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The Internet Analyst℠

Exclusive financial data on Internet companies and executives

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1. Strong Buys

Outlook for Mega-Exchanges Reaffirms Commerce One's Standing

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.*

COMMERCE ONE (CMRC): Sands Brothers reiterated its STRONG BUY on the shares of COMMERCE ONE on Sept. 26. The firm's analysts attended the company's user conference and came away "optimistic about COMMERCE ONE's prospects of becoming a leader in the B2B sector." COMMERCE ONE, which creates communities that link buyers and sellers over the Internet, expects B2B e-commerce to be divided into three parts: direct procurement, indirect procurement (such as auctions), and collaboration. COMMERCE ONE has partnered with SAP (SAP) and wants to be a leader in the direct procurement arena, which COMMERCE ONE says accounts for 60% of spending in a typical manufacturing company's e-business initiative. The COMMERCE ONE/SAP partnership has won six new customers, including four mega-exchanges, and management claims four or five unannounced mega-exchanges are in the pipeline. One mega-exchange, Covisint, the automotive e-business trading exchange formed by DAIMLERCHRYSLER (DCX), FORD MOTOR (F), GENERAL MOTORS (GM) and RENAULT (RNAUF), recently cleared its last hurdle by gaining approval from German antitrust regulators. The brokerage believes COMMERCE ONE will be selected to provide the exchange technology for Covisint, which could provide the shares with a near-term catalyst. Sands Brothers estimates revenue of $266.3 million in 2000 and $441.2 million in 2001. It forecasts losses of $0.43 a share in 2000 and $0.11 a share in 2001. Its 12-month price target of $150 is based on a price-to-sales relative valuation. Shares of COMMERCE ONE closed at $78.50 on Sept. 29. Research on COMMERCE ONE was downloaded 1,685 times and 71 new reports were added to the Multex.com database during the week of Sept. 18 to 24.

PRICELINE.COM (PCLN): On Sept. 29, Salomon Smith Barney reiterated the firm's highest rating, a 1S (BUY, with speculative risk) on the shares of PRICELINE.COM. A bit of background: PRICELINE had warned investors on Sept. 27 that it would fall short of analysts' revenue expectations for the third quarter. The company said revenue would be $340 million to $345 million; Salomon had been forecasting revenue of $368 million. The company blamed weak airline ticket sales and Salomon says the impact of the slower sales was exacerbated by PRICELINE's inability to pass along the airline fuel surcharge to cus-

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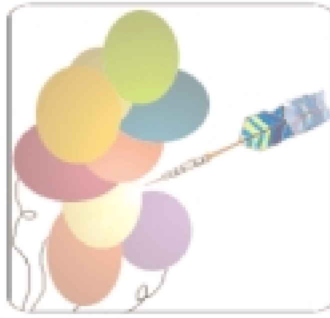
Next

tomers. The firm lowered its 2000 revenue estimate to $1.34 billion from $1.4 billion and now sees a wider loss for the year of $0.07 a share. Salomon had been forecasting a loss of $0.05 a share for 2000. For 2001, revenue is now projected to be $1.7 billion, instead of $1.9 billion. The firm now forecasts earnings of $0.12 a share in 2001, down from its previous forecast of $0.19 a share. Its target price of $25 a share is based on its market value-added analysis (which is functionally very similar to a discounted cash flow valuation). Although it maintained it rating on PRICELINE, Salomon says the company needs to reduce its dependency on the airline travel business. "Specifically," says the firm, "we need to see the growth of non-travel businesses, including telecom and financial services." Shares of PRICELINE closed at $11.88 on Sept. 29. Research on PRICELINE was accessed 1,343 times, and 62 new reports were added to the Multex.com database during the week of Sept. 18 to 24.

USINTERNETWORKING (USIX): On Sept. 26, Robinson-Humphrey released a detailed STRONG BUY on USINTERNETWORKING, an applications service provider. The firm disclosed some of the assumptions underlying its model for this company. In a nutshell, its discounted cash-flow valuation arrives at a price target of $26 a share. Those following the stock know that the shares closed at $6.67 on Sept. 29. Robinson-Humphrey says that several short-term factors are keeping the price down. The big ones are that the model is based on a seven-year time horizon, which is longer even than most buy-and-hold investors' time horizons. In addition, the firm says that USINTERNETWORKING will have to raise an additional $250 million by the first quarter of 2002, a consideration that may keep investors on the sidelines. Still, Robinson-Humphrey asserts that an acquirer would not have these concerns. It forecasts losses of $1.87 a share in 2000 and $1.91 a share in 2001. Research on USIX was downloaded 613 times during the week of Sept. 18 to 24, and 15 new reports were contributed to the Multex.com database during that week.

2. The Sell Report



Promotions.com

Another Casualty of the Online Advertising Slowdown

By Aram Fuchs

PROMOTIONS.COM (PRMO) announced that it had revised its revenue projections for the third quarter of 2000. The new estimate – $6.4 million to $6.9 million – is substantially less than the $8.9 million the company reported in the second quarter.

Ouch. This company, which is supposed to be in one of the fastest-growing industries in the world, will report a 33% sequential decline in revenue growth from the June quarter to the September quarter. And it comes after Steven H. Krein, chairman and chief executive of PROMOTIONS.COM, bragged in the release announcing the second-quarter results: "Without question, we are setting the standard for growth in the Internet promotion market. Based on the growth of our business and our internal projections, we believe we can attain profitability sooner than anticipated. As a direct result of our focus on the path to profitability and our top line growth, we expect the analysts to increase their revenue estimates, decrease their expense estimates and move the time frame for profitability forward."

From those statements, it's apparent that reality hurts. I'm amazed that insiders did not sell any stock in the intervening three months. Clearly, PROMOTIONS.COM management believes the optimistic estimates and was as surprised as the rest of the world at how quickly the Internet advertising market contracted. Even more worrisome is that management, in the statement projecting the disappointing revenue, quoted Forrester Research predicting that the Internet promotion business was going to grow to a $14 billion business in the year 2005.

The company still hasn't learned its lesson! While third-party research houses like Forrester continue to forecast growth for the industry, we think it's clear that the Internet advertising market has reached an interim peak. Any company betting on resumed growth – whether it bases its optimism on research from conventional sources or from Martians – will be disappointed. Investors won't be much better off. PROMOTIONS.COM closed at $1.63 on Sept. 29 – a far cry from its record high of $35, reached on Dec. 22, 1999.

So what lessons can investors learn from the PROMOTIONS.COM debacle?

- Management's projections are only educated guesses based on experience and assumptions. It's in the very nature of an entrepreneur to be optimistic. Who else would take such incredible risks? Always be skeptical of projections.

- Markets do not grow – or shrink – in those gradually sloping bar graphs that many financial analysts use to project the future. Reality presents a much choppier picture, in which a period of fast growth is followed by a sharp contraction.

- With just about every Internet advertising company reporting disappointing results, the Internet advertising business should no longer be evaluated as a growth business. Investors should expect layoffs and consolidation in the industry, and should value these companies accordingly – at a fraction of their revenue. These companies are like any other money-losing enterprise in a stagnant industry.

The carnage continues. The Internet advertising market, fueled by cheap equity and naive ad buyers, has now been brought to a screeching halt. The multi-car pile-up is just beginning.

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.*

3. The Independent View

Dot-coms Are Still Being Singed by Their Burn Rates

By Greg A. Kyle
President and CEO of Pegasus Research

The formula for Internet companies has been quite common. Raise money from private investors and spend aggressively. Then go public and continue to spend aggressively. Raise more money and just keep on spending. All this in the hope of capturing a dominant market position in a particular marketplace.

Unfortunately, that strategy has also placed Internet companies at risk of running out of cash. Over the past few months the names of companies that have run into trouble has continued to grow. First there was online grocer, PEAPOD (PPOD). Then music retailer, CDNow faltered and was acquired by Bertelsmann, the German media company. DRKOOP.COM (KOOP), the struggling health-information Web site received an infusion from private investors. On Aug. 11, Value America became the first publicly traded dot-com to file for bankruptcy.

A study that Pegasus Research recently conducted for Barron's magazine, which follows up on our earlier studies, examined an expanded universe of 339 Internet companies and found that over 80% of the companies or 273, were operating with negative cash flows. This compares with 81% at the end of the first quarter. Roughly one third of all companies that were operating at a loss, were at risk of running out of cash within 12 months based on second-quarter filings with the Securities and Exchange Commission.

The old mantra of "growth is good, hyper-growth better" has been replaced by a new mantra "path to profitability." Some companies have been slashing costs in a desperate attempt to conserve dwindling cash supplies. Others have continued to spend with abandon, hoping to be the market leader in their space. Yet the overall tally indicates that despite the new found religion of profitability, companies continue to spend prodigious amounts of cash. During the second quarter, aggregate revenue climbed 13% sequentially to $14,290 million while losses increased slightly to $1,824 million from $1,736 million in the previous quarter. However, hiding in the aggregate numbers is a trend, call it digital Darwinism. Winners are quickly being separated from losers.

Investors' concerns over dot-coms' spendthrift ways did have an impact on Internet stocks over the past few months. The aggregate market value of the 339 companies surveyed fell to $790 billion at the end of the third quarter from $1.4 trillion at the Nasdaq's peak on March 10. The drop has not only shaken investor confidence in the public equity sector, it has also reverberated in the private equity arena. Many venture capitalists are taking a closer look at the companies in their portfolios, cutting funding for the second-tier properties and supporting only the winners. It has also become more difficult for many companies to get funding, as venture capitalists wait for signs that indicate which direction the markets will go.

Our study looked at the financial position of Internet companies as of the first quarter of 2000, and assumed that revenue and spending patterns would remain the same throughout the coming quarters as they were in the first quarter. Now, there are obvious limitations to this methodology. Some companies will spend more aggressively in the coming months in an attempt to capture market share, others will ramp back spending. Some companies may be successful at tapping the public or private markets for additional cash, or raising capital from strategic investors. Others will not be so successful. Nevertheless, the study identifies those companies that are at risk of running out of cash and those that have shown the best improvement in their burn rates.

One caveat that bears mentioning is that burn rates cannot predict bankruptcy and should not be used in that fashion. (Altman's Z-score, which combines five financial ratios, is arguably a better predictor of bankruptcy, but can't be used with Internet companies that don't have retained earnings.) However, the burn rate is useful in identifying the relative level of financial risk facing companies. How should investors interpret burn rates? Quite simply, the burn rate should be used in conjunction with revenue and margin growth. Growth is good, but it should be managed effectively.

Take a company that spends heavily and incurs heavy losses but experiences only marginal revenue growth relative to its peers. If the company is in danger of running out of cash soon, it may not be the best investment candidate. On the other hand, if a company is able to demonstrate above-average revenue growth and margin improvement, then the burn rate is less of an issue. Remember, risk and reward are the two sides of the same coin and should be looked at equally. Burn rates are a good proxy for risk while revenue growth and margin developments are good proxies for reward. Just don't forget to look at both sides of the equation.

Any strategy that is based on spending aggressively without thought to profitability or cash flow, is risky strategy at best. Many dot-coms have quickly come to realize this, as the door to the capital markets slammed shut. One advantage that the shakeout of the past few months brings is a renewed focus on profitability and growth – but at a reasonable cost. That can only be good both for investors and for the long-term health of the Internet sector.

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.

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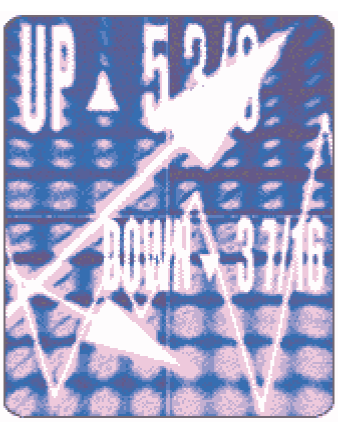
4. Upgrades & Downgrades



3Com Delivers the Results, Morgan Stanley, the Upgrade

By Shannon Swingle

3COM (COMS): On Sept. 27, Morgan Stanley Dean Witter upgraded its rating on 3COM to OUTPERFORM from NEUTRAL, prompted by the data networking and Internet infrastructure company's better than expected first-quarter report for fiscal 2000, which ends in May 2001. Total revenue was $933.8 million, up 22% from the previous quarter, and well ahead of Morgan Stanley's estimate of $800 million. A key positive according to the brokerage: Revenue from 3COM's emerging wireless, voice over Internet protocol and broadband businesses grew 70% quarter-to-quarter, to $147 million, representing 18% of revenue. Morgan Stanley acknowledges that there are investment risks associated with 3COM. The company's execution has been inconsistent in recent years, and, like all vendors of networking systems, 3COM will have to deal with shortages of key components. In addition, 3COM upset some large corporate customers when it abandoned its CoreBuilder LAN switching product – customers that might avoid all of 3COM's products in the future.

But Morgan Stanley says the shares are inexpensive, using several valuation methodologies. "At a market capitalization of $8 billion (based on fully diluted shares), the company is trading at just over 2-times our calendar 2001 revenue estimate of $3.9 billion. We believe this is low given the company's portfolio of emerging, high-growth products." Using a sum-of-the-parts valuation, it values 3COM at $24 a share. What's more, 3COM has $3.6 million in cash and investments, representing more than $7 a fully diluted share. The firm has increased its fiscal 2000 revenue estimate to $3.66 billion from $3.42 billion, and its initial fiscal 2001 estimate calls for revenue of $4.24 billion. It also narrowed its estimated fiscal 2000 loss to $0.15 a share from $0.49 a share. Morgan Stanley expects 3COM to be profitable in the fourth quarter of fiscal 2000. The shares closed at $19.19 on Sept. 29. The shares are up 38% since the better than expected earnings, and rose 13% after the company announced that Bruce L. Clafin, currently the president and chief operating officer, would succeed Eric A. Benhamou as chief executive officer in Jan. 2001. Mr. Benhamou will continue as chairman.

CYPRESS COMMUNICATIONS (CYCO): Dain Rauscher Wessels reduced its rating on CYPRESS on Sept. 27 to NEUTRAL from BUY, after the company told analysts that results for the remainder of 2000 and for 2001 would not meet expectations. CYPRESS provides designs and installs broadband networks for small- and medium-sized businesses in multi-tenant office buildings. The shortfall was attributed to construction and provisioning delays, and the company has cut its planned network expansion to 27 markets from 54, which should result in reduced capital spending requirements. The company told analysts that third-quarter revenue would be about $3.5 million; Dain Rauscher had expected $4.6 million. The brokerage reduced its fourth-quarter revenue estimate to $4.3 million from $6.5 million. The effects of the scaled-back expansion will be more pronounced next year. Dain Rauscher cut its forecast of 2001 revenue to $41 million from $73 million, and the firm increased its estimate of next year's EBITDA-basis loss to $112 million from $99 million. The company continues to say it will be profitable on an EBITDA basis in 2003. CYPRESS COMMUNICATIONS shares closed at $2.66 on Sept. 29.

METROMEDIA FIBER NETWORK (MFNX): Kaufman

Bros. raised its rating of METROMEDIA FIBER to STRONG BUY from BUY on Sept. 26. The firm starts with the proposition that Wall Street mistakenly believes that the company is a CLEC and has sold it off with the rest of that sector. METROMEDIA FIBER builds metro-area fiber-optic networks that are distinguished by their capacity and sells the dark fiber to telecommunications services providers and large companies. Kaufman Bros. argues that the company enables competition in the local loop, and says METROMEDIA FIBER "is a stock to own for investors seeking exposure to telecom without betting on any one company or vertical or geographic market." Kaufman Bros. feels the company has minimal bad-debt exposure to distressed dot-coms and CLECs, saying most of its customers prepay for the company's services. In a market where funding is critical, METROMEDIA FIBER boasts $2 billion in working capital, thanks in part to $1.6 billion investment by Bell Atlantic, now VERIZON COMMUNICATIONS (VZ). In addition, the company's rollout of AboveNet, its Internet exchange business, will likely position METROMEDIA FIBER strongly in the collocation/carrier exchange marketplace, a business that Kaufman believes will grow exponentially. Kaufman Bros. maintained its 2001 target price of $59 on METROMEDIA FIBER, which closed at $24.31 on Sept. 29. Research on METROMEDIA FIBER was accessed 789 times and 11 new reports on the company were added to the Multex.com database in the week of Sept. 18 to 24.

Insider Trading Clues

Naming Their Price for Priceline.com

By Craig Columbus
President, insiderSCORES.com

Prior to the recent announcement that PRICELINE.COM (PCLN) would not meet estimates, the company experienced a run of insider selling. In August, insiders at the e-commerce company sold 8.2 million shares at $23.75 to $25.38 a share. Founder and vice chairman Jay S. Walker was responsible for the bulk of the selling, selling 8 million shares. Richard S. Braddock, PRICELINE's chairman and chief executive officer, sold 100,000 shares. Nicholas J. Nicholas, a director, also sold 100,000 shares.

Mr. Walker's sale was the second largest on record at the company. It also represents a reversal in his thinking. In November 1999, Mr. Walker purchased 2 million shares. At the time of Mr. Walker's sale, PRICELINE.COM had fallen 77% from its 52-week high. The stock dropped precipitously after the company warned analysts and investors about the third quarter on Sept. 27, and closed on Sept. 29 at $11.88. – *Eric Lopkin*

5. Keyson's Hot Lunch

It's a Long, Arduous Road to Offer Insurance Over the Web

Gary Lauer, Chief Executive Officer, eHealthInsurance.com


Gary Lauer
eHealthInsurance.com

[LAUREN KEYSON] I'm sitting here with Gary Lauer, CEO of eHealthInsurance.com, and we're in Kar restaurant in New York City. He's sipping water. I have a Diet Coke.

[GARY LAUER] I was thinking that since you're going to publish what I'm eating, I should order something very unusual and kind of wild. I may go for the raw jellyfish tentacles or something, which is a dish I had in Tokyo not long ago.

[LK] How was it?

[GL] It was interesting.

[LK] Interesting means that on a scale of 1 to 10, it was a 2.

[GL] Well I haven't been searching for it since. [Editor's note: Mr. Lauer ended up eating chicken teriyaki with magura tuna and tempura shrimp. Ms. Keyson ate a cucumber avocado roll and magura tuna.]

[LK] eHealthInsurance was founded in 1997. To give a quick overview, you're an online resource and purchasing conduit for individual, family and small-business health insurance.

[GL] Right. What we've done is bring together all of the major U.S. health insurance carriers into one place. In some ways we are an Internet company, but really the Internet is just the platform. We're addressing a very traditional market. It's a big market – investors will be interested in this. In 1999, over $330 billion was spent on health insurance premiums in the United States. It's one of the biggest single categories of expenditure across all industries.

[LK] Everyone I talk to always says that they have a big, billion-dollar market out there. Can you give us some feel for how big it is?

[GL] Minimally, $330 billion was spent last year. Health care is very topical. We're going to hear a lot from Bush and Gore over the next several weeks about the uninsured and health care in the U.S. It's a gigantic market.

There was a front-page article in The New York Times. Health care alone is estimated to be in excess of $1 trillion in expenditures. The health insurance part of that is the single largest expenditure – $330 billion last year.

To break it down, 10% of the population is self-employed. They're electricians, plumbers, private investors, independent journalists. They have to buy their own health insurance. Last year over $30 billion was spent by those people alone. Small business – businesses with 50 or fewer employees – is 25% of the market. It's estimated that there are over 12 million small businesses in the U.S. So when you start to break it down and look at it with a little more of a granular perspective you can see that it's a very big market space that isn't addressed as effectively as it could be. That's what our company is all about.

[LK] There has been a lot of negative publicity about health sites in general, especially with DRKOOP.COM (KOOP). Has any of that rubbed off on eHealthInsurance?

[GL] No. We're not close to any of that. There have been a number of companies that have set themselves up as portals, as destinations where you can go to learn. Some have done things to try to connect and make the payment process and record-keeping process more efficient. It's all interesting stuff but we don't do any of that.

We have a very simple and singular purpose. We're focused on health insurance and related products and providing an efficient way for individuals and businesses to learn about health insurance. We try to help them make a decision or selection that's most appropriate for them, for their employees or for their family members. Then we enable them to buy the insurance. That's what we're about.

[LK] Can you make revenue off of a plan that focused?

[GL] We can make significant revenue. As I said, the market is big. Health insurance is unique in that it is billed and paid on a monthly basis. We receive a percentage of that every month, so we have a recurring revenue stream. Once an individual or a company buys a policy from us, every month that they hold it and pay for it we are paid a piece of that by the insurance carrier to maintain and support it. That can be significant revenue. It ranges from 10% to 20% of the policy value. When you think about the size of the market, the recurring nature of the revenue stream and the fact that we're able to do things in terms of communication and connection using the Internet to provide a lot of customer care and support, the revenue model and profitability model in this business get to be very attractive.

[LK] Do you have multiple revenue streams?

[GL] Our revenue stream is very attractive. Our cost of acquisition is very good. We acquired a number of our customers through partnerships. For example, some of the very large online insurance marketplaces like Quicken, which is owned by INTUIT (INTU), INSWEB (INSW) – and the list goes on – most of those point to us exclusively.

[LK] Can you name any others?

[GL] I'll give you some offline ones. A great one is the National Federation of Independent Businesses, with more than 700,000 small-businesses members. It's one of the biggest lobbying groups in Washington, D.C., and we're the exclusive provider of health insurance to those small businesses. AAA in California is another example. The second largest payroll processing firm in the U.S., PAYCHEX (PAYX), is a partner. Visa is another example. We just signed COMERICA (CMA), which is a very large Midwestern bank.

[LK] What about your competitors? Who else is out there?

[GL] We don't see any significant competition. There have been some companies that tried to do this. Earlier this year, both Quicken's insurance site and INSWEB made significant investments in health insurance and we saw them as real competitors. What they learned is that the barriers to entry are very high. It's a complex business and it requires a lot of knowledge. They ended up partnering with us. Now when you go to their sites you make one click for health insurance and come to us. There are some smaller companies. One was HEALTHAXIS (HAXS), but the company recently sold its consumer services Web site to Digital Insurance, a private company. We don't know much about that. So it's a very hard business to get up and going in.

[LK] As far as you know, are there any public companies doing it right now?

[GL] No, not doing what we're doing. Health is an interesting business and industry. It can be tough. Here's what I think is in many ways the secret that a lot of people miss with health: Health is not a national industry. It is a very localized business. Physicians are localized, hospitals are localized, clinics are localized, and health insurance carriers are localized state-by-state. If you take a local approach, in our case a state-by-state approach, you can be highly successful, and we are. We're licensed in 47 of 50 states. We cover 90% of the U.S. population today.

[LK] Talk to me more about the barriers to entry. What kind of knowledge do you need to have?

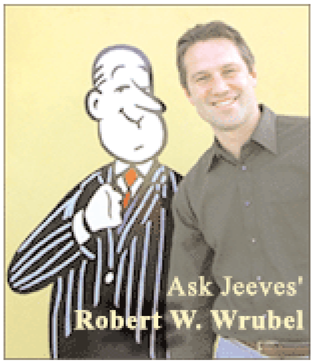
[GL] The barriers are formidable. First of all, this is a highly regulated business so you have to get yourself licensed state by state. That can be a daunting process. We have to be licensed in each state, each carrier has to be licensed in each state, we have to be appointed by the carrier, and many times we need to get that appointment certified by the insurance commissioner. You and I couldn't go off in a garage for a month and decide to invent this business and come out and be doing health insurance on the Web. There's a lot of legwork involved. It's taken us two-and-a-half years to get to where we are.

So you've got all the licensing. Then there's compliance with all the state insurance commissions, which can be formidable. And then there's the technology, which has to be built to be able to actually deliver the efficiency that we provide to the individuals and small businesses. We have to tie that in to all the different systems of the health insurance carriers.

Our No. 1 priority is customer care. We have over 90 people in our customer care operation, 60 of whom are licensed agents. They're all full-time employees of the company. They have a tremendous amount of knowledge about health insurance and the different kind of programs that are available, products and so on. We represent over 36 carriers, and over 3,000 products. There's a lot that has to be done to build this kind of a business.

Other articles in Keyson's Hot Lunch:

6. Executives Zero In



Ask Jeeves

Robert W. Wrubel, Chief Executive Officer

Interviewed by George S. Mack

Perhaps you're not up on your Boolean search string skills and you need a quick answer to a simple question. ASK JEEVES (ASKJ) might be just be the ticket. The Emeryville, Calif.-based company has a group of Web properties including Ask.com, Ask Jeeves for Kids and Direct Hit where non-rocket science types can go to ask about pet health or real estate or just about anything else. But JEEVES also has a B2B business solutions unit that provides the same kind of help for customers of FORD MOTOR (F), MICROSOFT (MSFT), MARTHA STEWART LIVING OMNIMEDIA (MSO), DELL COMPUTER (DELL), Datek and E*TRADE GROUP (EGRP) as well as many others. The company reported second quarter revenue of $26 million, up ninefold from the 1999 quarter. ASK JEEVES, which closed at $19.19 on Sept. 29, is down 83% in the year to date.

[THE INTERNET ANALYST – GEORGE S. MACK] Why would another company use your question-answer technology for its Web site?

[ROBERT W. WRUBEL] We help those companies dramatically improve their interaction with the customer by making it far less frustrating. It also helps reduce support costs by having customers answer questions by themselves on a Web site.

[GSM] How do you generate revenue?

[RWW] The way we make money at our Web properties group [Ask.com, Ask Jeeves for Kids and Direct Hit] is by providing marketing and targeting services to companies who are trying to find customers on the Web for their products and services. We use advertising banners, sponsorships, e-commerce links and a host of other methods to target customers and then bring them to a Web site or to a product or service on the Internet.

[GSM] What percentage of revenue comes from your Web properties – Ask.com, etc.?

[RWW] About 60% of our revenue comes from our Web properties – advertising, e-commerce and sponsorships.

[GSM] What about your corporate customers? How do you generate revenue from those accounts?

[RWW] We make money on our business solutions group by providing a customized professional service where we license the use of our technology on our customers' Web sites. We are currently servicing over 115 companies.

[GSM] Give me an example of what you do for another company with your customized business solution.

[RWW] On the business solutions side, we go to, let's say, E*TRADE and we develop a service there called Ask E*TRADE. In that particular case, we developed a customized system around their Web content and around their particular business needs to reduce e-mail and call costs. What we do is provide a question and answer service that answers those questions that are E-TRADE customer support issues.

[GSM] How do you know if you're helping them?

[RWW] If we do a good job – which we do – what we'll see is a reduction in the amount of e-mail that comes in, and you'll begin to see an increase in sales and transaction volume. We've enabled the customer to have a better interaction with the Web content.

[GSM] Your stock is down more than 85% since its high in mid-November of last year. Does that take a lot of pressure off since you don't have to worry about your high-flying stock price?

[RWW] Well, since I'm a glass half-full kind of guy, I like to think that we have more than doubled since our IPO. But I would say it applies a little bit more pressure, because there are a number of people who want to know why you aren't $186 today or why you aren't at $130. It actually increases pressure internally, because you have to explain it to people who haven't been around bull and bear markets and haven't seen stocks on roller coaster rides.

[GSM] Is your low stock price a good recruiting tool for employees who would be interested in your stock options?

[RWW] Clearly if people are able to see the upside in opportunity – the power of the brand we've built around Jeeves – and understand the capabilities of our technology and the market potential worldwide, then anyone would say this is a very undervalued opportunity. It becomes a more effective recruiting tool as long as people understand the potential.

[GSM] Your second quarter numbers beat analysts' estimates quite nicely. What accounted for that performance?

[RWW] The biggest single factor in terms of our top-line growth was our international revenue. That was about 11% of our total, whereas international revenue had been less than 1% of the total in prior quarters. I think the other part that was very encouraging for us and for investors is that we demonstrated operating leverage in the business, in that we were able to beat the Street in loss number terms. People want to see continued operating leverage as you grow your top line.

[GSM] How big is your addressable market?

[RWW] You can cut it a couple of different ways, but we think over time there's probably a marketplace of 40,000 companies worldwide that will spend anywhere from $200,000 to $500,000 each in search and interaction capabilities. Do the math on that. [$8 billion to $20 billion.] Our job is to capture as large a share of that market as we can.

[GSM] How big can you get?

[RWW] I want us to be a $1 billion [revenue] company as quickly as we possibly can.

Vital Statistics
Ask Jeeves (ASKJ)

Market Cap	$684.5 million
Shares Outstanding	35.7 million
Recent Stock Price	$19.19 (9/29/00)
52-Week Range	$190.50 – $13.75
Price to Est. 2000 Revenue	6.4-times
Price to Est. 2001 Revenue	2.9-times

Years end December	**EPS**	**Revenue (millions)**
1999A	($1.75)	$22
2000E	($1.85)	$107
2001E	($0.88)	$235
2002E	$1.17	$380

Source: Morgan Stanley Dean Witter

Other articles in Executives Zero In:

September 28	Alan P. Naumann, President & CEO of Calico Commerce
September 21	John M. Payne, Chairman and CEO, Stamps.com
September 14	Travelocity.com - Ramesh Punwani, Chief Financial Officer
September 7	fashionmall.com-Benjamin Narasin, Founder, Chairman, CEO and President
August 31:	Scott P. Kurnit, Founder, Chairman and CEO of About, Inc.

[GSM] Can you achieve that by year 2005?

[RWW] For the sake of other investors, it would be unfair for me to make a hard and fast prediction on that, but you can certainly assume that we think that's something we should be able to do.

7. Convergence Matrix

Primus Telecommunications

Convergence Goes Global

By Lauren Keyson

Let's talk global synergy – is the convergence of telecommunications, the Internet, computers, and media happening globally? K. Paul Singh, the president and chief executive officer of PRIMUS TELECOMMUNICATIONS (PRTL), feels that it is taking place, just at a slower pace in some countries. He says that other developed countries lag 12 months behind North America, and that developing countries trail North America by more than two years.

In terms of the Internet area, other countries aren't quite as far behind as they are traditional services, especially with the deregulation that is taking place, even in developing countries. It means that Europe and developing countries are catching up fast. "This thing is going on everywhere," he said. "The Internet part doesn't have the lag time that other industries have. Even the voice business will end up being the voice-over-IP business. The switches are coming, different companies are building them, and they will be tested in a few months."

Because PRIMUS is gearing up for the future, I asked Mr. Singh to give me some sense of the super-futuristic part – satellites – the other trend that is going on in the convergence arena. We all know that Web sites today are pretty slow and pretty static. But the trend now is to deliver streaming media – video and sound that are comparable to what you get from a television. To do that companies need bandwidth, but they also need to get their content closer to the "edges."

"Let's say somebody in India wanted to see YAHOO!'s (YHOO) site" says Mr. Singh. "If they dial in, and the content has to come all the way from the United States, it takes too long. The trend is, you put caching servers that store all the information in, say, Delhi. Then, for the dial-up customer in Delhi, the delivery would be just as if they were dialing in from the U.S. Same information, but the response times are quicker, and if you need more content, it's sitting right in Delhi – you eliminate the back-and-forth. And satellites happen to be the best medium. Say you have 500 locations, where do you want to have the content sitting? You want it close to the customer. Satellites can deliver YAHOO!s content to all of those 500 locations."

Put simply, with satellites you just send the signal up, and it comes down around the world. Fiber is point-to-point, which means a U.S.-based telecom company would need to send its content separately to each different location along a different strand of fiber. With a satellite, the signal is broadcast to each location simultaneously. Distribution becomes very economical, especially with satellites that are capable of broadband transmissions.

For the time being, PRIMUS uses ATM and IP on its Internet data business. A key benefit of ATM, or asynchronous transfer mode, is its flexibility. The technology provides for high-speed transmission of different kinds of content – data, video, voice – over a wide variety transport media. But it is based on voice circuit switching. And as more investments go into IP technology, it's widely predicted that Internet-protocol over fiber optics will replace ATM.

PRIMUS itself is moving in the direction of becoming an Internet-protocol company. For now, it tries to use technologies that have already proved themselves. Mr. Singh says that PRIMUS is in the business of networking. It does not want its customers to get quality that is not up to par. So he has other companies test out the new technology. But once tested, PRIMUS then deploys it in its network, and he sees that in two to three years, even voice will be IP.

Telecom companies need an Internet component to grow. Consumers and businesses both need to have access to the Internet." If you're a business, you should be online with a Web site," says Mr. Singh. "Once you have a Web site, you can expand it to do e-commerce and e-business, the types of things which not only save you money but allow customer bases to grow."

Customers also want is software that is too expensive to deploy on a company-wide basis. That's where ASP, or application service provider, business, comes in. It allows a company to "rent" the software and be charged a fee based on usage. According to Mr. Singh, PRIMUS is anticipating its customers' needs by establishing a major Internet hosting and ASP presence. Most recently, PRIMUS opened a 10,000-square foot data center in London powered by HEWLETT-PACKARD (HWP) infrastructure, which offers hosting, e-commerce and ASP services to small- and medium-sized enterprises. The center employs PILOT NETWORK SERVICES (PILT) technology to protect the network from hackers.

So why is the stock price so low, even though the company enjoys STRONG BUY ratings from the likes of Morgan Stanley Dean Witter and Kaufman Bros.? The answer could be in the way the telecommunications industry as a whole is perceived: investors still view telecom companies as long-distance and local service providers, and don't yet register the gains these companies have made in the convergence area.

"If one just looked at our data/Internet revenue for the last quarter, we were just under $110 million dollars, which we have grown primarily over the last 18 months. If PRIMUS were just a data company, its value would be a few times more than its is today. One of the reasons our stock is so undervalued is that we started as a voice business, which itself is being converted to IP, and normally we get lumped into voice-only types of services. And, we are better than most of the data companies. If you take the pure-play data companies and compare them to us, our growth rate would be higher."

PRIMUS is profitable on an EBITDA-basis. It has a network that spans 29 countries. In the second quarter revenue came in at an annual run-rate of $1.2 billion. It ended the quarter with $568.5 million in cash, equivalents and marketable securities on its balance sheet. The company provides not only has telecommunications services, but its iPrimus.com subsidiary offers data and Internet services. PRIMUS now has seven hosting centers in different countries. It also has satellite coverage, with a big dish in the U.S. that can bring the traffic all the Indian-ocean countries into its backbone.

"But no one knows this," sighed Mr. Singh. "Whether you compare our revenues or how fast we are growing, the network or the services, you would see we would fit in more on the high end. It's just getting the story out. But with the voice business down it kind of pulls everything. And that's the problem." Perplexing for the company, to be sure, but perhaps an opportunity for value investors. On Sept. 29, the stock closed $9.50.

K. Paul Singh was interviewed in Executives Zero In, The Telecomm Analyst, Oct. 3, 2000.

Convergence Industry Index (in alphabetical order)

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

Public:

1 **ACTV** / www.actv.com (IATV) $14.44 -$0.47
730.42M New York
Software to synchronize TV programming with Net

content delivery

2 **AT&T** / www.att.com (T) $28.50 $1.93
107.05B New York
Telecom, Internet, computers, cable TV

3 **BellSouth** / www.bellsouthcorp.com (BLS)
$39.38 $2.06 73.79B Atlanta
Telecom, Internet, cable and digital TV, wireless access

4 **Chequemate International** / www.3d.com (DDD)
$1.50 -$3.28 15.37M Marina Del Rey, CA
3-D TV network; Net-transmitted video; special effects software

5 **ClearWorks.net** / www.clearworks.net (CLW)
$3.50 -$0.21 88.64M Houston
Bundled Net/phone/video services; networking

6 **Comverse Technology** / www.comverse.com
(CMVT)$106.00 $1.78 17.45B Woodbury, NY
Phone/computer access to voice/fax/e-mail; multi media systems

7 **Convergent Communications** / www.converg.com
(CONV) $3.47 -$6.81 102.63M
Englewood, CO
Telecom & Net services, networking, Web/e-busi ness development

8 **Datalink.net** / www.datalink.net (XLNK) $10.13
-$0.60 143.28M San Jose, CA
Web-to-wireless platform for delivery of content; software

9 **Deutsche Telekom** / www.dtag.de (DT) $35.44
$0.43 107.36B Bonn, Germany
Telecom, cable TV, radio, Internet, programming

10 **General Electric** / www.ge.com (GE) $59.00
$1.17 584.03B Fairfield, CT
Telecom, broadcast and cable TV, Internet, comput ers

11 **Gemstar-TV Guide International** /
www.tvguideinc.com (GMST) $83.94 $0.45
34.35B Pasadena, CA
Technology for delivering cable & Net content to various platforms

12 **Global Crossing** / www.globalcrossing.com
(GBLX) $31.88 -$1.13 28.07B Hamilton, Bermuda

Fiber optic telecom and Net service, Web hosting, software

13 **Handspring** / www.handspring.com (HAND)
$76.38 N/A 7.86B Mountain View, CA
Handheld computers offering wireless Net and modem connection

14 **InfoSpace** / www.infospace.com (INSP) $29.94
-$0.54 7.00B Redmond, WA
Content for Web sites and wireless; software

15 **ITXC** / www.itxc.com (ITXC) $14.88 -$1.57
573.19M Princeton, NJ
Net-based voice & fax service, voice-enabled appli cations

16 **Liberate Technologies** / www.liberate.com (LBRT)
$27.13 -$1.68 2.78B San Carlos, CA
Software platform for content to delivery via Net and telecom

17 **Lucent Technologies** / www.lucent.com (LU)
$31.25 $0.80 104.36B Murray Hill, NJ
Telecom equipment, Internet, content, computer net working

18 **Microsoft** / www.microsoft.com (MSFT) $61.31
$1.71 322.65B Redmond, WA
Internet, telecom, computer hardware, cable TV

19 **Nextlink** / www.nextlink.net (NXLK) $38.75
-$2.33 10.59B McLean, VA
DSL service, Net access, Web design & hosting, VPNs

20 **Nokia** / www.nokia.com (NOK) $40.94 $0.64
191.14B Espoo, Finland
Mobile phones, Internet, computer hardware, inter active TV

21 **Oracle** / www.oracle.com (ORCL) $81.48 $2.18
228.77B Redwood City, CA
Database software enabling Net access from PCs and appliances

22 **Palm** / www.palm.com (PALM) $52.13 $0.10
29.45B Santa Clara, CA
Handheld computers offering wireless Internet con nection

23 **Pumatech** / www.pumatech.com (PUMA)
$20.36 -$0.74 853.57M San Jose, CA
Software for exchanging data via Internet and tele

com

24 **Real Networks** / www.realnetworks.com (RNWK) $40.38 -$0.25 6.27B Seattle
Software for playing audio and video over the Internet & broadband

25 **Research in Motion** / www.rim.net (RIMM) $83.44 $0.12 5.95B Waterloo, Canada
Handheld computers offering wireless Net and modem connection

26 **SBC Communications** / www.sbc.com (SBC) $49.69 $1.90 169.02B San Antonio, TX
Telecom, Internet, cable TV, networking

27 **Scientific-Atlanta** / www.sciatl.com (SFA) $61.50 $0.94 9.90B Norcross, GA
Set-top boxes for cable and Net transmission; net working services

28 **Sony** / www.world.sony.com (SNE) $104.44 $1.30 95.13B Tokyo
Media, Internet, computer monitors, telecom

29 **Source Media** / www.sourcemedia.com (SRCM) $5.13 $2.39 83.04M Dallas
Streaming media content via Net, cable; networking services

30 **TiVo** / www.tivo.com (TIVO) $18.91 -$3.89 719.93M San Jose, CA
Set-top boxes for cable and Net transmission

31 **United Pan-Europe Communications** / www.upc corp.com (UPCOY) $20.00 -$0.37 8.74B Beverly Hills, CA
Set-top boxes for cable & Net transmission, telepho ny

32 **USA Video Interactive** / www.usvo.com (USVO) $2.56 N/A 227.41M Mystic, CT
Video on demand systems and software via Web and telecom

33 **Virage** / www.virage.com (VRGE) $17.44 -$1.67 347.27M San Mateo, CA
Software for distributing media via Internet and telecom

34 **Wave Systems** / www.wavesys.com (WAVX) $17.13 -$0.83 786.21M Lee, MA
Secure delivery of content over Net by cable, satel lite; software

35 **Winstar Communications** / www.winstar.com (WCII) $16.00 -$9.04 1.45B New York
Telecom and Net services, Web site creation, custom applications

Private:

1 **Cla@rity Integrated** / www.clarityintegrated.net (private) — — — Calverton, MD
Broadband and Net services, VPNs, content man agement

2 **IBlast Networks** / www.iblast.com (private) — — — Beverly Hills, CA
Network for over the air broadcast of digital media; software

** Based on closing Nasdaq prices on 9/28/00. Market caps unavailable from Nasdaq are taken from Market Guide Inc. (www.market-guide.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 28: Microsoft, WorldCom and Coverged Industries

September 21: From Converged Messageing to Unified Comm

September 14 From Russia, With Love

September 7: Convergence in a Plastic Case

August 31: In Convergence, Timing Is Everything

8. Trends & Innovations

The Battle Is Joined in the Handheld Market

By David A. Sterman

As we head into the final months of the year, a clear trend is emerging: growth in the sales of personal computers is flattening, as newer handheld computing devices are surging. Coincidence? Probably not. Consumers have a limited budget for new technology products and many are opting to buy the smaller, more mobile devices that complement their existing desktop computer. Selling for one-fourth of the cost of a traditional PC, the decision is an easy one for many purchasers.

Wall Street has already concluded that PC makers have lost the war. Box makers such as GATEWAY COMPUTER (GTW) and DELL COMPUTER (DELL) trade for 1- to 2-times projected 2001 revenue. But upstart PALM (PALM) trades for 15.5-times projected revenue for fiscal 2001, which ends next May. And RESEARCH IN MOTION (RIMM), whose BlackBerry pager has proven quite popular, now trades at a lofty 39-times projected 2001 revenue.

In reality, the outlook for computer makers isn't quite so bleak. More importantly, the road to growth for the new breed of players may prove to be quite bumpy. A pair of factors could affect the growth in sales – and profits – for companies such as PALM and RESEARCH IN MOTION.

For one thing, these companies may find that the market opportunity is smaller than they thought – especially if current prices to access the Internet hold. For example, a Palm pilot equipped with an OMNISKY (OMNY) modem is a costly proposition. Between the $700 cost of the modem and the $40 a monthly in access fees, consumers will have to shell out more than $1,000 in the first year. METRICOM (MCOM) is rolling out its Ricochet wireless Internet access service, but charges $70 a month for the privilege of using it. Users of RIMM's BlackBerry pagers – which cost $349 to $499 – are forking over out similar amounts for their access. As a result, large corporations and the wealthiest consumers may be the only ones signing up for the product.

To be sure, those costs could well come down sharply over the next few years as more players enter the market. But that would sharply curtail profit margins. Computers have dropped in price even as their functionality has increased, pressuring the industry's bottom line. Handheld devices, though, may eventually be given away, if consumers are willing to sign up for monthly Internet access products. And those monthly charges will likely fall below $20 a month over the next few years.

RESEARCH IN MOTION faces another potential headache. The company currently uses a fairly narrow frequency of the wireless spectrum to transmit e-mail and deliver limited Web access. That spectrum, which was originally developed for pagers, is ill equipped for the higher speeds that will be necessary to offer the coming third-generation (3G) services. Competing services will be upgraded to 3G technology, which offers a much more compelling mobile Web surfing experience.

RESEARCH IN MOTION's supporters counter that the national paging network already covers a much larger geographic footprint, and note that pagers even work inside office buildings – a severe drawback for other wireless platforms.

Regardless of which horse wins the race, the spoils will be huge, if adolescents and teens are any indication. Many students have been using computing technology since their first day of kindergarten. Kids are remarkably tech-savvy and rush headlong into new technologies like MP3. And these days, teens can't get enough of a new device called the Cybiko. Imagine a Game Boy meets a Palm Pilot, and throw in a walkie-talkie with a wireless twist. The $129 Cybiko allows kids to electronically chat, send e-mail, organize schedules, or play games with other Cybiko users. AMERICA ONLINE (AOL) thinks privately held Cybiko is on to something, and recently acquired 20% of the company. Toy maker HASBRO (HAS) is getting into the act, and plans to launch a line of similar devices later his fall through its Tiger Electronics subsidiary.

Companies like PALM and RESEARCH IN MOTION will likely report strong sales growth over the next few years. But it's too soon to conclude that these first-movers will dominate the segment over the long haul. Traditional computer makers, as well as consumer electronics titans will spend aggressively to build their own market share. And that could lead to wafer-thin profit margins for the entire industry.

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http://www.theinternetanalyst.com/individual/001005sections/strongbuys.asp

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

9. Global Prospects

Baltimore Technologies

Making the Internet Safer for Business

By Mike Robbins

Electronic signatures became just as valid as the old-fashioned pen-and-ink kind in the United States on Oct. 1, 2000. That might not be stop-the-presses news, but it is a clear signal that the share of business transactions conducted over the Internet will continue to rise – and that's very good news for the e-security sector.

By all accounts, e-security is likely to be among the fastest-growing Internet sub-sectors in the coming years, with perhaps 30% annual growth through 2003. Among the fastest-growing components in Internet security might just be something known as PKI, or public-key infrastructure, according to a recent report by Barry Dixon, an analyst at Davy Stockbrokers. That would bode well for BALTIMORE TECHNOLOGIES (BALT), among the leaders in PKI, and it's a big reason why Mr. Dixon rates the stock a BUY. He sees the company's revenue growing at an annual rate of 100% through 2003. He isn't alone. Analysts, including Merrill Lynch's Coleen Kaiser, ABN AMRO's Jemma Houlihan, Lehman Brothers' Mairi Johnson, Beeson Gregory's David Johnson, and Goodbody Stockbrokers' Gerry Hennison, recently rated BALTIMORE a BUY. UBS Warburg-Europe's Marco Pabst rated BALTIMORE a STRONG BUY.

The appeal of e-security stocks should be obvious. Few question that the coming years will see tremendous increases in the amount of business conducted over the Internet – everything from e-mailed business correspondence to online banking. Concerns about security would hamper this process. E-security companies, such as BALTIMORE, which is based in the Basingstoke, England, attempt to address this problem. In BALTIMORE's case, it handles the issue mainly through products and services based on PKI technology, which encrypts data for transfer over the Web and provides the key to access it.

If BALTIMORE had this market to itself, its future prosperity would be all but assured. But as it happens, competition is considerable, making this e-security company's future anything but secure. Despite its rapid growth in recent years, BALTIMORE is little more than one-tenth the size of the $37 billion e-security leader VERISIGN (VRSN), of Mountain View, Calif. BALTIMORE acquired GTE's CyberTrust division in March 2000. The deal increased the company's presence in the U.S. market and in the hosted-PKI space that is dominated by VERISIGN, and competition between the two companies has, if anything, increased.

The third major player is in-house PKI specialist ENTRUST TECHNOLOGIES (ENTU), based in Plano, Texas. However, ENTRUST is considerably smaller than BALTIMORE and has been growing at a slower rate. There are other, smaller e-security players as well. But in truth, the biggest threat might come not from any of these companies, but from the ever-present risk that one or more of the technology world's heavy-hitters will decide to step up their efforts in e-security. MICROSOFT (MSFT) and ORACLE (ORCL), in particular, are often mentioned as threats.

There also are those who question the attractiveness of the PKI market. While the growth rates are undeniably appealing, the dollar volume involved is not yet massive. Market analysis firm Datamonitor, for example, projects that PKI will make up less than a tenth of the overall projected $16 billion e-security market in 2003. That would represent tremendous growth for the PKI industry, which had revenue of $123 million in 1998, but is it enough to support the valuations of PKI's leading players? For BALTIMORE's sake, it better, for while VERISIGN is diversified throughout the world of e-security, BALTIMORE has, in large part, hitched its wagon to PKI technology.

Given all this, why do so many analysts recommend BALTIMORE? First off, the company is among the leading players in a high-growth market, even if it is dwarfed by VERISIGN. Second, BALTIMORE's growth rate is extremely impressive. Revenue for the second quarter of 2000, for example, was up 221% from the 1999 period. The company's list of partners is another good sign of the quality of its work – INTEL (INTC), HEWLETT-PACKARD (HWP), COMPAQ COMPUTER (CPQ), ELECTRONIC DATA SYSTEMS (EDS), UNISYS (UIS), SONY (SNE), Anderson Consulting, and KPMG all are on board.

And while BALTIMORE's stock is not cheap, it's considerably cheaper than VERISIGN's. A recent report on the IT security industry by J.P. Morgan Securities, found that BALTIMORE was valued at around 102-times its latest 12-month revenue. VERISIGN, by contrast, was valued at 241-times latest 12-month revenue. BALTIMORE is also considerably cheaper than it was back in March, when the stock hit $45. It subsequently fell below $10, and closed at $19.75 on Sept. 29.

There is always the chance that a high-tech giant could see BALTIMORE as a shortcut to the e-security market. In late August, rumors circulated on Internet bulletin boards that MICROSOFT intended to acquire BALTIMORE. Francis J. Rooney, BALTIMORE's chief executive officer, flatly denied the rumor. Still, a takeover by MICROSOFT or another tech giant could make some sense.

Obviously, BALTIMORE TECHNOLOGIES doesn't offer investors in its stock the same sort of security as it offers its customers. For those looking to play e-security without paying VERISIGN's lofty valuation, or those looking to invest in Europe's Internet future, a region where BALTIMORE is particularly strong, might consider the stock – if they can accept the risk.

10. The Analyst's Spotlight

Yahoo!

David Zale Sands Brothers

Interviewed by John Bishop

The Internet Analyst℠ *recently spoke with David Zale, senior Internet analyst for Sands Brothers, about YAHOO!'s (YHOO) recent troubles. Mr. Zale believes that YAHOO! is currently trading at a discount and reiterates his STRONG BUY rating. Mr. Zale holds stock in YAHOO!, but Sands Brothers has not done any underwriting for the company.*

[THE INTERNET ANALYST – JOHN BISHOP] YAHOO!'s shares have been suffering recently. Why?

[DAVID ZALE] I don't think there's anything wrong with the company, but something is wrong with the stock. YAHOO!'s been taking a beating for the last three to four months due to investor disillusionment with the business-to-consumer (B2C) sector, and doubts about the effectiveness of an advertising-based revenue model.

[JB] What is your own opinion of this model?

[DZ] My own research shows that there will continue to be growth in advertising on the Internet and that the sites that can deliver that advertising to users will be the beneficiaries of that growth. I believe that advertising growth will come both from Internet companies and traditional bricks-and-mortar companies, and that this growth will more than compensate for the slack left by the dot-com failures.

[JB] In your opinion, what is it about YAHOO! that still establishes it as a superior company?

[DZ] First, I predict 50% long-term earnings growth for the firm. YAHOO! remains one of the most heavily trafficked sites on the Internet. The company has a cash hoard of $1.4 billion with no debt, and it has 85% gross profit margins – something that few companies can claim.

[JB] What is your rating on the stock?

[DZ] I have a STRONG BUY rating with a 12-month price target of $180. [YAHOO! closed at $86.06 on Oct. 2.] I expect revenue to hit $1.1 billion in 2000, and $1.45 billion in 2001. I believe YAHOO! is an exceptional company worth investing your money in.

Vital Statistics
David Zale, Senior Internet Analyst
Sands Brothers & Co.

Education	University of Colorado
Industry covered	B2C Internet and Internet Security
Companies	EBAY (EBAY), PRICELINE.COM (PCLN), VERISIGN (VRSN), CHECK-POINT SYSTEMS (CHKP)

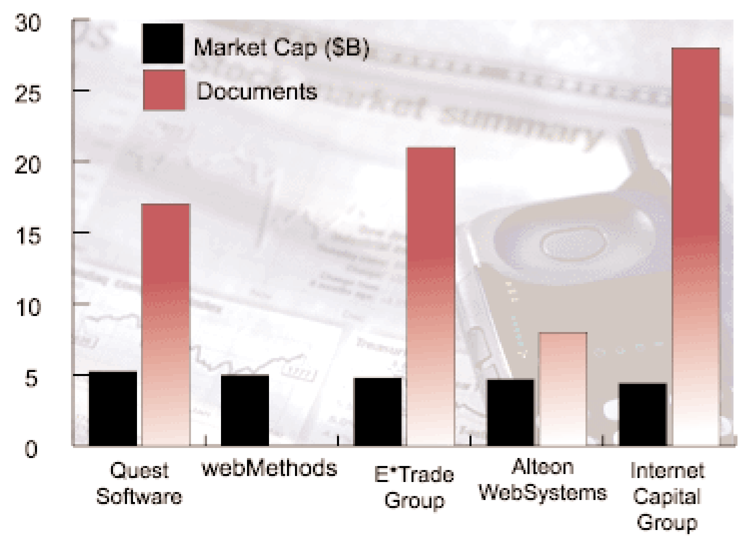
Recent Spotlight Articles:

September 28:	David Wu, ABN AMRO on Intel
September 21::	Jon Ekoniak, US Bancorp Piper Jaffray on Internet Capital Group
September 14	Liquid Audio-Ian Post, Sands Brothers
September 7:	William J. Gramas, Gruntal & Co. on Marimba
August 31:	Robert G. Fontana, Vice President, Wachovia Securities on VerticalNet

11. Top U.S. Picks

In a Down Quarter, an Incubator Turns a Quick Profit

By James C. Condon



Previous Next

49	Quest Software	QSFT 17 Documents	MarketCap $5.27
50	webMethods	WEBM N.A. Documents	MarketCap $5.02
52	E*Trade Group	EGRP 21 Documents	MarketCap $4.80
53	Alteon WebSystems	ATON 8 Documents	MarketCap $4.70
56	Internet Capital Group	ICGE 28 Documents	MarketCap $4.42

N.A. Not available

INTERNET CAPITAL GROUP, along with the rest of the Internet incubator group, had a rough third quarter. INTERNET CAPITAL shares slid 42% in the three months ended Sept. 29, while CMGI (CMGI), another incubator, fell 39% and SAFEGUARD SCIENTIFICS (SFE) dropped 38%. One of the problems facing the group: the weak market for technology initial public offerings, which makes it difficult for these companies to realize profits on their investments in private companies. However, near the end of the quarter, INTERNET CAPITAL sold its stake in privately held CentriMed, which supplies e-commerce software to healthcare providers. INTERNET CAPITAL sold its stake in the company for $15.2 million to Global Health Care Exchange, a marketplace formed by JOHNSON & JOHNSON (JNJ), GENERAL ELECTRIC's (GE) Medical Systems division, BAXTER INTERNATIONAL (BAX), ABBOTT LABORATORIES (ABT) and MEDTRONIC (MDT). INTERNET CAPITAL, which could receive an additional $15.5 million if CentriMed meets certain performance criteria, bought its stake for $8 million in early 2000. Research on INTERNET CAPITAL was accessed 1,260 times in the week of Sept. 18 to 24.

E*TRADE announced that it was "expanding" its deal with WIT SOUNDVIEW (WITC) that was announced on May 15, 2000. Originally, the complex deal called for WIT SOUNDVIEW to purchase E*Offering, 28% owned by E*TRADE, by issuing 32 million shares of stock. E*TRADE would purchase an additional 2 million shares of WIT SOUNDVIEW stock and assume control of WIT's 100,000 retail brokerage accounts. WIT SOUNDVIEW would become the exclusive provider of investment banking products – for instance, IPOs – to E*TRADE's customers for five years, and E*TRADE would receive warrants on an additional 2 million shares to lock-up the exclusivity in years four and five. If it exercised those warrants E*TRADE would own 10% of WIT SOUNDVIEW. Under the revised deal, that five-year period was lengthened and WIT SOUNDVIEW would apparently receive more share orders from E*TRADE customers. A vote on the new agreement by WIT SOUNDVIEW shareholders was scheduled for Oct. 16. Research on E*TRADE was accessed 710 times in the week of Sept. 18 to 24.

ALTEON WEBSYSTEMS, a maker of switches, semiconductors and software that speed Internet traffic, was sued for patent infringement in the U.S District Court for Northern California, by RESONATE (RSNT). ALTEON agreed in July to be acquired by NORTEL NETWORKS (NT) in a stock deal that was worth $7.8 billion when it was announced. RESONATE, which went public on Aug. 3, 2000, supplies software that monitors and assures the performance of e-business applications. The company says ALTEON WEBSYSTEMS infringes on its patent titled "World-Wide Web Server With Delayed Resource-Binding For Resource-Based Load Balancing On A Distributed Resource Multi-Node Network," which was issued in June 1998. ALTEON said it would defend itself vigorously. Research on ALTEON WEBSYSTEMS was accessed 378 times in the week of Sept. 18 to 24.

QUEST SOFTWARE sells Web-based products that monitor and tune the performance of applications and data delivered over the Internet or corporate data networks. Its shares had been under pressure in September, falling to $50.06 on Sept. 19 from $61.63 on Sept. 5. Then on Sept. 20, Robertson Stephens, the lead manage for QUEST's Aug. 13, 1999 initial offering, issued a report saying that it believes the company's business in the third quarter is on track to meet its forecasts of $39 million in revenue and earnings of $0.04 a share. In particular, the brokerage views the strength in ORACLE's (ORCL) database licensing business, reported a week earlier, to bode well for QUEST's quarter. QUEST shares jumped 19% after the report was released to close at $59.75, and managed to weather the weakness in the Nasdaq to close $62.11 on Sept. 29. Research on QUEST SOFTWARE was accessed 306 times in the week of Sept. 18 to 24.

WEBMETHODS is a leading provider of B2B supply-chain management software. Its products let links companies and their affiliates link inventory, ordering, shipping, billing and enterprise resource planning applications. WEBMETHODS announced that it would be the first B2B software infrastructure supplier to offer support for the World Wide Web Consortium's XML Schema. The Consortium, also known as W3C, is an international group founded in 1994 that seeks to promote the Web by developing common protocols that are designed to ensure interoperability. XML (for extensible markup language) Schema is a model for defining the structure and content of Web-based documents that makes it possible to "tag" or encode the content, not its appearance. Its development is being driven by the need by to make Web-based commerce easier by standardizing technical terms. WEBMETHODS says that its implementation of XML Schema will allow its customers to use "this rich data description capability for use with non-XML data structures, including EDI [electronic data interchange] and proprietary formats such as SAP (SAP) IDOC."

Companies ranked 49 through 55 in The Internet Analyst's℠ Internet Industry 150. Market caps based on Sept. 15 closing stock prices. When available, documents are the number of new documents contributed to the Multex.com database from brokerage firms during the week Sept. 18 to 24.

12. Microcap Scope

Intraware

Delivering Software and Services to Corporate IT Departments

By Michael Middleton & Timothy Middleton

INTRAWARE, of Orinda, Calif., provides software, research and training as well as sales of third-party technology, to enhance management of corporate information technology systems, notably on the Internet. The company claims more than 8,800 customers, including HEWLETT-PACKARD (HWP), AMERICA ONLINE (AOL), Fireman's Fund Insurance, owned by ALLIANZ (ALLZF), and the U.S. Army Corps of Engineers. In the company's second fiscal quarter, ended Aug. 31, revenue $32.6 million, down 21% from the previous quarter.

During the quarter, INTRAWARE acquired Janus Technologies, a provider of IT asset management solutions, for $24.3 million in stock. Greg P. Vogel, an analyst at Banc of America Securities, who rates INTRAWARE shares a BUY, says there is "low overlap" of customers between INTRAWARE and Janus, which gives the company more potential marketing opportunities.

The Janus acquisition adds its Argis asset management software to INTRAWARE's existing suite of IT applications. Corporate IT managers use INTRAWARE's Web site to do comparison shopping for software. Some 90% of INTRAWARE's software and services sales come from Netscape software. Jupiter Communications estimates that online content licensing will be a $1.5 billion market by 2004.

Mr. Vogel's long-range forecast calls for continuing losses. For fiscal 2000, which ends in February of 2001, the analyst expects a loss of $1.84 a share. In fiscal 2001 he expects the loss to narrow to $0.66 a share. Mr. Vogel expects INTRAWARE's to lose $0.50 a share in the fiscal third quarter. He says that in the near term investors "will continue to view the stock as a "show me story."

Vital Statistics
Intraware (ITRA)

Market Cap	$211.5 million
Shares Outstanding	26.2 million
Recent Stock Price	$8.06 (10/2/00)
52-Week Range	$99 – $5.25

Fiscal years end February of following calendar year	**EPS**	**Revenue (millions)**
1999A	($1.14)	$96.9
2000E	($1.84)	$160.1
2002E	($0.66)	$233.6

13. IPO Update

Waiting for an Established Specialist in Arcane B2B Research

By John Filar Atwood

Although it just announced its initial public offering, investors should not mistake AMR RESEARCH (AMRR-proposed) for an Internet start-up. Founded in 1986, the company focuses on industry-specific coverage of supply-chain management, customer management, enterprise management, and the underlying technologies of B2B e-commerce. AMR RESEARCH has nearly 900 clients, including GENERAL ELECTRIC (GE), PROCTER & GAMBLE (PG) and GOLDMAN SACHS (GS). AMR RESEARCH's revenue was $25.4 million in 1999, and $17.4 million in the first half of this year. Its revenue has grown at a compound annual rate of 54% since 1995.

Despite its long history and solid numbers, AMR is still among the smaller competitors in the online research and analysis market. This is particularly true following the Sept. 20 formation of JUPITER MEDIA METRIX (JMXI) through the combination of Jupiter Communications and Media Metrix, two of the best-known online research firms. Those two companies had combined revenue of $58.6 million in 1999. And FORRESTER RESEARCH (FORR) and GARTNER GROUP (IT) are two well-established firms that will compete with both AMR RESEARCH and JUPITER.

JUPITER MEDIA METRIX, whose customers include AMAZON.COM (AMZN) and YAHOO! (YHOO), recently announced its intention to compete directly with AMR RESEARCH and others in providing research products related to B2B e-commerce. JUPITER MEDIA METRIX shares closed at $14.94 on Oct. 2.

FORRESTER, which has been publicly traded since 1996, reported second-quarter revenue of $38.3 million, up 95% year-to-year. Following release of the second-quarter numbers, Joseph Magner of Stifel Nicolaus reiterated his BUY rating on FORRESTER and raised his 2000 earnings estimate to $0.81 a share from $0.78 a share. FORRESTER closed at $50.81 on Oct. 2.

GARTNER GROUP, which generates much more revenue than FORRESTER, AMR and JUPITER, reported revenue of $222.5 million for its third fiscal quarter ended June 30, up 20% from a year earlier. Its 1999 revenue was $734 million. The company continues to grow through acquisitions, as evidenced by its March purchase of TechRepublic. GARTNER shares closed at $11.94 on Oct. 2.

Recent Internet IPOs

Filing Date	Company	Description	Price
9-21	Zengine	ZNGN E-commerce services for businesses	$13
9-21	OmniSky	OMNY Wireless Internet services	$12

14. Rants & Raves

Opinion
Be Choosy, and Don't Forget to Take Profits

By K. C. Grainger
Grainger Beaulac Inc.

While we don't think that the market can escape completely unscathed during September and October, we believe that a bottom will be in place sometime in the next 30 days. I wrote that I expect the Dow Jones industrial average to trade from a low of around 10000 up to 12000-plus. It would be easy to say that investors could put money into any stock right now and expect a big move higher next year. But we can't say that. Some stocks will do well, others will lose ground. You need to take a look at the math that too many people do not consider when investing. Some people just assume that if the Standard & Poor's 500 and the Dow Jones industrials rise, everything will be fine for all stocks. Not true.

Consider this: While the average stock has a price variation of approximately 30% a year, most high-tech stocks like the Internets, have an average annual price variation of 70%. That is nothing short of incredible volatility. That fact alone should tell you to use strict price limits when buying or selling. Too many people don't take profits when they should. The public simply lets the professional traders grab the lion's share of the profits, while they hold out for more gains. In a highly volatile sector like the Internets, profits must be taken in spite of any tax implications.

As I mentioned previously, I am in the process of trying to have Congress consider a tax benefit that would give every American a tax-free exemption of his or her first $100,000 in capital gains over a five-year period. It would help to level the playing field – not enough to my liking, but it would help. That was the law in Canada until 1994, and originally excluded $400,000 in capital gains from taxes. Last week former Canadian Prime Minister Joe Clark suggested ending all capital gains taxes. I would like to see that but it will not happen unless you leave the United States and Canada. However, excluding even $100,000 would be great for the average small investor.

As we have said before, we think that the market will move up after this October period. We believe that we are in the process of finishing up the bottom. Many stocks have bottomed already.

Bob expects the Dow Jones to be above 14000 and the S&P 500 to be over 1700 before a bear market sets in. At this time, we see that bear market starting in about a year, but it should be a wild market before Bob's target high is seen. – *With Robert S. Morrow, Robert S. Morrow Institutional Advisory Services*

Letter to the Editor

Intelligence on Intel

Kurt Aron writes: The interview with David Wu, of ABN AMRO (The Analyst's Spotlight, The Internet Analyst, Sept. 28, 2000) on INTEL (INTC), was an eye opener. Thanks.

Mr. Aron: You're welcome. (In the interview Mr. Wu questioned INTEL's explanation of an unforeseen shortfall in third-quarter revenue. The company blamed weak sales in Europe. Mr. Wu feels the company may have lost market share to its competitor, ADVANCED MICRO DEVICES (AMD). – James C. Condon

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