



## 1. Strong Buys



### Yahoo! Is Bloodied but Unbowed by the Online Ad Slowdown

By Paul DeMartino

The Internet Analyst<sup>SM</sup> 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.

**ASPECT COMMUNICATIONS (ASPT):** C.E. Unterberg, Towbin initiated coverage of ASPECT on Sept. 6 with a STRONG BUY. The company provides software that helps e-businesses to interact with their customers. The 19-page report is full of details, but the investment thesis seems to boil down to the rapid growth of the electronic customer-relations management [e-CRM] market and ASPECT's share of that market (fourth largest, according to the firm). In addition, the shares seem to be undervalued on a relative valuation basis; Unterberg Towbin estimates that ASPECT should command a higher premium using a price-to-sales metric relative to its competitors. (ASPECT shares plunged 54% to close at \$20 on July 11, 2000

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after the company said it would not meet Wall Street's earnings expectations for the second quarter.) Unterberg Towbin projects earnings of \$0.16 a share in 2000 and \$0.75 a share in 2001. Its 12-month price target is \$35. ASPECT shares closed at \$23 on Sept. 11. During the week of Aug. 28 to Sept. 3, research on ASPECT was downloaded 200 times and 11 new reports added to the Multex.com database.

**CLARENT (CLRN):** On Sept. 7, U.S. Bancorp Piper Jaffray reiterated its STRONG BUY rating on the shares of CLARENT.

CLARENT recently closed its acquisition of ACT NETWORKS (ANET), issuing 4.4 million shares to complete the takeover, which was valued at \$142 million. Piper Jaffray updated its financial figures to reflect the acquisition. The firm, a co-manager of CLARENT's July 1999 IPO, now expects CLARENT to lose \$0.07 a share in 2000; it had been forecasting earnings of \$0.06 a share. The change is the result of acquisition-related costs and the dilutive effect of the new shares. In 2001, the brokerage expects earnings of \$0.12 a share, down slightly from its earlier forecast of earnings of \$0.13 a share. Piper Jaffray expects the acquisition to begin adding to earnings in the third quarter of 2001, saying that CLARENT's IP-telephony business will be enhanced by the addition of ACT, particularly in Latin America. The firm set a 12-month price target of \$115 a share, based on a price-to-sales relative valuation. CLARENT closed at \$43.75 on Sept. 11. Research on CLARENT was accessed 276 times during the week of Aug. 28 to Sept. 7, and 11 new reports were added to the Multex.com

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database.

**YAHOO! (YHOO):** On Sept. 7, Thomas Weisel Partners reiterated its STRONG BUY on Internet portal YAHOO! The report was largely a reaction to comments made the day before by Tim Koogle, YAHOO!'s chairman and chief executive officer, who admitted that the online advertising business is undergoing a "period of consolidation." YAHOO!'s CEO believes that the consolidation will be most visible over the next couple of quarters. The acknowledgment of advertising weakness was enough to send YAHOO!'s shares down 4.3% the day of the speech, but perhaps a little history is in order. Back on Aug. 28, a Lehman Brothers report suggested that YAHOO! is facing a much tougher advertising climate, and that its third quarter was unlikely to be as strong as the banner second quarter. A few days later, The Wall Street Journal painted the softness in YAHOO!'s advertising as a watershed event. "Where AMAZON.COM's (AMZN) fall from grace symbolized the failure of the Web-retailing promise," wrote The Journal, "concerns about YAHOO! speak to the failed promise of Web-based advertising."

Thomas Weisel takes a different point of view. First, the firm reminds investors that ad-spending growth is slowing, but it is still growing. Furthermore, the firm says that "YAHOO! has huge scale, high operating margins and interesting new sources of revenue," which should allow the company to emerge from the consolidation phase in an even stronger leadership position. The firm also likes YAHOO!'s integrated advertising program, which, it says, is winning new Fortune 50 accounts. YAHOO! closed at \$106.31 on Sept. 11, down 21% since the negative Lehman report was issued. In the near term, weakness may continue, according to Thomas Wiesel, but YAHOO!'s long-term prospects remain bright. The firm sees revenue rising 6% sequentially to \$279.1 million in the third quarter and expects earnings of \$0.10 a share. For full-year 2000, Thomas Weisel is forecasting earnings of \$0.43 a share, rising to \$0.61 a share in 2001. Research on YAHOO! was accessed 2,870 times during the week of Aug. 28 to Sept. 7, and 85 new reports were contributed to the Multex.com database.

*This week, [The Sell Report](#) focuses on the leaner times at online ad company AVENUE A (AVEA), and [Top Non-U.S. Picks](#) looks at the uncertain outlook in the international Internet advertising market.*

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## 2. The Sell Report

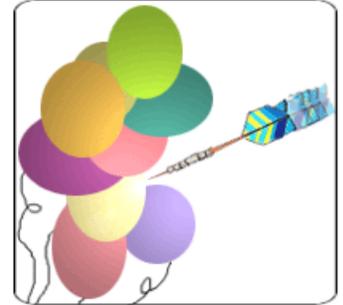
### Avenue A Spinning Down a Risky Street

By Aram Fuchs

"We have seen a cutback in spending among some dot-com clients as they've adjusted to these [new market] conditions,"

said Brian P. McAndrews, CEO of AVENUE A ([AVEA](#)), a technology-based provider of Internet advertising services, in his July 25, 2000 second-quarter conference call. "However," he added, "we continue to see more and more companies advertising online including more and more traditional clicks-and-mortar companies. We expect these trends to continue to some degree into the third quarter, resulting in continued growth tempered by some continued dot-com spending constraints."

After hearing this, a rational investor might expect that the third quarter would certainly show revenue growth from the \$52.4 million the company booked in the second quarter, albeit at a



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slower rate than in previous quarters.

That is why I was positively amazed when I read the announcement on Sept. 6 that AVENUE A expects revenue in the third quarter to be in the low to mid-\$40 million range, which by my calculator is around 20% lower than second-quarter revenue. The company then inexplicably bragged that, because of new contracts, it expected fourth quarter revenue to grow to the mid-to high-\$50-million range. The market, filled with amnesiac day-traders and momentum players, and evidently not with students of history, responded by bidding the stock up close to 5%. The shares closed at \$7.63 on Sept. 8. They have traded at high as \$89 on Feb. 29 and as low as \$6.31 on July 7.

These bulls are missing two important points:

- Management implied that there would be revenue growth in the third quarter and did not deliver. Therefore, the latest projections should not be trusted blindly.
- Even if revenue growth does come through, the number will only be a few percentage points higher than the second-quarter number. Yet the company is still being valued – at 2-times revenue – like a company that will show explosive revenue growth, leading to eventual earnings.

If AVENUE A can only manage single-digit revenue growth from the June quarter to the holiday period, management will have to cut costs substantially to reach breakeven. Clearly, to Fertilemind.net, this company should be valued more for its assets than its potential growth. When management's projections are as trustworthy as a politician's promise, we think investors should vote by selling their shares.

*[This week's Top Non-U.S. Picks](#) column looks at the outlook for the international Internet advertising market. For a review of the second-quarter results of leading Internet advertising company DOUBLECLICK ([DCLK](#)), please see [The Sell Report, The Internet Analyst, July 27, 2000](#).*

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

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

### 3. The Independent View



## Don't Forget About Customer Service

By Greg A. Kyle  
President and CEO of Pegasus Research

"E-commerce will be a \$1.3-trillion business within four years."

That phrase has been used over and over by Internet companies to justify spending tens and in some cases hundreds of millions of dollars in the race to reach new customers and capture market share – all at the expense of profitability. It's no wonder that people equate dot-com with dot-losses.

However, lost in the rhetoric of these "the Internet will never make money" stories is an often overlooked footnote. It's possible to use the Internet to improve margins and generate profits. Where? Savvy companies are plugging the Internet into their entire business process, from supply-chain management to the end user and customer service. It's just not as obvious at first glance, but the cost savings are there.

One example is in the area of customer service. It's no secret, that some companies put more emphasis on attracting new customers than retaining current customers. Yet, the cost of selling to new customers can be six-times the cost of selling to existing customers. How does the Web play into this? Consider the cost of a typical customer service call to a call center. In the U.S. it can cost from \$5 to \$30 a call to a live operator, and there is no guarantee on the quality of the customer service. Granted, an automated system can drive the cost down to \$0.50 to \$1.50 a call, but customers are often frustrating trying to navigate through a plethora of menus – sometimes ending up in the wrong area with no way out. By comparison, a Web-based solution costs from \$0.02 to \$2.00 a call and properly structured, can not only provide the customer with more accurate information, but can do it more quickly and with more personalization than an automated system or, in some cases, a live operator.

There are several ways that a Web-based customer service initiative can be structured. The first and most basic way is to provide a FAQ, or frequently asked questions, page that is easily accessible on the Web and allows visitors to quickly find answers to common questions. Taking customer service one step further, companies are adding a searchable knowledge database to their Web sites. Customers can type in questions – often in normal language or syntax – and have their questions answered. Many sites including MICROSOFT ([MSFT](#)), DELL COMPUTER ([DELL](#)) and TOSHIBA ([TOSBF](#)) are using ASK JEEVES ([ASKJ](#)) as a virtual butler to find answers to customers ques-

tions. Other companies are allowing customers instant access to their accounts to check order status or account balances. Good examples of this are online banking and FEDEX's ([FDX](#)) parcel tracking system. A new method that is in development is providing interactive integration through a combination of a Web-based system with Internet telephony support for complex service requirements.



Another benefit of a Web-based customer service system is the ability to track the customer's path and build a customer profile that can be automatically be fed into a database and used for targeted marketing and sales. In the end, customer service is about empowering the customer and building relationships. And although lip service is given to customer service, customers – and profits – are often forgotten after the sale. Yet, it is customer service that ultimately will lead to greater sales and higher profits. Some companies are finally beginning to understand this.

[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.*

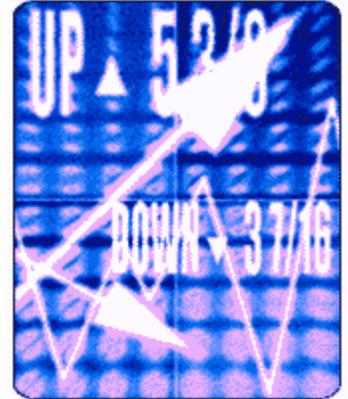
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## 4. Upgrades & Downgrades

### More Carnage in the E-Builders Sector

By Shannon Swingle



#### AMERITRADE HOLDING

**(AMTD):** On Sept. 6, Credit Suisse First Boston upgraded the shares of online broker AMERITRADE to BUY from HOLD, marking the first time in two years the firm has had a BUY rating on the stock. Credit Suisse believes the shares are inexpensive. At current levels AMERITRADE is valued at \$2,600 per account, down from a peak of \$25,000 per account in April 1999. By contrast, CHARLES SCHWAB ([SCH](#)) trades at \$6,825 per account. Credit Suisse also favors AMERITRADE's business model, saying that it and E\*TRADE ([EGRP](#)), which also was upgraded to BUY from HOLD, target the active, independent individual investor via the Internet. AMERITRADE is "creating tremendous value for shareholders with each dollar it spends on marketing," according to Credit Suisse, by keeping account acquisition costs low and investment return per account at 80%. The firm also believes AMERITRADE's attractive fundamentals could make it a takeover target. Credit Suisse estimates a loss of \$0.09 a share in fiscal 2000, which ends in September. For fiscal 2001, the firm expects earnings of \$0.86 a share. AMERITRADE shares closed at \$19.13 on Sept. 11. Research about AMERITRADE was accessed 638 times, and 18 new documents were added to the Multex.com database during the week of Aug. 28 to Sept. 3.

**NETOPIA (NTPA):** Jefferies & Company downgraded its rating on the shares of NETOPIA, a provider of Internet and e-commerce infrastructure, to ACCUMULATE from BUY on Sept. 6. The firm believes that, based on shipping patterns during the current quarter, the company will not meet revenue expectations. In addition, Jefferies said investors are concerned about several of NETOPIA's major customers' abilities to finance their own growth, citing COVAD COMMUNICATIONS ([COVD](#)), which accounts for 24% of NETOPIA's revenue; NORTHPOINT COMMUNICATIONS ([NPNT](#)), which accounts for 10%; and RHYTHMS NETCONNECTIONS ([RHTM](#)). Potential inventory adjustments at these companies could cut near-term revenue at NETOPIA, according to Jefferies. The firm expects earnings of \$0.34 a share on revenue of \$99.1 million in fiscal 2000, which ends in September. For fiscal 2001 Jefferies forecasts earnings of \$0.75 a share on revenue of \$190 million. NETOPIA closed at \$23.38 on Sept. 11.

**IXL ENTERPRISES (IXL):** this leading Web development

company was cut to NEUTRAL from STRONG BUY-AGGRESSIVE by Dain Rauscher Wessels on Sept. 5. IXL warned investors late on Sept 1 – the day before the start of the long Labor Day weekend – that revenue would fall significantly short of Wall Street's expectations and that it would report a loss for the quarter. In addition, William C. Nussey, the company's chief executive officer, resigned – for "internal execution issues," according to the brokerage. Chairman U. Bertram Ellis Jr. will take over as CEO for the near term. Based on the company's announcement, Dain Rauscher figures that third-quarter revenue will be \$95 million to \$100 million rather than the consensus range of \$120 million to \$130 million. The firm's bottom-line projections are under review, but it noted that IXL added 400 net new consultants in the second quarter, "well in excess of Street estimates." Dain Rauscher suspects that profitability will be "negatively impacted for the next quarter or two." [The company later announced on Sept. 7 that it would layoff 350 people, resulting in an unspecified charge in the third quarter.] The shares hit a new record low of \$5.94 on Sept. 11, before closing at \$6.06. Research about IIXL was accessed 739 times, and 35 new documents were added to the Multex.com database during the week of Aug. 28 to Sept. 3.

**INTEGRATED INFORMATION SYSTEMS (IISX):** In a Sept. 5 report on the e-services industry, U.S. Bancorp Piper Jaffray recounts the undoing of this market segment after industry leader VIANT (VIAN) announced its third-quarter shortfall. The firm believes that the carnage in the sector was a result of "general market malaise" rather than a problem specific to VIANT. Piper Jaffray believes that long-term growth rates are

falling and that a "consolidation wave" will overtake second-tier companies. The firm downgraded INTEGRATED INFORMATION SYSTEMS because of its exposure to vulnerable dot-com companies and lowered its revenue projections to \$17.5 million from \$18.5 million. Piper Jaffray, a co-manager of INTEGRATED INFORMATION's March 2000 IPO, will maintain its EPS estimates for now, although an adjustment to its 2001 estimates is likely in the near future. INTEGRATED INFORMATION closed at \$5.50 on Sept. 11. Piper Jaffray added a cautionary footnote to the report. "If clients have slowed spending on the consultants who make hardware, software and equipment recommendations," asked the firm, "does this affect the suppliers of those products?"

## 5. Keyson's Hot Lunch

*Part II: Jitterbug, No E-Mail*

**El St. John, Founder and CEO, and Tony Abner, Executive Vice President of Business Development, SilverTech**



Interviewed by Lauren Keyson

My conversation with the SilverTech executives El St. John (founder and CEO) and Tony Abner (executive vice president of business development) continued at Michael Jordan's The Steakhouse in New York.

[LAUREN KEYSON] What kind of people do you hire at your company?

[EL ST. JOHN] Engineers, product managers, creative people and animators.

[LK] Do they have to love kids?

[ESJ] They have to love doing this for kids.

[TONY ABNER] They have to still be a kid. We have a bunch of folks with arrested development.

[LK] What kid stuff do you still do?

[TA] I skateboard almost every day. I rollerblade a lot. I still surf. I have a brand new baby, too, so there's all sorts of little kid stuff I do with her.

### Insider Trading Clues



## A Buy With a View

Craig Columbus  
President, insiderSCORES.com

James Phillips, chairman and chief executive officer of INTERNET PICTURES (IPIX), took advantage of the company's low stock price, by purchasing 10,000 shares on Aug. 3 at \$8.38 a share. The company, which provides Web sites with the ability to showcase panoramic photos with a 360-degree view, was trading at its 52-week low at the time of the buy.

The purchase represents the second insider buy since the company went public in August 1999. After hitting a record high of \$46.25 in March, the stock has fallen and touched a record low of \$6.25 on Aug. 29. The stock closed on Sept. 8 at \$8.31. – *Eric Lopkin*

[LK] Do you skateboard, El?

[ESJ] I use a scooter. I still dance. I can still jitterbug. And I play with kids. I love to play with kids.

[LK] How many people are employed at your company?

[ESJ] Right now, about 58. We'll have about 35 more by September.

[LK] Do you think you'll go public at some point?

[ESJ] Probably, but we may go public in Europe first.

[LK] How important is it to your business that you went global right off?

[ESJ] It's important to every business. I think it's vital for the health of the business.

[LK] Where's your biggest global market, outside the U.S.?

[ESJ] Asia is very big. The United States is biggest, but Asia is big. Relative to how many kids they have, more Japanese and Korean children register than anywhere else. The United Kingdom, Italy, Germany, and France are also big.

[LK] And they can feel totally safe because it's all encrypted.

[ESJ] Absolutely, which is what they're after. In foreign countries, they're much more interested in encryption than they are here.

[TA] Also we've aggregated the content and our editors have pre-screened it, so there's nothing inappropriate. It's confidential because of the encryption, so others can't read your e-mail or see your chats or see what you're doing.

[LK] You have to be a kid to use SilverTech?

[ESJ] You have to be a kid to use e-kids. SilverTech has other vertical models, which we use for finance and keeping your credit cards safe so you can buy things without anybody seeing your credit card number.

[LK] How does that work?

[ESJ] We authenticate. If you buy something at AMAZON.COM ([AMZN](#)), we'll authenticate for you and AMAZON doesn't have to see your card's number. Nobody does.

[LK] How did you come up with that?

[ESJ] The market is really begging for privacy, believe it or not. When they're not pushing the AMERICAN EXPRESS ([AXP](#)) button or the Visa button, it means they're afraid. And they should be.

[LK] So you basically have multiple products. One for kids called ekidsinternet.com. What do they see on the site?

[TA] They see a demo and can register to have a disk sent to them.

[LK] What are the other products?

[ESJ] E-lawyer, e-medical, e-university, and e-financial.

[LK] What do they do?

[ESJ] They all do the same thing. E-financial keeps your credit cards and your bank statements safe. E-lawyer allows you to work on the Internet with your attorney, such as arbitration and mediation.

[LK] Right on the Internet?

[ESJ] Not really on the Internet. On our private Internet.

[LK] And it's totally confidential?

[ESJ] Totally.

[LK] I would be nervous about that.

[ESJ] That's the idea. You should be nervous about doing it over the Internet. But if you are your own ISP and have your own encryption, then you're OK.

[TA] Lawyers are sending documents back and forth through e-mail all the time.

[LK] Who are your direct competitors?

[TA] In different spaces, we face different companies.

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

[ESJ] I don't do e-mail.

[LK] Really? How do you get away with that?

[ESJ] It's difficult. I write letters, but I don't send them through the Internet. I don't think it's safe. I want to make sure that CEO-level information is kept private. People send me e-mail, but I

don't reply.

[LK] Do you use a fax machine?

[ESJ] Sometimes.

[LK] Do you advise people not to use e-mail?

[ESJ] No, I do not.

[LK] Do you advise people not to give away their credit card numbers?

[ESJ] I don't advise people. I just see what people want, and I'm trying to help them out.

[LK] Do you buy things off the Web?

[ESJ] Never. Not unless my credit card is in a vault.

[TA] I do.

[LK] What do you buy?

[TA] Music, books, airline tickets.

[LK] Have you had any problems?

[TA] I had a problem with my real-life, old-fashioned paper checking account. Someone I had written a check to started making deposits to my account and cashing the deposits. They would write a bogus check, as if they were me, and cash the check against my account. They would walk out with cash, the check would bounce and they would debit my account.

### Other articles in Keyson's Hot Lunch:

[September 7](#) [Part I: A Place Where Kids Can Be Kids](#)-El St. John, Founder and CEO, and Tony Abner, Executive Vice President of Business Development, SilverTech

[August 31](#) [The Sizzle . . . and the Steak](#)-Charles Payne, Founder, CEO, and Chief Analyst, Wall Street Strategies

[August 24](#) [Auctioning Getaways to World Weary Web Surfers](#)-Pamela Bergeson, Founder and President, Bid4Vacations.com

[August 17](#) [Part II: The Competition and The Plan](#)-Brian Carlton Byrd, President and CEO of CEIG

## 6. Executives Zero In

*Travelocity.com*

### Ramesh Punwani, Chief Financial Officer

Interviewed by George S. Mack



Here's a travel agency that's thoroughly happy to let you be your own travel agent. At TRAVELOCITY.COM ([TVLY](#)), you have access to more than 400 airlines, 47,000 hotels, 50 rental car companies, 1,800 vacation packages and more than 3,200 cruise departures. Through mergers and organic growth, the Fort Worth, Texas-based company has captured 21 million registered members who have brought in enough online dollars to make it not only the leading online travel service company, but the third largest e-commerce site behind AMAZON.COM ([AMZN](#)) and EBAY ([EBAY](#)). For the first six months of this year, TRAVELOCITY had gross bookings of \$1.1 billion, which is nearly as much as it did in all of 1999. Second-quarter revenue grew more than 140% to \$46.8 million from \$19.2 million in the same quarter of 1999. The company is a 70%-owned subsidiary of SABRE HOLDINGS ([TSG](#)), the world's largest computerized travel reservation system for travel agents and other large transportation buyers. At its close of \$13.63 on Sept. 8, TRAVELOCITY is down 69% from the close on its first day of trading on March 8, 2000.

[THE INTERNET ANALYST – GEORGE S. MACK] Your merger with Preview Travel closed this past March. What does that bring to the table?

[RAMESH PUNWANI] Preview Travel was strong primarily in travel information. It had very good tour and cruise products, while TRAVELOCITY had superior technology and terrific supplier relations. Put together, we've formed an even stronger organization.

[GSM] How many of Preview's customers have been retained?

[RP] I don't know that I have an exact number, but there was a small amount of attrition that took place when we merged the membership, but it was within our expectation.

[GSM] There's some confusion over your market cap and how many shares you have outstanding.

[RP] We have approximately 16 million common shares outstanding, and SABRE owns 1 million of that 16 million. But in

addition to that 16 million, SABRE owns 33 million preferred shares. Now, they all have the same voting rights. But SABRE's 70% ownership comes through the 33 million preferred and 1 million common shares. We're going to re-classify that preferred stock as another class of common stock, because one of the questions you're going to ask me is what is our market cap.

[GSM] That's right. What's the correct number of shares that should be used as outstanding stock to compute the market cap?

[RP] The correct number is 49.4 million shares. Multiply that times the share price.

[GSM] Investors would like to know if SABRE plans to spin out TRAVELOCITY completely?

[RP] I don't know if they will spin out the company. The only reason SABRE set up the structure that we have now is because it wanted the ability to do that. I can't speak for SABRE and give you any feel for whether it intends to do it now or next year or two years down the road. But it is an option the company wanted available.

[GSM] Why has your stock been punished so severely over the past year? Was it the dot-com bloodbath that took you down?

[RP] I would attribute it primarily to that. I know there is some disillusionment about B2C companies, cash-burn rates and dot-coms not being able to make it to profitability. TRAVELOCITY, on the other hand, has publicly indicated that we expect to be cash profitable by the end of year 2001, and there are eight Wall Street firms that basically concur with us. We've also said that the \$69 million of cash and marketable securities on the books at the end of the second quarter would be sufficient to last us until profitability. Therefore, there is no need for us to go back to the capital markets.

[GSM] How much cash are you burning per month?

[RP] I won't give you a monthly number, but I will tell you that in the second quarter of this year, we had a negative EBITDA [earnings before interest, taxes, depreciation and amortization, which is shorthand for cash flow] of \$11 million. We also had \$4 million in capital expenditures, and all other cash items were a net wash. So our cash went down by \$15 million. Our negative EBITDA in the first quarter was \$15 million, and in the second quarter it was \$11 million, and we expect that number to continue declining.

[GSM] I keep hearing that the airlines are squeezing travel agents on commissions.

[RP] Airline commissions have been coming down, but they've

been fairly stable in the recent past. I suspect that's the case because the airlines do realize that we're probably the least expensive forms of distribution available to them. I don't see the commission rates coming down any more, but there's no guarantee that they won't. If commissions are cut further, we have some options available. One, we could start charging a small booking fee to the customer, since we don't charge anything today. The traditional travel agent charges you as much as \$20 a ticket, so we could do that. Or we could go to a commissionless structure whereby the airlines give us what's called a "net fare," and then we mark it up as we please and compete with the other airline tariffs.

[GSM] What about Orbitz, the online travel portal being put together jointly by the airlines?

[RP] Our main issue with Orbitz is that we don't believe it should be able to have exclusive fares at the expense of other distribution channels. If Orbitz gets clearance from the Justice Department and enters the marketplace where today only 4% to 6% of the market has been captured by online travel, then we would welcome another competitor. That would probably stimulate the online market and cause us to get to 10% of the total market sooner. Orbitz does have a couple of handicaps. First, it has to get past Washington. Second, it doesn't have any organization as yet. And then it has no members. We have 21 million members. People ask us what we're going to do about Orbitz. But the real question is, what is Orbitz going to do about us?

[On Sept. 8, Orbitz announced that it would push back its launch to next June in order to expand its offerings and build-up its customer service center. The site had intended to be available to the public this fall.]

[GSM] What is the size of your addressable market?

[RP] Roughly 70% of air travel today is done through bricks-and-mortar travel agents. Online or e-travel today is only 4% to 6% of the total travel market, which for air alone is \$220 billion. The online market size is expected to grow to 15% of the total travel market by 2005. Another statistic you should be aware of is that out of every 100 people that come to visit us, only 7% book on our site. You can see the enormous potential for us with improved tools and technology and other ways in which we can convince the looker to become a booker. There is tremendous upside for us.

[GSM] Can you get 10% of the market as a single company?

[RP] I think that's not unreasonable.

To advertise in  
*The Internet  
Analyst*<sup>SM</sup>,  
[click here](#)

### Vital Statistics Travelocity.com (TVLY)

<b>Market Cap</b>	\$673.1 million	
<b>Shares Outstanding</b>	49.4 million	
<b>Recent Stock Price</b>	\$13.63 (9/8/00)	
<b>52-Week Range</b>	\$51.87 – \$10.37	
<b>Price to Est. 2000 Revenue</b>	3.5-times	
<b>Price to Est. 2001 Revenue</b>	2.1-times	
	<b>EPS</b>	<b>Revenue (millions)</b>
<b>1999A</b>	(\$1.04)	\$90.9
<b>2000E</b>	(\$1.09)	\$199.0
<b>2001E</b>	(\$0.42)	\$325.2

Source: Robertson Stephens

### Other articles in Executives Zero In:

[September 7](#) [fashionmall.com](#)-Benjamin Narasin,  
Founder, Chairman, CEO and President

[August 31](#) [About Inc.](#)-Scott P. Kurnit, Founder, Chairman  
and CEO

[August 24](#) [Homestore.com](#)-Stuart H. Wolff, Ph.D.,  
Chairman and CEO

[August 17](#) [D.R. Grimes, Vice Chairman and CEO.](#)  
[Net.B@nk](#)

## 7. The Convergence Industry

### From Russia, With Love

By Lauren Keyson

Port.ru, the first Russian horizontal portal and its largest, is a good example of convergence in action. When the 1,700-foot Ostankino tower – which was responsible for broadcasting almost all of the TV programming in and around Moscow – was knocked out by a

fire, Russians turned to News.Port.ru for information. Because of the outage, the portal saw its user traffic double.

When normal media channels failed, Port.ru created a resource with information about Ostankino and the television outages. In fact, some Moscow stations are still producing programs on the site. Those stations' die-hard viewers are coming to Port.ru to "watch" their favorite programs. Bandwidth is too scarce in most

of Russia to offer streaming video on the Internet, so the "broadcasts" are more of the photo-and-text variety.

Eugene Goland, the founder, chairman and chief executive officer of Port.ru, spoke with me about the progress of the convergence of media, computers and the Internet in Russia. A computer science graduate from New York University, Mr. Goland originally founded Advanced Network Consulting, a provider of local area network consulting. He went on to develop DataArt Enterprises, a technology-consulting company focused on the Internet. His understanding of Russian and American culture has helped him to successfully operate Port.ru, which is based in both Russia and the United States.

"The Internet brings up much more than conventional media," says Mr. Goland. "By using the Internet, media can explore new possibilities."

I asked him whether the Internet was a better news source than conventional outlets for Russians, since the government of President Vladimir Putin has fostered such mixed relations with the media. "Traditionally, the Russian government has heavily controlled the media sources," he responded. "But the Internet is the one entity that they physically cannot control. It is only possible to efficiently control the Internet in very small countries, like Singapore. In Russia, it's impossible. It's a technical limitation."

I told him that the U.S. is seeing a convergence of telecommunications, the Internet, media and computers, and I wondered if he saw that kind of synergy occurring in Russia. "Yes of course," he said. "It's quite natural for these technologies to be merged. Actually, by nature it's a single technological event. Right now, it's segmented into various technological terms that are actually just different interfaces to the same thing. But the nature of the technologies is the same. It's the nature of how technologies are being exchanged in a society."

Mr. Goland feels that there have been four levels of improvement in the exchange of information. First, people learned to speak. Next, they learned to write. Then they learned to paint. Now they are learning how to "Internet." In every stage, there is a new quality of change in terms of how information is transferred. So, I asked him what stage of development Russia had reached.

"Good question!" he roared. "I'd say Russian Internet is about two years behind the U.S. But it's going through the same phases, and I think it's going to catch up. In couple of years the difference will be much smaller."

Mr. Goland believes that voice and data will eventually merge in Russia. "It's going to start reaching critical mass in a year and a half," he says. By nature, all those things – voice, data, Internet – should be one. There is no reason that it should be handled

separately. When people communicate they have a particular need to exchange information. As soon as there is an inexpensive device that can physically handle all those forms of data transfer, it will be heavily used. There is no reason to think of voice, data and other content as separate. They should be one."

Port.ru itself is fast becoming a converged company. Last week it signed an agreement with MOBILE TELESYSTEMS ([MBT](#)), a Russian provider of GSM wireless services. The two companies have started a number of strategic alliances, including an effort to make Port.ru's offerings compatible with the wireless application protocol, or WAP. Maybe someday Moscow won't need its TV tower.

## Convergence Industry Index

(in alphabetical order)

Company / URL, Ticker, Stock price\*, EPS\*

Market cap\*, Location

Description

### Public:

- 1 **ACTV** / [www.actv.com](#) (IATV) \$18.06 -\$0.47  
913.82M New York  
Software to synchronize TV programming with Net content delivery
- 2 **AT&T** / [www.att.com](#) (T) \$30.56 \$1.93  
114.80B New York  
Telecom, Internet, computers, cable TV
- 3 **BellSouth** / [www.bellsouthcorp.com](#) (BLS)  
\$37.94 \$2.06 71.10B  
Atlanta Telecom, Internet, cable and digital TV, wireless access
- 4 **Chequemate International** / [www.3d.com](#) (DDD)  
\$1.88 -\$3.28 19.21M Marina Del Rey, CA  
3-D TV network; Net-transmitted video; special effects software
- 5 **ClearWorks.net** / [www.clearworks.net](#) (CLW)  
\$4.63 -\$0.21 117.13M  
Houston Bundled Net/phone/video services; net working
- 6 **Convergent Communications** / [www.converg.com](#) (CONV) \$3.75 -\$6.81 110.95M  
Englewood, CO  
Telecom & Net services, networking, Web/e-business development

- 7 **Datalink.net** / [www.datalink.net](#) (XLNK) \$15.75  
-\$0.60 220.66M San Jose, CA  
Web-to-wireless platform for delivery of content; software
- 8 **Deutsche Telekom** / [www.dtag.de](#) (DT) \$40.00  
\$0.43 121.18B Bonn, Germany  
Telecom, cable TV, radio, Internet, programming
- 9 **General Electric** / [www.ge.com](#) (GE) \$59.00  
\$1.17 584.03B Fairfield, CT  
Telecom, broadcast and cable TV, Internet, computers
- 10 **Gemstar-TV Guide International** /  
[www.tvguideinc.com](#) (GMST) \$79.44 \$0.45  
19.87B Pasadena, CA  
Technology for delivering cable & Net content to various platforms
- 11 **Global Crossing** / [www.globalcrossing.com](#) (GBLX) \$34.50 -\$1.13 30.38B Hamilton, Bermuda  
Fiber optic telecom and Net service, Web hosting, software
- 12 **Handspring** / [www.handspring.com](#) (HAND)  
\$31.00 N/A 4.31B Mountain View, CA  
Handheld computers offering wireless Net and modem connection
- 13 **InfoSpace** / [www.infospace.com](#) (INSP) \$41.56  
-\$0.54 9.72B Redmond, WA  
Content for Web sites and wireless; software
- 14 **ITXC** / [www.itxc.com](#) (ITXC) \$21.06 -\$1.57  
811.62M Princeton, NJ  
Net-based voice & fax service, voice-enabled applications
- 15 **Liberate Technologies** / [www.liberate.com](#) (LBRT)  
\$30.00 -\$1.14 3.08B San Carlos, CA  
Software platform for content to delivery via Net and telecom
- 16 **Lucent Technologies** / [www.lucent.com](#) (LU)  
\$41.13 \$0.80 137.34B Murray Hill, NJ  
Telecom equipment, Internet, content, computer net working
- 17 **Microsoft** / [www.microsoft.com](#) (MSFT) \$70.06  
\$1.71 368.70B Redmond, WA

	Internet, telecom, computer hardware, cable TV
<b>18</b>	<b>Nextlink</b> / www.nextlink.net (NXLK) \$31.44 -\$2.33 8.59B McLean, VA DSL service, Net access, Web design & hosting, VPNs
<b>19</b>	<b>Nokia</b> / www.nokia.com (NOK) \$44.25 \$0.64 206.61B Espoo, Finland Mobile phones, Internet, computer hardware, inter active TV
<b>20</b>	<b>Oracle</b> / www.oracle.com (ORCL) \$91.19 \$2.09 256.02B Redwood City, CA Database software enabling Net access from PCs and appliances
<b>21</b>	<b>Palm</b> / www.palm.com (PALM) \$45.00 \$0.09 25.42B Santa Clara, CA Handheld computers offering wireless Internet connection
<b>22</b>	<b>Pumatech</b> / www.pumatech.com (PUMA) \$24.94 -\$0.74 1.05B San Jose, CA Software for exchanging data via Internet and telecom
<b>23</b>	<b>Real Networks</b> / www.realnetworks.com (RNWK) \$49.06 -\$0.25 7.61B Seattle Software for playing audio and video over the Internet & broadband
<b>24</b>	<b>Research in Motion</b> / www.rim.net (RIMM) \$79.25 \$0.12 5.65B Waterloo, Canada Handheld computers offering wireless Net and modem connection
<b>25</b>	<b>SBC Communications</b> / www.sbc.com (SBC) \$42.75 \$1.90 145.42B San Antonio, TX Telecom, Internet, cable TV, networking
<b>26</b>	<b>Scientific-Atlanta</b> / www.sciatl.com (SFA) \$70.88 \$0.94 11.29B Norcross, GA Set-top boxes for cable and Net transmission; networking services
<b>27</b>	<b>Sony</b> / www.world.sony.com (SNE) \$109.69 \$1.94 99.91B Tokyo Media, Internet, computer monitors, telecom
<b>28</b>	<b>Source Media</b> / www.sourcemedia.com (SRCM) \$5.94 \$2.39 96.20M Dallas

	Streaming media content via Net, cable; networking services
<b>29</b>	<b>TiVo</b> / www.tivo.com (TIVO) \$22.75 -\$0.90 866.30M San Jose, CA Set-top boxes for cable and Net transmission
<b>30</b>	<b>United Pan-Europe Communications</b> / www.upc corp.com (UPCOY) \$24.56 -\$0.37 10.71B Beverly Hills, CA Set-top boxes for cable & Net transmission, telephony
<b>31</b>	<b>USA Video Interactive</b> / www.usvo.com (USVO) \$3.13 N/A 251.48M Mystic, CT Video on demand systems and software via Web and telecom
<b>32</b>	<b>Virage</b> / www.virage.com (VRGE) \$14.50 -\$1.67 288.77M San Mateo, CA Software for distributing media via Internet and telecom
<b>33</b>	<b>Wave Systems</b> / www.wavesys.com (WAVX) \$23.00 -\$0.83 1.06B Lee, MA Secure delivery of content over Net by cable, satellite; software
<b>34</b>	<b>Winstar Communications</b> / www.winstar.com (WCII) \$22.50 -\$9.04 2.04B New York Telecom and Net services, Web site creation, custom applications

**Private:**

<b>1</b>	<b>IBlast Networks</b> / www.iblast.com (private) — — — Beverly Hills, CA Network for over the air broadcast of digital media; software
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\* Based on closing Nasdaq prices on 9/7/00. Market caps unavailable from Nasdaq are taken from Market Guide Inc. (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.

**Recent Convergence Articles:**

- [September 7](#) Sony-Convergence in a Plastic Case
- [August 31](#) In Convergence, Timing Is Everything
- [August 24](#) The Big, the Small and the Uncovered
- [August 17](#) Winstar Communications-A Converged Local-Exchange Carrier

**8. Table Pounders!**

*PurchasePro.com*

## The Big Player in Small-Business Marketplaces

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

PURCHASEPRO.COM is a leading provider of Internet business-to-business (B2B) electronic commerce services for small-to medium-sized enterprises (SMEs). Their e-commerce solution is comprised of public and private "e-marketplaces" where businesses can buy and sell a wide range of products and services over the Internet in an efficient, competitive and cost-effective manner.

The company's solution is designed for quick deployment and immediate use. PURCHASEPRO's e-marketplace members can participate in interactive buying and selling communities with little more than a standard Internet connection, a Web browser and a PURCHASEPRO.COM membership. The company's e-marketplaces are customizable and scalable, and use an open-architecture platform that can be integrated with members' existing enterprise resource planning and accounting systems.

We are buyers of shares of PURCHASEPRO based on the large market opportunity the company is addressing. PURCHASEPRO dominates of the B2B market for SMEs through key partnerships with such leading companies as AMERICA ONLINE ([AOL](#)), OFFICE DEPOT ([ODP](#)) and SPRINT ([FON](#)). The com-

pany has operating momentum and a solid pipeline of new business.



PURCHASEPRO is addressing an enormous market opportunity. The Gartner Group, a leading market research firm, predicts that the worldwide B2B e-commerce market will grow to \$7.3 trillion by 2004. SMEs, PURCHASEPRO's target market, are expected to generate much of that revenue. While ARIBA ([ARBA](#)), COMMERCE ONE ([CMRC](#)) and I2 TECHNOLOGIES ([ITWO](#)) are providing B2B solutions for the largest global corporations, PURCHASEPRO is quickly dominating the market for smaller companies with its low-cost ASP (application service provider) solution.

Strategic partnerships will be critical for PURCHASEPRO to develop critical mass. To that end, PURCHASEPRO has signed agreements with AOL, OFFICE DEPOT and SPRINT, as well as other leading companies. PURCHASEPRO entered into an agreement with AMERICA ONLINE to develop and market a co-branded marketplace. The companies announced the launch of the site in mid-August and since then PURCHASEPRO shares have risen 78% to close at \$65.69 on Sept. 8.

Under its agreement with OFFICE DEPOT, PurchasePro.com will be the recommended B2B e-commerce Web site marketed to OFFICE DEPOT's customers and clients. OFFICE DEPOT purchased 100,000 subscriptions from PURCHASEPRO on a discounted basis and will offer these subscriptions to their customers on a free-trial basis. SPRINT will promote PURCHASEPRO's business-to-business e-commerce marketplace solution to its current and future business customers.

PURCHASEPRO's latest quarterly results exceeded expectations across all metrics. Revenue of \$9.5 million was double the level of the previous quarter and up more than ninefold from the year-earlier quarter. The company's gross profit margin of 93% was among the highest in the industry. The company's operating loss of \$0.22 a share was \$0.08 better than the consensus estimate. Management expects PURCHASEPRO to break even during the second quarter of 2001. During the second quarter, PURCHASEPRO.COM delivered 19 private label marketplaces and added 3,919 individual companies to its public marketplace. We are strong believers in PURCHASEPRO's ASP model and we expect momentum to build in the future.

Paul de Leon currently holds a position in PURCHASEPRO in the de Leon Internet 100 Fund.

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

*The de Leon Internet 100 fund is a sponsor of Table Pounders.*

## 9. Microcap Scope



## Opus360 An Online Exchange for Freelancers Faces Challenges

By Michael Middleton and  
Timothy Middleton

OPUS360 ([OPUS](#)) isn't interested in a musical score – it's more concerned with keeping track of the score for online human capital management.

The New York-based operator of FreeAgent.com is all about linking up companies and independent workers for special projects. And while a new deal with privately held Texas company PlanView puts OPUS360 in a better position, investors will be watching the company carefully, to see if it – and the field of online human capital management – can work out a steady profit path based on its current business model.

Under the terms of the company's newest deal, PlanView, a world leader in human capital management, will integrate its project- and management-related software with OPUS360's OpusXchange.com system, allowing PlanView customers to access employees in the OPUS360 system. Rick Miller, president and chief operating officer of OPUS360, said "Suppliers of talent on OPUS360's network will gain significant new opportunities to provide their services to the many managers using PlanView's software and solutions."

OPUS360 has A-list clients including LUCENT TECHNOLOGIES ([LU](#)), PricewaterhouseCoopers, and PEOPLESOFT ([PSFT](#)). Kaushik Shridharani, an analyst with Bear Stearns who rates OPUS360 shares BUY, says the company is "a leader and early-mover in the long-underserved category of human capital management."

According to Mr. Shridharani, OPUS360's approach sets it apart from other job/recruitment companies, in that it offers everything needed for an end-to-end human capital management solution. This may make OPUS360 "an appealing acquisition target for other e-procurement enablers as they expand the categories of purchase they support."

Mr. Shridharani, whose firm was an underwriter of OPUS360's April 2000 initial offering, does acknowledge that the company faces significant perils. "We believe OPUS360 represents a compelling opportunity for investors willing to accept a high level of risk."

Chief among these risks is the company's unproven revenue

model. Said Mr., "OpusXchange has yet to generate meaningful intermediation-related revenue and validate the effectiveness of the service vis-à-vis alternatives," explains Mr. Shridharani. Another challenge is common to many Internet companies: the burn rate. The company devours \$16 million a quarter, and with only \$67 million in cash on hand, it will have to explore alternatives before the third quarter of 2002, when Mr. Shridharani sees it becoming profitable for the first time.

Even with a lid on expenses, the company will probably have to seek external funding. The Bear Stearns analyst's current model for OPUS360 assumes that it will raise \$40 million in the first quarter of 2001 through a private placement of 5 million shares of common stock. But if OPUS360 cannot find a reasonable investment package, Mr. Shridharani believes its "ability to grow and expand ... may be substantially constrained."

In addition, OPUS360 has spread itself into so many specialized fields that it will be facing strong competition on many fronts. NIKU ([NIKU](#)) is the closest multi-faceted rival to OPUS360, but job-finding companies like Monster.com, owned by TMP WORLDWIDE ([TMPW](#)), and Jobs.com also bring competition. Indeed, some in the industry wonder if customers will pay for such services at all.

According to Mr. Shridharani, players in the marketplace are "coming to the conclusion that market-making can be offered for nominal fees, or free, in order to aggressively attract liquidity and generate revenue from other services." Investors should watch such trends in the human capital management industry, and see how OPUS360 rides the wave – if it does.

Mr. Shridharani attracted some notice when his initial report on the company sent its shares up by as much as 121% on the day it was released. Since then, the stock has settled back to close at \$3.69 a share on Sept. 8, up 55% since the report's release. Mr. Shridharani set a 12-month price target of \$7 for the shares.

### Vital Statistics Opus360 ([OPUS](#))

<b>Market Cap</b>	\$185.1 million
<b>Recent Stock Price</b>	\$3.69 (9/8/00)
<b>Shares Outstanding</b>	50.2 million
<b>52-Week Range</b>	\$15.78 – \$2.31

<b>EPS</b>	
<b>1999A</b>	(\$1.00)
<b>2000E</b>	(\$1.40)
<b>2001E</b>	(\$0.88)

## 10. The Analyst's Spotlight



### Liquid Audio Ian Post, Sands Brothers

Interviewed by Taylor Smith

The Internet Analyst<sup>SM</sup> recently spoke with Ian Post, senior analyst with Sands Brothers, about LIQUID AUDIO ([LOID](#)) and the recent controversy about copyright violation in the world of Internet music. (Sands

Brothers was an underwriter of LIQUID AUDIO's July 1999 initial public offering. Mr. Post is not a shareholder.)

[THE INTERNET ANALYST – TAYLOR SMITH] What does LIQUID AUDIO do?

[IAN POST] LIQUID AUDIO is a platform company that created an end-to-end distribution method for secure downloads of music via the Internet. The firm then offers this method to Web sites and record companies.

[TS] Napster, the free, MP3-based music trading site, is embroiled in legal controversy: Is LIQUID AUDIO's future linked to the success or failure of Napster?

[IP] Yes, I definitely think that LIQUID AUDIO's future is linked to Napster's success or failure. If a free alternative like Napster is available, a market for paid music on the Internet is limited.

Recently, LIQUID AUDIO's management stated that the recording industry is six months behind where they should be in regards to Internet music, which is negative for LIQUID AUDIO. Music available via the Internet is a new distribution method and it's taking the industry some time to catch up.

For the complete version of The Internet Analyst<sup>SM</sup> Magazine, visit our website at:

<http://www.theinternetanalyst.com/individual/000914sections/strongbuys.asp>

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

[TS] What are some possible scenarios for LIQUID AUDIO's relationship – positive or negative – with Napster?

[IP] The first scenario is that nothing will happen to Napster, which would pose problems for LIQUID AUDIO. However, this is unlikely. The second possible scenario is that a compromise will be reached in which Napster would compensate copyright owners. This would be positive for LIQUID AUDIO because the two companies already have formed a loose research and development pact. The third scenario is that Napster will be shut down. But even if Napster gets shut down, other sites will pop up with the technology to offer free music downloads. The best response to this scenario is for the recording industry to get the legal alternatives up and running.

Universal Music's recent victory in its copyright-infringement suit against MP3.COM ([MPPP](#)) should be seen as a slight positive for LIQUID AUDIO. Although, there won't be any direct fundamental impact on LIQUID AUDIO from the decision, we believe that as confusion regarding copyright issues is reduced, the major labels will be more inclined to become active in the digital music area. And companies offering secure methods of digital music distribution, like LIQUID AUDIO, should be beneficiaries.

[TS] What is your rating on the stock?

[IP] I currently have a BUY rating on the stock with a 12-month price target of \$20. I think digital music is a significant distribution method for record companies to get their music to the public. However, the market needs to mature for LIQUID AUDIO to see an upside. [LIQUID AUDIO closed at \$6.97 on Sept. 8.]

#### Vital Statistics

**Ian Post**  
**Senior Analyst, Sands Brothers**

<b>Industry covered</b>	Rich Media Technologies
<b>Companies covered</b>	LIQUID AUDIO ( <a href="#">LOID</a> ), MACROMEDIA ( <a href="#">MACR</a> ), REALNETWORKS ( <a href="#">RNWK</a> ) and METACREATIONS ( <a href="#">MCRE</a> )

To subscribe to TIA for free, send an e-mail to:  
[tia@multex.com](mailto:tia@multex.com)

**Recent Spotlight Articles:**

[August 31](#) Commerce One and Ariba: Jeanette Sing, E-Business Software and Services Analyst, Wasserstein Perella.

[August 24](#) David Bench, Internet Software and Infrastructure Analyst, Arnhold and S. Bleichroder

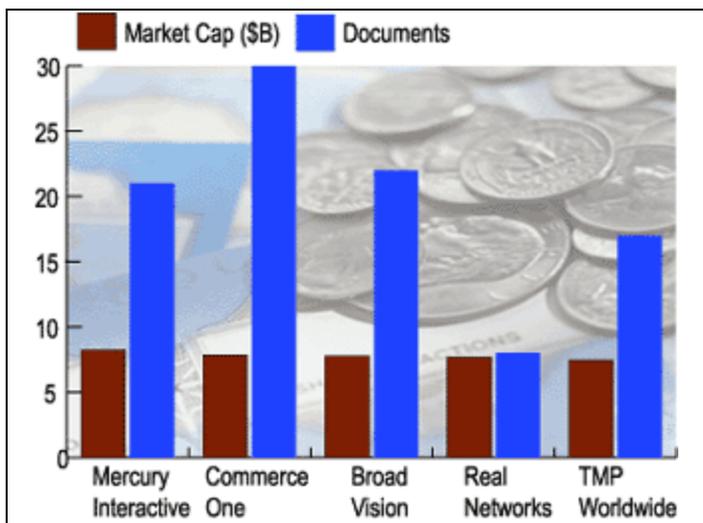
[August 17](#) Barnesandnoble.com : David Ricci, Research Analyst, William Blair & Co.

[August 10](#) InfoSpace: Safa Rashtchy, Senior Analyst, US Bancorp Piper Jaffray

**11. Top U.S. Picks**

**Commerce One Endorses a Rival's E-Commerce Standard**

By Dyan James



33	Mercury Interactive ( <a href="#">MERO</a> )	21 Documents	MarketCap \$8.23
34	Commerce One ( <a href="#">CMRC</a> )	30 Documents	MarketCap \$7.85
35	BroadVision ( <a href="#">BVSN</a> )	22 Documents	MarketCap \$7.78
36	RealNetworks ( <a href="#">RNWK</a> )	8 Documents	MarketCap \$7.68
37	TMP Worldwide ( <a href="#">TMPW</a> )	17 Documents	MarketCap \$7.47

COMMERCE ONE, a provider of e-commerce software announced that it was endorsing a new B2B information standard developed by rival ARIBA ([ARBA](#)), IBM ([IBM](#)) and

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- |                   |              |
|-------------------|--------------|
| 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\*:**

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

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

- Strong Buys  
<http://www.theinternetanalyst.com/individual/000907sections/strongbuys.asp>
- Analyst's Spotlight  
<http://www.theinternetanalyst.com/individual/000907sections/spotlight.asp>
- Upgrades & Downgrades  
<http://www.theinternetanalyst.com/individual/000907sections/updowngrade.asp>
- The Independent View  
<http://www.theinternetanalyst.com/individual/000907sections/indview.asp>
- The Sell Report  
<http://www.theinternetanalyst.com/individual/000907sections/sellreport.asp>

\*demographics are based on a weekly TIA e-mail survey for 9/4 through 9/10/2000

MICROSOFT ([MSFT](#)). The standard, universal description, discovery and integration, or UDDI, is designed as a decentralized database that will help companies locate customers and suppliers using the Internet. Patterned after telephone directories, the databases will store simple contact information, specialized business information and technical information about a company's e-commerce methods. The information will be stored at several databases on the Web that are designed to mirror one another so that they will always be up to date. This week, research on COMMERCE ONE was accessed 1,415 times.

BROADVISION, provider of an integrated suite of packaged applications for conducting e-commerce interactions and transactions, announced a significant partnership with IBM. BROADVISION will translate its One-To-One software to make it compatible with IBM's core server hardware. In exchange, IBM's Global Services division will devote professionals around the world to help customers implement BROADVISION applications. Research on BROADVISION was accessed 1,175 times this week.

MERCURY INTERACTIVE, a maker of testing software for e-business applications, enterprise resource planning applications, and client/server software, earns a consensus BUY rating from Wall Street analysts according to the Multex.com database. The analysts see 2000 earnings of \$0.63 a share. For 2001, the consensus calls for earnings of \$0.84 a share. For the third quarter the average forecast of 10 Wall Street analysts is for earnings of \$0.16 a share. This week, research on the company was accessed 388 times.

Online recruitment and advertising agency TMP WORLDWIDE's online career site, Monster.com, launched a new television advertising campaign on Sept. 5 during ABC's television game show "Who Wants to Be a Millionaire," one of TV's highest-rated prime time shows. The thirty-second ad, titled "Ted's Resume," will also air during other widely watched telecasts including the Olympics on NBC and CNBC, the Emmy Awards and the U.S. Open. Research on TMP WORLDWIDE was accessed 636 times this week.

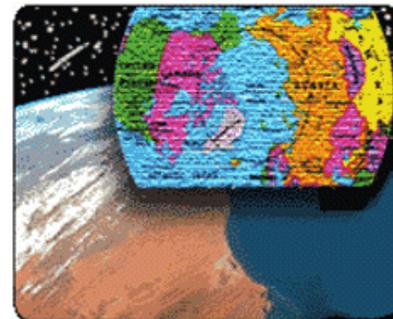
REALNETWORKS, provider of streaming media delivery on the Internet announced an agreement with PHOENIX TECHNOLOGIES ([PTEC](#)), which makes BIOS-level software that lets computer hardware communicate with the operating system. Under the terms of the agreement, buyers of non-branded PCs manufactured by companies in the PhoenixNet program will be able to easily download the latest versions of RealPlayer and RealJukebox software. This week, research on REALNETWORKS was accessed 446 times.

*Companies ranked 33 through 37 in The Internet Analyst<sup>SM</sup>'s Internet Industry 150. Market caps based on Aug. 25 closing stock prices. When available, documents are the number of new documents contributed to the Multex.com database from brokerage firms during the week Aug. 28 to Sept. 3.*

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

### An Uncertain Outlook for International Internet Advertising

By Mike Robbins



A study released in late August by Germany's AdLINK Internet Media proclaimed that Internet usage isn't just growing in Western Europe, it's actually pulling people away from their televisions and newspapers. According to the survey, Internet users, including those in England, Germany, and France, reported that they had less time for other forms of media once they'd discovered the Internet.

If traditional media outlets are actually losing customers to the Internet, it could be a much-needed breakthrough for a wide range of Internet businesses. Why? Although there are plenty of statistics that show the rapid growth of Internet use, this is a finding that could make a bottom-line impact on Internet advertising sales. From portals to free ISPs, ad revenue drives a large share of today's Internet business models. Unfortunately, advertisers have not been beating down most of these companies' virtual doors. Instead, content has remained with more traditional advertising outlets. But should the Internet actually draw people away from their televisions in large numbers, advertisers would have little choice but to follow.

Such thinking has helped drive some optimistic Internet advertising sales expectations: The Myers Group, a research firm, for example, expects online ad spending worldwide to reach \$46 billion by 2005. The European markets appear particularly interesting. "Everyone seems to be moving to Europe," noted H. Perry Boyle Jr., an analyst with Thomas Weisel Partners, in a recent report about Internet advertising firms. "While many players are already there [[DOUBLECLICK \(DCLK\)](#), [24/7 MEDIA \(TFSM\)](#)], the rest of the group appears to be going Euro crazy, too [[AVENUE A \(AVEA\)](#), [NETCENTIVES \(NCNT\)](#), [BE FREE \(BFRE\)](#)], and others are talking about their Euro strategies. Could it have anything to do with the fact that, despite having the most stringent online privacy legislation, Europe is one of the fastest-growing markets for online advertising?"

But before you conclude that this is the time to invest in ad-revenue-driven Internet companies in Western Europe or, for that matter, elsewhere, consider that the future of the Internet advertising industry remains very much a matter of debate.

To begin with, even as Internet use skyrockets, there's no agreement on just how effective Internet ads really are. The banner

ad, the backbone of the industry, already has shown weakness. The click-through rate – that is, the rate at which ad viewers click on those ads to learn more and one measure of audience attention – has trailed off from approximately 2% last year to less than 0.45% recently, according to Nielsen Media Research. Meanwhile, Internet users are hit by an ever-increasing barrage of ads each time they log on that can only serve to diminish the impact of any single advertiser. According to research firm Jupiter, online users now get an average of 440 marketing impressions per day – and that already-staggering figure is expected to climb to 950 by 2005.

Today, a small number of the most successful Web sites – most notably YAHOO!'s ([YHOO](#)) sites, which scored the highest for ad sales rate, according to a study by Leading Web Advertisers – are able to sell ad space on their sites worldwide. But the vast majority of Internet ad space – perhaps 80% – is not sold. As a result, the space often is used for Internet companies to advertise their own products, or it is occasionally swapped with other Internet sites for cross-promotional purposes.

Also, a concern is the lack of traditional bricks-and-mortar companies advertising on the Internet. True, there has been the occasional encouraging sign: A spokesperson for international consumer-products behemoth PROCTER & GAMBLE ([PG](#)), for example, recently stated that the company intends to spend a greater percentage of its 10-figure annual advertising budget on advertising mediums such as the Internet that can target specific consumers. But, to date, such policies remain more the exception than the rule. "We believe that [the success of the Internet advertising model in the near future] all hinges on not-coms following their audiences online at a rate fast enough to eclipse the woes of under-funded, pure play e-tailers," wrote Mr. Boyle of Thomas Weisel.

Still, the promise of Internet advertising remains. Such advertising not only allows targeted ads for a growing user base, it also offers a relatively low-cost way to test marketing strategies. And even if the banner ad is in decline, Internet history tells us that something new is always right around the corner – perhaps rich media or e-mail newsletter sponsorship will pick up the slack.

One final note: Ad revenue is often quite seasonal, with a summer lull building toward a strong fourth quarter. If the Internet ad-revenue business model is going to work, the final months of 2000 might be the time we find out.

*[This week's Sell Report column](#) looks at AVENUE A, an Internet advertising company. For a review of the second-quarter results of leading Internet advertising company DOUBLECLICK ([DCLK](#)), please see [The Sell Report, The Internet Analyst, July 27, 2000](#).*

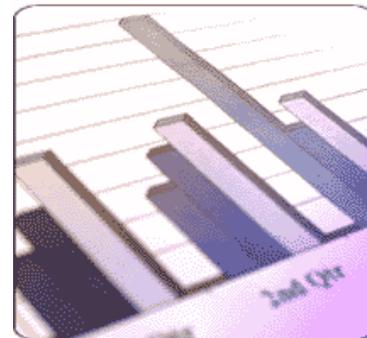
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### 13. IPO Update

## New Players in the Wireless Web Market

By John Filar Atwood

Last week, analysts continued to heap praise on wireless Internet companies as the Internet continues its evolution to handheld devices. Newly issued BUY ratings for AETHER SYSTEMS ([AETH](#)) and PHONE.COM ([PHCM](#)) included favorable comments about the entire industry.



Those remarks may help the prospects of IPO hopefuls TRANSMETA (TMTA-proposed) and AVANTGO (AVGO-proposed), which are readying their deals at a time when interest in Internet offerings has dried up.

Tim Luke, an analyst at Lehman Brothers, initiated coverage of PHONE.COM with a BUY rating and set a \$120 price target for the shares. PHONE.COM closed at \$97.50 on Sept. 8. He expects strong momentum in revenue and new subscribers as a result of the company's upcoming \$6.8 billion merger with SOFTWARE.COM ([SWCM](#)). PHONE.COM had revenue of \$28.7 million in its fiscal fourth quarter, which ended in June 2000.

AETHER rates a BUY from Rob Sanderson of Banc of America Securities, who began coverage with a \$190 price target. AETHER gets a BUY rating from Lehman Brothers, with a \$210 12-month price target. AETHER, which went public last October at \$16 a share, closed at \$141.13 on Sept. 8. In August, AETHER announced the acquisition of Cerulean Technology, which provides wireless mobile software for government agencies. AETHER reported second-quarter revenue of \$10.8 million.

TRANSMETA builds microprocessors that consume less power than convention chips, which makes them ideal for use in mobile Internet devices, as well as notebook computers. The company recognized its first product revenue this year, generating \$358,000 in the six months ended June 30. The company's 1999 revenue was \$5.1 million, most of which came from licensing agreements with IBM ([IBM](#)) and TOSHIBA ([TOSBF](#)). Because many notebook computer companies manufacture their products through subcontractors in Asia, TRANSMETA expects to derive most of its future revenue from that region.

AVANTGO provides software that extends the use of Internet-based content and corporate applications to handheld devices

and Internet-enabled mobile phones. In May, the company acquired Globalware, which supplies software that enables the use of Lotus Notes on handheld devices. Its revenue for the six months ended June 30 was \$5.1 million, up from \$2.9 million for all of 1999.

Recent Internet IPOs		
Filing Date	Company	Description
9-5	Requisite Technology	RQST E-commerce software developer

14. Rants & Raves



**6Opinion**  
**A Severe Correction Looks Likely, but Not Inevitable**

By K. C. Grainger  
Grainger Beaulac Inc.

But wait a second

Most market indicators are still positive, and as the overall market goes, so will go the Internets. The majority of Internet stocks are very much hostage to the direction of the Nasdaq, and to a lesser degree S&P 500. The Nasdaq is about flat for the year, and I have said that next year I expect a bear market. I hope that it does not have to happen. A bear market really depends on who wants it, who allows it and whether the world can afford it.

Let's just say that I still see indicators that do not forecast a bear market. The economy is still positive, money-supply growth is more than adequate, money flow into the markets every month continues at a high rate and inflation still under 4%. You don't get a bear markets when these indicators are still positive. But, as you may know, over 60% of stocks had a losing year in 1999. That was more due to high valuations. But here is what Bob Morrow and I think could happen in the next 12 months.

Harsh bear markets do not occur without a recession. But with the Nasdaq trading at over 130-times earnings, we are at least vulnerable to a harsh correction. I said on Aug. 31 that I expected NORTEL NETWORKS (NT), which closed that day at \$81.56, to trade down to the \$60 range. On Sept. 11, NORTEL closed at \$68. I see the same pattern developing for ORACLE (ORCL). The stock closed at \$83.44 on Sept. 11 and is down 8% in September. I expect it to hit into the \$70-range, with a good possibility of being taken down into the \$60s. Trading in ORACLE can be quite profitable, long-term investing should only be

done after a sharp correction in price. A sound rule to follow in many cases is to avoid buying on any spike in price that does occur as a result of an announcement of a rise in sales or earnings or some other fundamental event. You may miss some good trades, but you'll also avoid many disasters.

We still think that the downside risk is about 5% for the S&P 500, and about 12% for the Nasdaq. We still expect the Dow Jones industrial average to be over 12000 and the Nasdaq to be near 4300 to 4600 after the seasonally difficult months of September and October.

Within the next eight to 10 months we see a harsh correction or bear market. Now, while we expect a bear market, it does not have to occur. It may be a 30% to 40% correction for individual stocks while the market "rotates," a scenario under which the overall market averages would fall maybe 20% to 25%.

Another Canadian B2B Internet company that merits mention is SureFire Commerce, which trades on the Toronto Stock Exchange under the symbol MTP. The Montreal-based company is now cash-flow positive with sales expected to be at \$22 million (Canadian) this year. The stock enjoyed a sharp price rise to over \$15 a share (Canadian) in the first quarter with all the Internet stocks. The shares closed at \$5.45 (Canadian) on Sept. 11. SureFire, which provides comprehensive e-commerce services to small- and medium-sized business, has well-regarded management and directors. I'll have more on the company in the coming weeks.

I would be remiss if I did not mention that the next several weeks will be choppy and difficult in the stock markets. But don't worry. Just be picky. – *With Robert S. Morrow, Robert S. Morrow Institutional Advisory Services*

**Letters to the Editor**  
**Documents Defined**

**Todd Silverstein writes:** I often read Top U.S. Picks, and I wanted to know the definition of the "Documents," that you mention with some of the companies.



*Mr. Silverstein: We appreciate your interest. "Documents" refers to the number of research reports that are contributed to Multex.com's database by analysts at investment banks. – James C. Condon*

**A Road Warrior's Request**

**Arturo Duran writes:** Your newsletter is very good and useful, but just one small favor, please. It would be nice to have a small, four- to five-line summary of the articles available as an e-mail. While traveling, surfing the Web is not as easy as downloading

an e-mail that can be read offline. (The writer is director of business development for AOL Mexico.)

*Mr. Duran: Thank you for your encouraging words. Perhaps you need to become a subscriber to The Internet Analyst<sup>SM</sup>. Every week, an e-mail goes out to subscribers with a one-line description and the URL for each of the articles. Interested? – J.C.C.*

## More Convergence Candidates

**Carl W. Peede writes:** I read your interview with Cary Joshi of Cl@rity with great interest ([The Convergence Industry, The Internet Analyst, Aug. 10, 2000](#)). We're doing some very interesting things at TERAGLOBAL COMMUNICATIONS ([TGCC](#)). Check us out at [www.teraglobal.com](http://www.teraglobal.com). (The writer is chief marketing officer for TERAGLOBAL.)

*Mr. Peede: Thank you for writing to nominate your San Diego-based company for inclusion in our Convergence Index. It does sound like your company's network technology, which enables voice and video conferencing and whiteboarding over private networks, deserves to be considered for inclusion in our index. However, before making a decision, we need a chance to do more research on TERAGLOBAL, because it generates no research from Wall Street investment banks. – J.C.C.*

**Elton Tong writes:** Two candidates for inclusion in the Convergence Index: SHAW COMMUNICATIONS ([SJR](#)) and ROGERS COMMUNICATIONS ([RG](#)). What do you think?

*Mr. Tong: Thank you for your nominations. ROGERS COMMUNICATIONS, the No. 1 cable company in Canada would seem to be more of a convergence play because its media businesses – cable, wireless, Internet, consumer publications – are more diversified. SHAW COMMUNICATIONS, Canada's No. 2 cable operator, still derives about 85% of its revenue from its cable operations. We'll do a little more research on ROGERS, before making a decision, but for the time being we don't think SHAW belongs in our Convergence Index. However, you can read more about SHAW and its broadband strategy in [Top Non-U.S. Picks, The Internet Analyst, Aug. 10, 2000](#). – J.C.C.*

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