language.) – the top two sites, as ranked by number of unique users during April 2000, were msn.com, a MICROSOFT (MFST) site, and Yahoo.com, which is YAHOO!'s (YHOO) site. In the fifth country, New Zealand, msn.com was first, and Yahoo.com a close third.

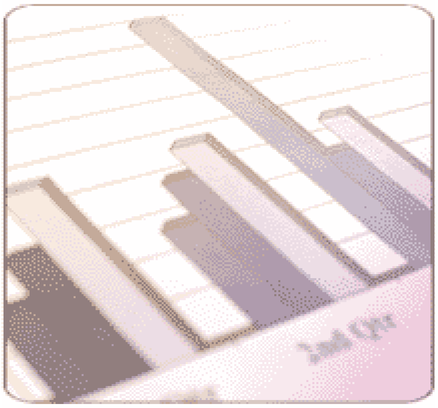
And this doesn't even tell the full story of YAHOO!'s and MICROSOFT's dominance. MICROSOFT's passport.com site makes all five Top 5 lists, and microsoft.com makes three of the five. Meanwhile, Yahoo.co.uk joins Yahoo.com on the U.K.'s top-five list, and YAHOO!'s GeoCities site makes the cut in Australia and Singapore. Two other names familiar to U.S. Internet users appear as well: In the U.K., it's excite.co.uk, which is produced by EXCITE@HOME (ATHM) and in Ireland, it's altavista.com (AltaVista's initial public offering was postponed indefinitely by its parent company CMGI (CMGI) on April 15, 2000.).

This is very good news for MICROSOFT and YAHOO!. These five countries don't contribute a great deal to their coffers at the moment, of course – combined, they have perhaps 28 million Internet users. The U.S. alone has approximately 130 million users. But success there bodes well for the future. It confirms the exportability of their Internet strategies and places them in an enviable position when these Internet markets begin to grow. One reason: Internet users in these five countries appear to be following the same pattern as U.S. Internet users – a lot of surfing around at first, and then an increasing loyalty to a smaller number of sites. So today's leaders could see increasing usage in the coming years, particularly if decentralization of phone service continues to reduce the cost of accessing the Internet worldwide.

What's essentially missing, according to the survey, are top local Internet content providers. In New Zealand, Xtra.co.nz and Xtrasite.co.nz both make the list – Xtra.co.nz actually beat out Yahoo.com for second place. And in Ireland, Eircom.net makes the top-five cut. But from an Internet investor's perspective, these success stories come with a caveat – heavy telecom baggage. The Xtra sites are owned by TELECOM CORP. OF NEW ZEALAND (NZT), New Zealand's leading telecom provider. Eircom.net is owned by EIRCOM (EIR), Ireland's leading telecom provider.

Certainly, these telecom companies should benefit from their leading Internet presence, but their Internet ventures seem likely to contribute only a small part of their bottom lines for the foreseeable future. Unless their Web ventures are spun off, they almost certainly will continue to make up small portions of large companies for some time to come. Of course, with such telecom/Internet crossover possibilities as Internet telephony, it is encouraging for TELECOM NEW ZEALAND and EIRCOM investors to see these companies on the leading edge of the Internet. But the general lesson of leading Internet content stocks in the English-speaking world seem to be to buy American.

## 13. IPO Update



### A New Web-Hosting Company Starts Slowly

By John Filar Atwood

Despite a lackluster debut by Web-hosting company INTERLAND (ILND) on July 25, prospects for the group are improving. That seems to be the word from analysts covering some of the industry's major players. The group was hit hard by the technology correction in March and April 2000, and analysts feel the depressed prices are an opportunity for bargain-hunting investors.

On June 26, for instance, Merrill Lynch's analyst Tom Watts initiated coverage of DIGEX (DIGX) with a BUY rating. He noted that the stock was down substantially from its 52-week high, but the company's fundamentals are improving. DIGEX peaked at $184 per share in March, and closed on July 31 at $63.06. Mr. Watts set a 12-month price target of $110 and predicted 100% compound annual revenue growth through 2002. On July 12, Michael Bowen of Deutsche Banc Alex. Brown raised DIGEX to STRONG BUY from BUY, citing the company's solid fundamentals. His price target price for DIGEX is $112.

EXODUS COMMUNICATIONS (EXDS) was upgraded to STRONG BUY from BUY at Chase H&Q on July 20, based on the company's "extraordinary" revenue growth in the second quarter. Chase H&Q raised its revenue estimates and now sees revenue of $810 million in 2000 and $1.8 billion in 2001. EXODUS shares hit a high of $89.81 on March 23 and closed at $44.44 on July 31.

Shares of NAVISITE (NAVI) climbed as high as $164.94 in March, but closed at $40.56 on July 31. On July 25, Merrill Lynch initiated coverage of the company with a NEAR-TERM and LONG-TERM BUY. In June, Robertson Stephens analyst Rick Juarez reiterated his BUY rating for NAVISITE, and narrowed his estimate of the company's 2000 loss to $1.37 a share from a loss of $1.53 a share.

INTERLAND is much smaller than these competitors, got off to a slow start. For the offering, the shares were priced at $12, opened at $10.75 and closed on the opening day at $8.94. INTERLAND rebounded to close at $9.50 on July 31. However, the industry is strong and INTERLAND's business is moving in the right direction – first quarter revenue improved to $6.3 million from $1 million in the same period last year.

**Recent Internet IPOs**

| Filing Date | Company | Description | Price |
|---|---|---|---|
| 7-25 | Blue Martini Software BLUE | Software for Internet business applications | $20 |
| 7-25 | Evoke Communications EVOK | Web conferencing and broadcasting | $8 |
| 7-25 | INTERLAND ILND | Web hosting for smaller businesses | $12 |
| 7-19 | Support.com SPRT | Software for online technical assistance | $14 |

## 14. Rants & Raves

*Opinion*

### A Modest Proposal

By K. C. Grainger
Grainger Beaulac Inc.

Is it possible to be negatively positive?

While the market has stayed in our price range, we still expect stocks to be choppy and volatile for the rest of the year. We think the S&P 500 has a solid shot at 1600 and that the Nasdaq could reach 4400 to 4600, as well. The Federal Reserve has done enough to cool down the economy. Further aggressive tightening could spell disaster for the economy and Alan Greenspan knows it. A recession would have devastating effects.

As for the Internets, the overhead supply of stock will be there for quite a while. But that doesn't mean that many Internets are not buying opportunities right now or will be later. Bob Morrow's analysis indicates that less than 10% of the Internet stocks show any signs of sustainable strength. They are trading vehicles for now. Even the Internet stocks that do show strength will probably be sells later this year. Bob and I expect a lower bottom for the majority of the Internet stocks later this year. The Fed's actions have killed any chance for a strong run-up in prices.

But for the overall market, Bob expects another good rally. His system generates market buys or sells on an average of every three weeks. But for readers of *The Internet Analyst*$^{SM}$, we're trying to indicate major buy and sell signals. A good, solid buying opportunity for the Internet sector should emerge in the fall.

But I have something else on my mind. A grave injustice is being done to the typical American investor. I have suggested to congressmen and to others that average Americans are at a severe disadvantage when trading for their account. Today, the stock market is marked by extreme volatility – fast and furious price moves are the norm. Investors in some countries can take advantage of the volatility and reap enormous trading profits with no tax consequences whatsoever. Unfortunately, by and large, they aren't American – or Canadian.

An American taking a short-term profit, pays an onerous short-term capital gains tax. Investors in many European and Asian countries, on the other hand, move in and out of the markets, taking profits with no tax consequences whatsoever. The average American, naturally reluctant to take profits, is left watching. The situation is unfair because selling opportunities occur only rarely in this day and age. Some highs may not be seen again for a long, long time.

I suggest that every individual be given $100,000 in tax-free capital gains on any item – stocks, bonds, commodities, real estate, a business, collectibles, even a horse – every five years. That's right, $100,000 in tax-free capital gains for each five-year period. I'm in the process of formulating the details of this suggestion. You'll be able to read all about it here. I will need the help of other Americans in this quest for fairness. Why should Americans – and Canadians – have to take a back seat in profit potential to the rest of the world? It's downright un-American-and un-Canadian as well. – *With Robert S. Morrow, Robert S. Morrow Institutional Advisory Services*

## *Letters to the Editor*

## Not Sold on the Sell Report

**wbaines writes:** Aram Fuchs drags down the quality of *The Internet Analyst*SM by pretending to be expert about everything from retailing to cellular to credit card companies. He seems to be mainly an expert at getting his name all over the Web. If he found a stock certificate on his windshield, he'd try to pay it.

*wbaines: Thank you for sharing your opinion. I was goaded into running your screed by my colleagues, who were, I think, amused by its coarse tone. For my part, I enjoy Mr. Fuchs' columns and can point to several in which his reasoning in* The Sell Report *was well ahead of the curve – CMGI (CMGI), The Internet Analyst, April 20, 2000; EBAY (EBAY),* May 4 *and this issue; and NBC INTERNET (NBCI),* May 25 *– to name just a few. Furthermore, it's awfully easy to send an anonymous e-mail criticizing someone; it's like those "unnamed sources" to which many newspapers – even reputable ones – are addicted. But if you want us to take you seriously, then sign your name when you send your thoughts. – James C. Condon*

## Convergence Suggestions

**Louis writes:** I submitted WORLDGATE COMMUNICATIONS for your Convergence Index and a day later I was notified that I would receive a "Multex Clock" to thank me for my submission. I have not followed through on making arrangements for my clock. However, in looking at your Convergence Index, I noticed WORLDGATE is not included. Please let me know whether the company will be included in the index. And, can I still claim my clock?

*Louis: Thanks for writing. I have not had a chance to research WORLDGATE, so I still don't know if it will go in the Convergence Index. I know that the $485-million market cap company is involved in providing Internet access over cable, but I have received so many nominations for the index that it is taking me a while to research all of the suggestions as rigorously as I would like. About the clock, of course you deserve a clock for submitting an idea. I have forwarded your e-mail to our production coordinator who will make sure you receive one. – Lauren Keyson*

**Philip Timon writes:** How about CSG SYSTEMS (CSGS)? The $2.7-billion market cap company provides billing and support software and outsourced services to cable companies, ISPs, direct broadcast satellite companies and telecoms.

*Mr. Timon: Thank you for your interesting suggestion. For the time being we'll keep an eye on CGS, but we don't feel it meets enough of the convergence criteria to warrant inclusion in the index. – J.C.C.*

**Ross Reller writes:** You state in your article on convergence that GEMSTAR-TV GUIDE INTERNATIONAL (GMST) lacks an Internet presence. While you are correct that GEMSTAR, with a market capitalization of $23 billion, lacks a Web site, they now have control of TV Guide's Web site which has the potential to be one of the stickiest sites once marketed aggressively. Further, you may be underestimating the e-book patents owned by GEMSTAR and the company's ability to leverage those intellectual property rights.

**Jack DuBrian writes:** Hello? (Just kidding!) GEMSTAR acquired TV Guide, which recently announced an agreement with ICTV, a maker of head-end equipment that gives cable operators the ability to deliver broadband Internet content, e-mail and interactive TV to digital set-top boxes. What do you say, is GEMSTAR worth another look?

Mr. Reller and Mr. DuBrain: The Internet Analyst capitulates. GEMSTAR was added to the Convergence Index on July 27. (And, we acknowledge and appreciate your sense of humor, Mr. DuBrain.) – J.C.C.

**Julie Rosow writes:** I am surprised not to see INFOSPACE (INSP) in your Convergence Index. I believe this leading supplier of online content – $7.7 billion market cap – fits the bill.

*Ms. Rosow: Thank you for your suggestion. INFOSPACE was added to the Convergence Index this week. – J.C.C.*

**Ann Branning writes:** How about JFAX (JFAX), a player in the communications/wireless industry by allowing users to send and receive e-mail, faxes, voice mail – and soon conference calls – all through an e-mail account. The $80-million market cap company is changing its name to J2 Global Communications.

*Ms. Branning: Thank you for your thoughtful suggestion. We agree that JFAX is an interesting company that includes some elements of convergence, but for the time being we don't feel it integrates enough of the convergence criteria to warrant inclusion in the index. – J.C.C.*

**Dorothy Yagodich writes:** My suggestion is MANGOSOFT (MNGX). The $260-million market cap company's CacheLink product speeds delivery of Internet or intranet content to small business or workgroups by caching frequently viewed Web pages for rapid retrieval by any system connected to the LAN.

*Ms. Yagodich: We appreciate your interesting suggestion. We were tempted to include the company just for its name, but for now MANGOSOFT does not cover enough convergence elements to be included in the index. – J.C.C.*

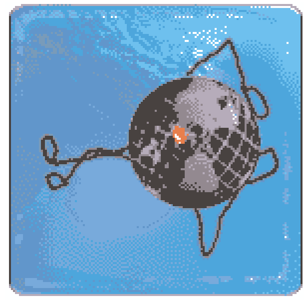
**Lee Hill writes:** I think MPHASE TECHNOLOGIES (XDSL) may be a good bet for your index. Its Traverser technology enables telcos to deliver broadband Internet, digital television and standard voice service over existing copper telephone wires.

*Mr. Hill: We checked out MPHASE, a $218 billion market cap company based in Norwalk, Conn. The company's technology sounds interesting. However, we feel that MPHASE does not yet incorporate enough of the elements of convergence to be included in the index. Thank you for the suggestion. – J.C.C.*

**Fernando Pardo writes:** I propose my employer, TIVO (TIVO), as a candidate for your Convergence Index. TIVO, an $822-billion million market cap company, has a presence in hardware and software through its set-top box, which allows users to manage to record TV programming on a hard drive. TIVO collaborates with its media partners, including NBC, WALT DISNEY (DIS) and the Discovery Channel to enhance their offerings. When broadband becomes widely available, TIVO intends to be a video-on-demand enabler.

*Mr. Pardo: Thank you for your suggestion. We added TIVO to the Convergence Index on July 20, 2000. – J.C.C.*

**ABOUT**
***THE INTERNET ANALYST$^{SM}$***



*The Internet Analyst$^{SM}$* is an on-line publication focused on exclusive financial data and information on Internet companies and executives, reaching over 980,000 registered subscribers each week.

To subscribe, send an e-mail to tia@multex.com with SUBSCRIBE in the subject line, and include your name in the body of the message. Also specify whether you would like the Professional Edition (for institutional money managers) or the Individual Investor Edition (for serious investors).

Individual Investor Edition:
http://www.theinternetanalyst.com/individual/000803sections/strongbuys.asp
Professional Edition (must have Multexnet log-in password):
http://www.theinternetanalyst.com/professional/000803sections/strongbuys.asp

*The Internet Analyst$^{SM}$* Magazine by Multex.com
Publisher: Lauren Keyson
Publishing Assoc.: Eric Lopkin
Managing Editor: James C. Condon
Senior Editor: Paul DeMartino
Production Manager: Mitch Burkhardt
Web Designer: Robin Barrett
Senior Production Associate: Rika Marubashi
Customer Service: David Allikas

Comments and Information send an e-mail to tia@multex.com.
*The Internet Analyst$^{SM}$*, Multex.com, 33 Maiden Lane, New York, NY 10038
To advertise in TIA, please call at 212-859-9962 or email at advertise@multex.com.
Reprints now available.
Send e-mail to LKeyson@multex.com requesting a price sheet.