By multex.com

The Internet Analyst℠

Exclusive financial data on Internet companies and executives

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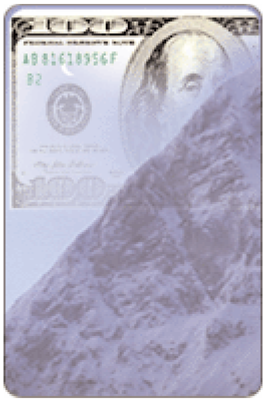
1. Strong Buys



Art Technology Group Factors Into a Strong Buy

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.*

ART TECHNOLOGY GROUP (ARTG): On Nov. 9, ART TECHNOLOGY GROUP received a reiteration of SALOMON SMITH BARNEY's 1H rating (BUY with high risk). The company is a facilitator of e-commerce, by supplying businesses with e-commerce and personalization software and services. ART TECHNOLOGY hosted a conference call for analysts at which the company discussed the sale of receivables, a process that is known as factoring. By selling receivables, a company sells a predetermined stream of revenue (bills it is owed) at a discount in order to get its hands on the cash immediately. ART TECHNOLOGY sold the payments it is slated to receive from its contracts to SILICON VALLEY BANK (SIVB). Salomon's comments regarding the deal are intended to allay fears concerning the implications of the deal for ART TECHNOLOGY. While the company insists that this is simply prudent cash management, it is possible to interpret the action as a purchase of insurance against future negative price and market pressures. In addition, ART TECHNOLOGY insists that it is not selling bad receivables – bills that are unlikely to be paid – to SILICON VALLEY. Currently, its sales to dot-coms are conducted on a cash-on-delivery basis, so the receivables sales were from larger, more respectable companies; Salomon specifically mentions AT&T (T) as one of the companies whose receivables were sold. In short, this announcement ranges somewhere between a non-event and a positive in Salomon's view. The firm projects earnings of $0.18 a share in 2000 and $0.50 a share in 2001. Its target price for the shares is $108, based on a price-to-sales ratio. ART TECHNOLOGY closed at $50 on Nov. 10. From Oct. 30 to Nov. 5, research on ART TECHNOLOGY was accessed 390 times and 15 research reports on the company were contributed to the Multex.com database.

ANIXTER INTERNATIONAL (AXE): CIBC World Markets initiated coverage of ANIXTER INTERNATIONAL with a STRONG BUY on Nov. 8. The company is a distributor of wires, cables, and accessories to the communications, data, and industrial markets. CIBC believes that ANIXTER's "exposure, value-added offering, customer/vendor position in robust markets and entrance to the large service provider and integrated supply markets are generating strong growth." That strong growth led the firm to assign a relatively high – for the distribution sector – multiple of 14-times projected 2001 earnings of $2.45 a share. CIBC projects earnings of $2.15 a share in

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2000 and $2.80 a share in 2002. Valuing the company in this way, the six- to 12-month stock price should be in the range of $32 to $35. The stock closed at $20.56 on Nov. 10.

DIGITAL ISLAND (ISLD): DIGITAL ISLAND received a STRONG BUY reiteration from Thomas Weisel Partners on Nov. 9. The report was prompted by the company's results for its fiscal fourth quarter, which ended Sept. 30. DIGITAL ISLAND reported revenue of $24.1 million, about 13% greater than Weisel Partners' $21.3 million estimate. The operator of a global IP network that distributes applications and content said that selling, general and administrative expenses per customer fell in the quarter, despite signing larger companies. Weisel Partners says, however, that the company's funding remains an issue. DIGITAL ISLAND ended the quarter with $466.4 million in cash and investments on its books, which management says is enough to last six quarters, according to Weisel Partners. DIGITAL ISLAND reduced its 2001 capital expenditures and will try to move forward the timing of its EBITDA-basis breakeven quarter. Weisel Partners projects a loss of $7.60 a share in fiscal 2001, on $194.8 million in total revenue. The firm's target price is $30 a share based on its sum-of-the-parts analysis. The shares closed at $9.56 on Nov. 10. Research on DIGITAL ISLAND was accessed 750 times and 33 new research reports on the company were added to the Multex.com database from Oct. 30 to Nov. 5.

Recent Strong Buys:

November 9 DigitalThink's Strong Buy Is No Trick-or-Treat

November 2: CheckFree's Quarter Lacks Excitement, But Makes the Grade

2. The Sell Report

Webvan

Sensing a Gap Between the Promise and What's Been Delivered

By Aram Fuchs

Usually The Sell Report is focused on my own research and commentary. Occasionally, however, I like to highlight quality research done by other analysts. To that end, let's look at an Oct. 19 report from Mark J. Rowen of Prudential Securities, in which he downgraded WEBVAN (WBVN) to SELL from HOLD with the shares changing hands at around $1.53. Mr. Rowen's target price for WEBVAN: $1. WEBVAN closed on Nov. 10 at $1.16.

Mr. Rowen's bearish comments focused on the underlying economics of the company's warehouses. The economic analysis of a business seems to have been forgotten by many bullish Internet analysts. These analysts focus on sexy, intangible assets like brand names, portal deals and acquired customers. It is, of course, much easier to sell investors on a proposition, if you keep the focus on items that are not quantifiable and just assume that if you build a great product, people will find you.

Well the problem for WEBVAN is that while thousands of people enjoy their service each day, it is simply not even close to the amount needed to create a profitable business. Mr. Rowen quantifies the disappointing results at WEBVAN's oldest market, Oakland, Calif. The analyst focused on the Oakland distribution center (DC) because it serves Silicon Valley and San Francisco. This market, the bulls assumed, would be filled with the tech-savvy people who would be eager to use WEBVAN's online grocery service. WEBVAN's service, which guarantees delivery of groceries free within a one-hour time window, is admittedly impressive. And everyone agrees that they were able to execute on their promise at least 95% percent of the time. The problem is that, five quarters after the opening of the Oakland warehouse, the company was receiving only 2,350 orders a day, with the average order coming in at $105. WEBVAN's distribution centers were built to handle 8,000 orders a day, which means that the Oakland DC is running at only 30% of capacity.

Things might be OK if the customers were ordering more frequently, but it seems that exactly the opposite is occurring. According to Mr. Rowen's calculations, order frequency is going in reverse. He estimates that "order frequency among WEBVAN customers in the third quarter of 2000 was 60 days, up significantly from 50 days in second quarter of 2000." The lack of order frequency combined with the disappointing order size, has created mammoth fulfillment costs as a percentage of revenue. General and administrative costs, where fulfillment costs are placed on the income statement, were an outrageous 140% of net revenue.

With weak demand, the company, of course has got to figure out how to create increased demand. The usual recourse for companies in this situation is to launch a big marketing campaign or coupon programs. But WEBVAN has only enough cash to last until the third quarter of 2001.

I only have one disagreement with Mr. Rowen. With declining cash and tepid demand it seems as if his price target of $1 seems 100% too high.

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.

Recent Sell Reports:
November 9: NBC Internet: A Very Rough Road to Profits
November 2: Ameritrade:How Does a Bull Describe a Difficult Quarter?

3. The Independent View

A Burning Ring of Fire

By Greg A. Kyle
President and CEO of Pegasus Research

Last week, almost completely drowned out by the election news, two more publicly traded dot-coms announced that they were shutting their doors and liquidating their assets. PETS.COM (IPET), an online retailer of pet supplies, decided to wind down operations a little more than 20 months after being founded. After spending tens of millions of dollars each quarter to attract just a handful of customers, the company came to the conclusion that burn rates do matter, and it had spent itself into a corner from which their was no way out. Unfortunately for the company (and diehard investors), cash would run out long before it could hope to reach profitability.

PETS.COM had company on that day of infamy. Another struggling e-tailer, MOTHERNATURE.COM (MTHR), an online retailer of vitamins and health products, announced that it, too, was closing its doors, after seeing the writing on the wall. Cash was running out and the company was a long way from achieving profitability. Here again, a company learned all too late, that burn rates do matter.

Ever since the Pegasus Research and Barron's magazine published the first examination of Internet companies' burn rates back in March, a heated debate has surrounded the study and the significance of burn rates. I remember reading what one opinionated columnist had to say during the summer. He apparently saw "little utility in counting dwindling cash balances," finding the exercise silly. I wonder if he still feels the same way today?

Needless to say, some companies were very upset with the findings, and several Wall Street analysts blindly adopted the company view. Then, with the writing looming too large on the wall, these analysts finally capitulated. Where is the objectivity and unbiased guidance that investors demand? Can research analysts who work for Wall Street's investment banks realistically serve two masters?

By now though, in particular after the failures of three public dot coms – VALUE AMERICA (VUSA), PETS.COM and MOTHERNATURE.COM – as well as hundreds of private Internet companies, most investors realize that burn rates are an important risk metric to keep in mind for companies that are operating at a loss. Unfortunately, many people are still confused by what burn rates mean.

Pegasus Research International
Independent Research for the Internet Investor

Although I have discussed burn rates before in this column, it bears pointing out again what a company's burn rate tells you and what it doesn't tell you. Quite simply, burn rates tell you the financial risk facing a company. They do not tell you when – or the likelihood – that a company will go bankrupt. There are better models for that like the Altman's Z-score.

Burn rates are simply useful as one measure of risk – when a company could potentially run out of cash if it is generating operating losses. Now, as many investors realize, there are a lot of variables that come into play here. Some companies may be successful at generating diminishing net losses, while others may be facing increasing net losses. If a company is on the road to profitability, it may be able to reach that threshold before the cash runs out or may be successful in tapping the capital markets or investors for additional cash in order to achieve that goal.

On the other hand, if a company is moving away from profitability – or moving toward that goal too slowly – it can slash spending by cutting marketing expenses, reducing headcount, or stopping new product rollouts. However, these measures typically lead to slower or declining revenue growth – which means a loss of market share. A company in such a position will then find it much more difficult, if not impossible, to raise further funding, which puts it in an even riskier position.

How should investors use burn rates? This metric should be used in conjunction with other trend factors and ratios including revenue growth, margin development, customer acquisition costs and revenue per customer. Also, the quality of the burn is important. What is the company spending the money on? It's one thing to spend $15 million a quarter on a used sock, it's another to use that cash to effectively roll out a new product or service.

Let's take PETS.COM as an example. Here was a company that spent over $100 million on sales and marketing during its short, 20-month life. Yet after all that lavish spending, it was only able to attract 570,000 cumulative customers before throwing in the towel. That's an acquisition cost of roughly $180 per customer – for selling dog food! Never mind that with negative gross margins, the cost of selling that dog food was more than what the company was charging for it.

Investors may shrug this problem off as just being a B2C (business-to-consumer) issue. Think again! Many B2B and infrastructure companies are facing similar risks in their models, because the cost of acquiring a corporate client or rolling out a new product or service is just as capital intensive. In addition, many of these high-flying "pick-and-shovel" companies assume that there will always be a strong demand for their products and have assumed no downside risk in their models. Sound familiar?

In particular, with "flavor-of-the-month" stocks, investors need to do their homework. It's easy to get caught up in the heat of the moment and jump on the momentum bandwagon of the latest optical-networking or wireless stock. However, it is often these stocks that pose the greatest risk. Burn rates do matter, and not just for consumer-focused companies.

Internet investing still holds strong potential and we are still at the early stages of this industry's development. However, as the events of the past eight months have taught us, risk is an ever-present factor in this space. Remember, risk and reward are two sides of the same coin. And, when a company follows a strategy of spending aggressively in a bid to be a market leader, there is the all too real risk that it could fall short of that goal and be left with wide losses and no cash in sight.

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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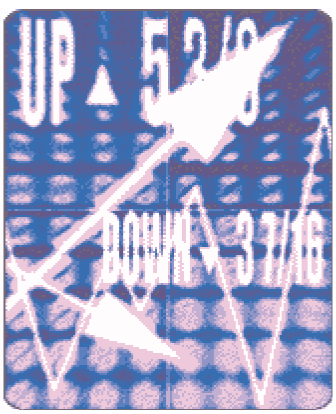
4. Upgrades & Downgrades



In a Difficult Market, Incubators Are Unplugged

By James C. Condon

From Nov. 8 to 10, three of the best-known Internet "incubators" were downgraded by Wall Street brokerages. SAFEGUARD SCIENTIFICS (SFE), which invests in technology companies, was cut to MARKET PERFORM from STRONG BUY by First Union Securities on Nov. 11. The company was reduced to LONG-TERM ACCUMULATE from LONG-TERM BUY by Merrill Lynch on Nov. 9. INTERNET CAPITAL GROUP, which invests in business-to-business e-commerce companies, was cut to BUY from STRONG BUY by First Union Securities on Nov. 9; to NEUTRAL from BUY by US Bancorp Piper Jaffray on Nov. 9; and to LONG-TERM ACCUMULATE from LONG-TERM BUY by Merrill Lynch on Nov. 9. Finally, CMGI (CMGI), which invests in Internet infrastructure and e-businesses, was cut to NEUTRAL from BUY at Dain Rauscher Wessels on Nov. 9.

"We are downgrading INTERNET CAPITAL due to increasing uncertainty surrounding its ability to monetize its numerous private holdings," says First Union Securities, summing up a widely held belief about the sector. INTERNET CAPITAL recently reported its third-quarter results and announced some major operational changes. The company will reduce its corporate headcount by 55 people, around 35% of its workforce. INTERNET CAPITAL also said it will shift its focus from acquisitions to monitoring the execution of 15 of its partner companies that management believes can create the most value in the near term. Piper Jaffray says INTERNET CAPITAL's portfolio is heavily weighted toward vertical marketplaces (it owns around 30% of VERTICALNET (VERT), which operates more than 50 vertical marketplaces), which the brokerage views negatively. "Marketplaces are failing to gain traction because much of their infrastructure and support services (credit, logistics, documentation, etc.) currently trail those offered in the off-line world," says the firm. Until those shortcomings are worked out, Piper Jaffray believes that INTERNET CAPITAL's "ability to realize substantial value from its investments in vertical market makers will be minimal."

The story isn't much different for SAFEGUARD SCIENTIFICS, which owns about 15% of INTERNET CAPITAL. Merrill Lynch, in downgrading the stock, noted that SAFEGUARD would also be focusing its resources on 10 partner companies that are well managed and on the path to generating profits. First Union Securities, in its downgrade worries that SAFEGUARD shares trade at a premium to the company's public holdings, and says "the extent to which SAFEGUARD SCIENTIFICS shares can trade at a premium valuation to its liquid assets is limited."

Dain Rauscher, in cutting its rating on CMGI, says it is concerned that management will announce on Nov. 13, that fiscal first quarter revenue and earnings will not meet Wall Street's expectations. The firm also worries about continued losses of top managers at CMGI's operating companies. Rod Schrock resigned in October as chief executive of AltaVista (78%-owned by CMGI) and Paul Schaut resigned in November as president and CEO of ENGAGE (ENGA), an online ad company that is 87%-owned by CMGI. Finally, the brokerage notes that CMGI has sold some of its public holdings, including all of its shares in CRITICAL PATH (CPTH) and KANA COMMUNICATIONS (KANA), and says that the value of the company's public holdings is significantly less and "now is scattered with less-than-desirable investments."

In its Nov. 13 conference call with analysts and investors, CMGI said revenue in its fiscal second quarter, which ends Jan. 21, 2001, would fall about 3.5% sequentially. The company also said it would close two of its businesses, iCast, an entertainment Web site and 1stup, an advertising-supported provider of free Internet access. A day after the conference call with analysts, Credit Suisse First Boston cut its rating on CMGI to HOLD from BUY and Merrill Lynch cut the company to LONG-TERM ACCUMUATE from LONG-TERM BUY. CSFB also reduced INTERNET CAPITAL to BUY from STRONG BUY on Nov. 14. Research on INTERNET CAPITAL GROUP was accessed 1,365 times and 23 new reports on the company were added to the Multex.com database from Oct. 30 to Nov. 5. Research on

CMGI was accessed 989 times and 16 new reports on the company were added to the Multex.com database from Oct. 30 to Nov. 5.

TRAVELOCITY (TVLY): Coverage of this provider of online travel services and information to consumers and small-business travelers was initiated by CIBC World Market with a BUY rating on Nov. 9. TRAVELOCITY is the product of a merger of SABRE HOLDINGS' (TSG) Travelocity Web site and Preview Travel earlier this year. According to CIBC, TRAVELOCITY is the largest online travel agent in terms of gross travel bookings, reach and cumulative unique customers. Furthermore, the firm expects TRAVELOCITY to benefit from the recent sell-off in tech stocks because the weak market has "threatened the viability of many new entrants who arrived late to the party." CIBC also points to TRAVELOCITY's strong balance sheet, saying the company's $71 million in cash as of Sept. 30, 2000 should be enough to see to profitability, which the company expects to achieve on a "cash" basis in the fourth quarter of 2001. TRAVELOCITY also benefits from SABRE's sponsorship – TRAVELOCITY is still 70%-owned by SABRE and benefits from SABRE's industry experience and technology. CIBC forecasts losses of $1.15 a share in 2000 and $0.97 a share in 2001, on a cash basis, which excludes some one-time and non-cash charges. The firm's price target is $22 a share, which is based on a price-to-revenue multiple. TRAVELOCITY closed at $14.13 on Nov. 13.

DOW JONES (DJ): No, this is not an Internet company, but it's so rare these days to read anything positive about the Web sites that offer content that we'll take it. On Nov. 7 coverage of the publisher of The Wall Street Journal and Barron's was initiated by Prudential Securities with a STRONG BUY rating and a 12-month price target of $79. Among its list of positives, Prudential says DOW JONES is "a leader in online publishing highlighted by WSJ.com." According to Prudential, the online Journal recently surpassed 500,000 subscribers making it the leading subscription publication on the Web. Prudential figures that WSJ.com could account for 19% to 20% of the electronic publishing segment's revenue in 2001, up from an estimated 17% in 2000. DOW JONES closed at $58.88 on Nov. 13.

Recent Upgrades & Downgrades:

November 9: Expedia 'Books' an Upgrade

November 2: Dot-Com Difficulties Hurt USinternetworking

Infonet Nets a Buy

By Craig Columbus
President, insiderSCORES.com

INFONET SERVICES (IN), a leading provider of cross-border data communications services, saw its first insider purchase since its initial public offering on Dec. 16, 1999. Timothy Hartman, a director, bought 47,500 shares on Oct. 6, at $8.13 a share.

Aside from being the first buy since the company's IPO, the purchase is noteworthy for its $385,000 value. At the time of the purchase, INFONET shares had fallen 76% from their high of $33.69 on March 3. The stock has continued to fall and closed at $5.31 on Nov. 10. *– Eric Lopkin*

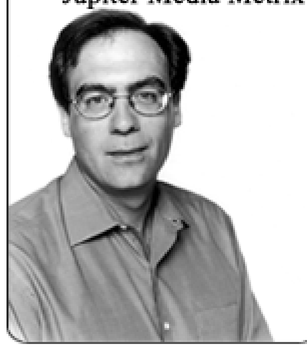
5. Keyson's Hot Lunch

Divining the Shifts in a Swinging Pendulum

Kurt Abrahamson, Group President, Jupiter Media Metrix

Interviewed by Lauren Keyson

Kurt Abrahamson
Jupiter Media Metrix



I met with group president Kurt Abrahamson at JUPITER MEDIA METRIX's (JMXI) new offices: an abandoned building in SoHo. The building has been through several owners, but now belongs to the company, and is undergoing renovations. It is open, with high ceilings and a lot of metal. With the "Jupiter Orange" doors and the lime green walls, it really looks like something from out of the Jetsons: futuristic and sleek.

[LAUREN KEYSON] JUPITER MEDIA METRIX provides Internet measurement, analysis, intelligence and events to businesses. Is that an accurate description of the company?

[KURT ABRAHAMSON] Yes, that's a very accurate description of the merged company. We merged formally about five weeks ago.

[LK] What changes occurred since Jupiter merged with Media Metrix?

[KA] Corporately, of course, we've been working to bring the two companies together and make sure they are integrated as well as possible since we announced the deal at the end of June. We feel pretty good about the results at this point. I think what's really changed is that we now have a broader range of products that we can offer to our clients. We just launched a product called JX Intelligence, which is our first attempt to combine the Media Metrix data and the Jupiter analysis. They're going to market pretty soon.

[LK] You were president of Jupiter and now you're the group president. How has your job changed?

[KA] Essentially, JUPITER MEDIA METRIX has five business units. Mary Ann Packo, who was president and chief operating officer of Media Metrix, and I run those five units plus some shared corporate functions. Mary Ann runs Media Metrix, Adrelevance and Jupiter Media Metrix International and I run Jupiter Research and Jupiter Events, which is our conference business. [Ms. Packo was interviewed in Keyson's Hot Lunch, The Internet Analyst, April 13, 2000.]

[LK] What does Jupiter Research include?

[KA] Jupiter Research includes all the analyst products that people associate with Jupiter Communications.

[LK] Can you tell me about some of the products?

[KA] We have about 37 at this point. They tend to be core Internet strategies products such as digital commerce or online advertising. We also have a whole series of products that target specific vertical markets as well as some that target specific geographical areas.

[LK] With so many Internet companies in the doghouse, how has JUPITER MEDIA METRIX' business been affected?

[KA] About two-thirds of Jupiter's client base is in more traditional industries. We have a fair number of dot-com clients, and we were adding a fair amount, so in general it makes it a little more difficult for us to do our business and to find clients. It hasn't had a huge impact, but it would be a mistake to say it has had none.

[LK] People other than your clients use your research. Do you find that people have had a real need for your information now that things are going so poorly for the Internet sector?

[KA] Sure, we've found that to be the case. Some of our clients need us now more than ever. There's been pressure across the board in terms of budgets for research, budgets for marketing, budgets for everything. We're not immune to that pressure. In general, our clients are still finding great value in what we provide them.

[LK] What are some of the other risks associated with Jupiter's business?

[KA] We are anticipating doing a significant percentage of our business internationally going forward. While we still see those markets moving along, the slowdown in the U.S. affects the European and Asian markets as well. We have to be careful to be sure we don't expand too fast internationally. Again, as with any company that feels confident about its business as it looks at what's happening in the Internet sector, we feel that the pendulum swung too far one way, in terms of where the numbers are going. Now, it's swung a little far the other way, in terms of the pessimism that Wall Street seems to have. We're just focused on growing the business and moving forward as aggressively as we can within the new environment.

[LK] What global countries are most receptive to this kind of Internet information?

[KA] Europe, of course, in different degrees depending on the country. Europe has been just behind the U.S. in terms of the Internet explosion. We see good receptivity in Europe, as well as Australia and Canada. Japan will be a big market. It's a big challenge for a U.S. business to set up and operate in Japan, but we're going to have an aggressive presence there. Also, in Latin America we're seeing some nice growth in the demand for our services.

[LK] What's your view of the Internet industry as an investment proposition for 2001?

[KA] Well, my personal feeling is that there's still a lot of turmoil in the industry, so I don't think a lot of people should be going out there and snapping up these companies at these low prices. I'm not so sure the shakeout is over. I do think that a lot of companies are undervalued and if you look at the metrics of the companies and the kind of business they're trying to grow and how they're being valued, it's not as bad as it might seem. Has the Internet explosion ended? It would be silly to say so. The Internet is here and it will continue to transform the way companies do business – maybe not as quickly as people once thought, but we never felt that those expectations were realistic either. As I said, I think the pendulum has swung too far in the other direction. I think at some point in 2001 we'll see it center in the middle, where it should be.

[LK] Do you think Internet ad spending will continue to increase?

[KA] Yes. I don't have Jupiter's projections off the top of my head, but we still forecast fairly robust growth in that market.

[LK] Even though ad prices are falling? Do you think they'll make up for that in volume?

[KA] I do. The pace of growth will be slower, but of course it has to be because the numbers are getting larger. I think that the growth of Internet ad spending will continue to displace or add to traditional advertising. It's just going to be a more gradual process. It was silly to value all these companies on their ad spending at the rates they were valued at. Now, it's silly to ignore the fact that the market is still growing.

[LK] What broad Internet industry trends do you see?

About TIA

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MALE	79.16%,
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Top 10 countries where our readers are located*:

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2. Canada	7. Italy
3. United Kingdom	8. Australia
4. Germany	9. Belgium
5. Switzerland	10. Japan

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1. Director/Manager	6. President/CEO
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:*

1. Strong Buys
http://www.theinternetanalyst.com/individual/001109sections/strongbuys.asp

2. Upgrades & Downgrades
http://www.theinternetanalyst.com/individual/001109sections/updowngrade.asp

5. Rants & Raves
http://www.theinternetanalyst.com/individual/001109sections/zeroin.asp

3. The Sell Report
http://www.theinternetanalyst.com/individual/001109sections/sellreport.asp

4. Top U.S. Picks
http://www.theinternetanalyst.com/individual/001109sections/toppicks_us.asp

*demographics are based on a weekly TIA e-mail survey for 10/30 through 11/5/2000

[KA] That would be the analyst's perspective, and I don't get as much time to do that as I did when the company was smaller. I think overall in the industry there has been an overreaction. I think you're going to continue to see consolidation in different segments and still see some pain. But I think that as we move through the year, things will start to settle down and there will still be good growth in e-commerce, good growth in ad spending, and broadband will continue to make slow inroads into the consumer base. Wireless has become the catchall word for everything: will it go the way of push technology or will it have a real impact on the market? We tend to cautiously think that it will have an impact but there are obviously still a lot of things that need to be worked out. I think you'll see a little less turmoil in the industry next year than you saw this year.

[LK] How do you think wireless will affect the Internet?

[KA] I think it's going to affect it slowly. It's definitely more prevalent in Europe than it is here. We see good opportunities for wireless commerce and wireless applications, but again, you need to cut through the hype and everyone sort of feeling that it's going to change everyone's life. It will have an impact but it's a three-, five- or even a seven-year process.

[LK] Can you go into why it's important for companies to use your information?

[KA] The data, measurement services and advisory services that JUPITER MEDIA METRIX provides give strategic advice to companies to help them better manage their way through the Internet economy and profit from it. The Jupiter advice helps companies understand trends in the industry, where things are going, and how to best leverage the opportunities. We provide them in 37 different areas, so whether you're focused on revenue models; how to operate your site or doing business in Japan or

Recent Hot Lunches:

November 9 Part II: A Revolutionary Idea, Scalability and a Core Entrepreneurial Team : Jim Lynch, Managing Partner, Draper Atlantic

November 2 Part I: An Angel for Technology Start-Ups Jim Lynch, Managing Partner, Draper Atlantic

October 26 Jeffrey Mandelbaum, CEO and President of GlobalMedia.com and Graeme Weston, President and CEO, Fantastic Entertainment

October 19 Brad Zigler, Director of Invester Education, Barclays Global Investors

October 12 Gary Lauer, CEO, eHealthInsurance.com, Part II

October 5 Gary Lauer, CEO, EHearthInsurance.com, Part I

September 28 BuildPoint, James Piraino, President and CEO, Part II

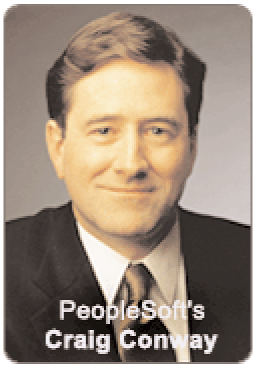
September 21 BuildPoint, James Piraino, President and CEO, Part I

September 14 El St.John, Founder and CEO, and Tony Abner, Executive Vice President of Business Development, SilverTech, Part II

September 7 El St. John, Founder and CEO, and Tony Abner, Executive Vice President of Business Development, SilverTech, Part I

Australia, or targeting the music industry, we like to think we cover all the relevant areas for most corporations.

6. Executives Zero In



PeopleSoft

Craig A. Conway, President and CEO

Interviewed by George S. Mack

Enterprise resource planning (ERP) software helps companies run their business. It includes human resource applications, bill paying, accounts receivable, customer relationship management, supply chain management, and much more. These are business processes that were traditionally done separately by individuals – salespeople, back office guys and factory floor folks. Today, PEOPLESOFT (PSFT) is providing a new way of improving business through a Web page style collaboration with customers, employees and suppliers. Customers of companies like CISCO SYSTEMS (CSCO) can design and buy their routers and switches without help from salespeople. Customers of CHARLES SCHWAB (SCH) can be their own stockbroker, and no salesperson ever has to see your portfolio. Customers of DELL COMPUTER (DELL) can order a PC online and have it assembled and shipped. I spoke with Craig A. Conway, PEOPLESOFT's president and chief executive, during the PEOPLESOFT user conference in Los Angeles, where more than 15,500 guests were in attendance.

[THE INTERNET ANALYST – GEORGE S. MACK] Even though your numbers came out on Oct. 18, the analysts wanted to come out and talk to your customers. And now you've had at least two upgrades since the conference started.

[CRAIG A. CONWAY] The user conference is always a good total immersion technique for analysts and editors. They're sitting in an audience with 15,000 of our users, and they're seeing live demonstrations, and they're seeing the quality of our management and our leadership. Although I'm not in that business [the analyst business], I frankly would think these user conferences are about as good as it gets in terms of kicking the tires.

[GSM] Today, can you provide an end-to-end enterprise solution from factory floor to back office to front office to the customer's doorstep?

[CAC] Yes, but we've always been able to do that. That's really been the promise of PEOPLESOFT, SAP (SAP) and ORACLE (ORCL) for the last 10 years. All three of us have been suppliers of integrated solutions. Yes, they all go from front office to back office, but what we're talking about now, George, is a different paradigm for those applications. There is no front office or back office anymore. For instance, order entry used to be a back-office function. Is it front office today? It may be because CISCO takes 85% of their orders without a sales rep or order administrator ever touching the order – because the orders are entered by customers. Now it's all a living, breathing application suite that is no longer front office or back office.

[GSM] How are the suppliers tied into this collaboration?

[CAC] Let's just take CISCO for a moment. Suppliers are watching their order rates. So if the order rate is slowing down on a particular router, they know to adjust their manufacturing. CISCO doesn't have to tell them to slow down. The supplier sees it directly. Likewise, if a supplier sees that CISCO's inventory levels have been severely depleted because an item is moving much faster, the supplier can – on its own – start to ramp up manufacturing in anticipation of authorization from CISCO of more routers.

[GSM] How is customer interest during the conference?

[CAC] This is the third day of our conference, and as of this morning, we've had 3,400 inquiries on upgrading to PeopleSoft 8.

[GSM] That's three quarters of your installed customer base, I believe.

[CAC] That's right. That's not a show of mild interest in some additional features or functions that are part of our latest release. It's a dramatic, compelling "I've gotta have this new way of doing business" gesture. People see the competitive advantage and it's partially because they realize this is the way things will be done in the future. Somebody said this is like having a Web site in 1994 or 1995 when it was a novelty. It went to being a necessity, and you were going to be uncompetitive if you didn't have one.

[GSM] During the third quarter you liquidated most of your portfolio of marketable securities and you realized a $120 million gain on the sale of your COMMERCE ONE (CMRC) stock. In addition, you had $70 million of cash flow, and now I think you have $1 billion in the bank. What are you going to do with all this cash?

[CAC] Virtually every quarter, we've been cash flow positive. But there are three things we're going to do with it. One is that the board has approved a $100 million stock buy-back, and two, the board has created a venture fund. It's not lost on us that in the last 12 months we've had almost $200 million in gain on investments we made two years ago. So we are going to do what a lot of companies have done, which is create a fund and continue to invest it. That fund is administered by our ex-CFO, who is in charge of it.

[GSM] The third thing?

[GSM] The third thing we'll do is look for ways to use that cash in what today is a target-rich environment for acquisitions. A year ago, with dot-com mania, even companies that didn't have revenue thought they were $1-billion market caps. Today, some are losing altitude and air speed. Some of those stocks are down 90% or out of cash, and going out for a secondary offering is going to be tough. Private investing and debt equity are also going to be tough. So they are looking to PEOPLESOFT, and approaching us with market valuations that are frankly pretty reasonable.

[GSM] What are you looking for? Technology?

[CAC] Yes. We have a great brand – we don't need to pay for somebody else's. PEOPLESOFT is probably one of the most respected brand names in IT. We're more interested in looking for phenomenal, unique technology. We're probably open to it in all categories, but we're particularly open to something in the area of e-commerce.

[GSM] ORACLE has said you are not competing with it. But you won some business from ORACLE during the third quarter. At one time, you worked at ORACLE and its CEO Larry Ellison. Why do they play these mind games with the Street and with their competitors?

[CAC] I think that comment – that we don't compete with them or we don't see them out there – is a pure marketing tactic. When you say something like that, the implication is that the other party isn't significant. Larry, if nothing else, is a world-class marketer. We did 22 deals of more than $500,000 in the third quarter. About 18 of those were down to two providers – PEOPLESOFT and ORACLE. And we won.

[GSM] Listen to these numbers, Craig. Since the beginning of this year your stock price is up 124%. ORACLE is down 10% during the same period. Does it feel good to be beating it like that?

[CAC] Sure. I left ORACLE a long time ago, in 1992, and I certainly don't have a lot of room in my life for personal "beat Larry Ellison" type of emotions. A year ago Larry Ellison and Ray Lane [ORACLE's former president and chief operating officer] were talking about PEOPLESOFT as though it were not viable. It's like a great western movie where the good guys win in the end. It feels good.

[GSM] What does Wall Street see in you that made it bid up your stock price like it has? What are you doing right?

[CAC] The Street sees a few things: one, an underlying market that's very large and appears to be growing rapidly again. It's growing rapidly again because the paradigm is changing and everybody will be in a rush to upgrade their enterprise applications to this new collaborative e-business way. Two, PEOPLESOFT, they feel, has established itself with all the industry analysts as the company with the stronger architecture – the pure Internet architecture and the better solution. If you look at the analysts' reports, they'll say ORACLE has promoted itself the most loudly, but PEOPLESOFT is the one that comes through with the better product. And the third thing, I think, is that by comparison to SAP and ORACLE, we're undervalued. If we were trading at just SAP's revenue multiple, this would be a $90 stock.

Vital Statistics
PeopleSoft (PSFT)

Market Cap	$10.49 billion	
Shares Outstanding	279.7 million	
Recent Stock Price	$37.50 (11/13/00)	
52-Week Range	$50 – $12	

Price to Earnings	**Price to Revenue**	
2000E	139-times	6.1-times
2001E	67-times	5-times

Years end December	**EPS**	**Revenue (millions)**
1999A	($0.65)	$1,429.1
2000E	$0.27	$1,714.7
2001E	$0.56	$2,075.1

Source: Credit Suisse First Boston

Recent Executive Zero Ins:

November 9 Ariba: Jim Lynch, Managing Partner, Draper Atlantic

November 2 Ticketmaster Online-CitySearch -John Pleasants, President and CEO

October 26 Kenneth Schroeder, President an dCEO of Resonate

October 19 John P. Bantleman, President & CEO of Evolve Software

October 12 Mario R. Houthooft, President and CEO of Vasco Data Security

October 5 Robert W. Wrubel, CEO of AskJeeves

September 28 Alan P. Naumann, President & CEO of Calico Commerce

September 21 John M. Payne, Chairman and CEO, Stamps.com

September 14 Ramesh Punwani, Chief Financial Officer of Travelocity.com

September 7 Benjamin Narasin, Founder, Chairman, CEO of President, fashionmall.com

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7. The Real Deal

Objects in the Mirror Are Smaller Than They Appear

By Charles V. Payne
Founder, CEO and Principal Strategist of Wall Street Strategies

All year long, investors have been asking the same question over and over: "Why?"

Why is the market acting this way? Why are stocks being taken out to the woodshed for reporting the kind of results that used to win plaudits? The answer seemed to be obvious: Valuations and expectations had gotten totally out of control. With that in mind, everyone focused on the valuations and expectations of dot-com companies. The ensuing sell-off wasn't totally unwarranted. Only when the carnage began to spill over into the household names did it become clear that surely something was amiss.

Did the sins of LUCENT TECHNOLOGIES (LU) justify a stock price of $20? Is a slight quarterly hiccup enough to rightfully send NORTEL NETWORKS (NT) to $40 from $60? Even if you're a pure fundamentalist, it has to look like there is an underlying problem with investors and the stock market. It dawned on me during the Presidential election that the market's problems are probably a microcosm of a greater issue.

The Ugly American. Americans in general and investors in particular have had it too easy for too long. The results have been complacency, arrogance and a softening of moral fortitude. It manifested itself first in the financial markets, where investors patted themselves on the back for being able to make money at will. Who knew – or cared – that HBOC, now part of MCKESSON HBOC (MCK), was the cable network or a software play, the stock went up every day.

I called for a short on AMAZON.COM (AMZN) at $100 and it proceeded to rocket north of $400. While the P.T. Barnums of the world have always been able to find pigeons, the country's success has always been based on the pursuit of excellence. America took the lead in the global economy through hard work and principles. Both have been victimized by the shifting paradigm of technology and the easy riches that usually accompany such a shift. Think of the railroads and the new frontier and how the lure of instant wealth fueled a thousand movie scripts.

It Starts at the Top. When a President can do what Bill Clinton did and still enjoy high approval ratings something is wrong. When a person has to spend $65 million of his own money to squeak out a Senate seat, something is wrong. When a dead man can beat a sitting incumbent something is wrong. When CISCO SYSTEMS (CSCO) can beat its earnings estimates and blow away the revenue estimates, then watch as it's stock drifts like an empty barge something is wrong.

I think that somewhere along the last year, Americans looked in the mirror and didn't like what they saw. The world bristled at the ugly American in sports. Remember last year's Ryder Cup team celebrating noisily around the green and making the Europeans wait to putt? Or how about the unseemly display of braggadocio put on by the U.S. men's four-by-100 relay in Sydney after their victory? Maybe now somewhere in their souls, Americans are bristling.

The stock market doesn't always boil down to the technicals or fundamentals. It often reflects the overall psyche of the country and right now, this country is going through a face lift. It's a painful experience, but the only way we can stop asking "Why?"

Back to Basics. Now that the era of rationalization and hype is gone, investors will have to get back to basics. That doesn't necessarily mean that folks have to break out spreadsheets and calculators. It does mean that fundamentals count and that knowledge of an industry and its real potential do have some influence on the price of stocks. To be sure, investors will still flock to the areas with sizzle, but it must be believable hype. That said, we think the fiber-optic sector will have a foot in both sides of the new market. Despite the recent woes and spending slowdowns – witness LUCENT, NORTEL and CISCO – we think the long-term growth potential of the sector will lead to sharp reversals.

Our pick in the group of communications chips is APPLIED MICRO CIRCUITS (AMCC). The company has been hitting on all cylinders, but its stock has paid a heavy toll because of poor execution by others in the space. It may take a quarter or two before AMCC regains its veneer of invincibility. The stock has pretty good support north of $60 and little resistance up to $71. There are a series of upside gaps, the first is filled at $74.75. The real upside test comes at $80. Beyond that, the stock begins a long and choppy journey to fill a huge gap at $98.

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http://www.theinternetanalyst.com/individual/001116sections/strongbuys.asp

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

8. Trends & Innovations

Paper or Digital: Publishers Mull the Future of E-Books

By Jim Williams
President, WebEclipse Corporation

Many of us occasionally rely on gut feelings to guide our decisions in business and life. For the large majority of the 400-plus people attending the first e-Book World conference at the Marriott Marquis Hotel in New York on Nov. 6 and 7, this gut-level decision-making was very prevalent. Enabled by the rapid expansion of the Internet, this new electronic publishing industry is trying to determine how to expand its capability to create and deliver electronically novels, non-fiction, magazines, textbooks, reference books, technical documents – indeed, all of the material that is currently available in print. And since nobody has really identified the proverbial "Killer App," a number of large and small companies are trying to find a unique opportunity that will propel them forward.

Michael Wolff, a columnist at New York magazine who writes regularly about the old and new media, chaired the conference, which was sponsored by Internet World. He set the tone for the proceedings by openly challenging the participants to justify the need for investment of time and money in this industry. Even though he is clearly a strong supporter of e-books, he verbalized the skepticism felt by many in the audience.

Other featured speakers included Richard Sarnoff, president of Random House's New Media and Corporate Development Group; Jason Epstein, former editorial director, Random House and co-founder of The New York Review of Books; Steve Riggio, vice chairman and acting CEO of BARNESANDNOBLE.COM (BNBN); and Dick Brass, vice president, technology development, MICROSOFT (MSFT). In addition, the panel included authors, agents, publishers, e-book software and hardware suppliers, and industry consultants who discussed the everyday obstacles and opportunities encountered in creating, producing, marketing and distributing e-books.

The current market for e-books is estimated to be very small, with only about 15,000 titles available. However, market forecasters Forrester Research and Price Waterhouse have suggested that electronic books will account for, respectively, 2% or 10% of the total publishing market by the year 2005. According to a panel moderated by Mr. Wolff, the potential of this electronic book market will range from $100 million to $5 billion by the year 2005. According to Mr. Sarnoff, "publishers will be rocked by digital publishing." The Random House executive probably wasn't joking when he asserted that the market potential for new revenue from e-books has the "highest discussion to sales ratio" of any new venture at his company.

The major publishing houses, Random House, a unit of Bertelsmann, a privately held German media conglomerate, Simon & Schuster, a VIACOM (VIA) division, Penguin Putnam, a unit of PEARSON (PSO), HarperCollins Publishers, part of NEWS CORP. (NWS) and TIME WARNER (TWX), which represent the traditional investment opportunities in publishing, expect the electronic book to have a large impact upon their businesses. These companies predict that e-books will change the market in the same fashion as paperback books that were introduced more than 40 years ago. But, these players were also quick to point out that they did not envision that printed books would disappear for many years to come.

Across the industry, the speakers couldn't imagine the day when they could not sit with a printed book in a soft chair by the fire with the pleasant smell of dinner in the air. But Mr. Brass of MICROSOFT estimates that the last issue of The New York Times will be printed before the year 2020. As I watched two fellow attendees in their mid-20s take notes, one on a laptop computer and the other on a handheld PDA, it seemed to me that MICROSOFT's estimate might be closer to the mark than the traditional publishers'. And when textbooks begin to be delivered to students as e-book readers, many digital consumers will see no further need to purchase a printed book.

Overall, the investment opportunities in the emerging e-book industry are wide open, but there is not a lot of hard data available on which to base investment decisions. Consequently, for now, investors are left with only their instincts to guide them. In order to provide investors with more hard data, the next two installments of this report will focus on some of the more visible public and private companies that are currently investing time, resources and money into this very new market.

9. Global Prospects

Internet Auction

A Korean Online Auctioneer Attracts Some Outside Interest

By Mike Robbins

It probably comes as no surprise that Korea's INTERNET AUCTION (A43790) is often referred to by analysts as "the E-BAY (EBAY) of Korea." It seems that every international Internet auction company that experiences any success in its market is labeled that region's E-BAY.

The thing is, when it comes to INTERNET AUCTION, it might be a reasonably fair comparison. While companies such as QXL (QXLC), the so-called " E-BAY of Europe," remain in bitter fights over their markets, INTERNET AUCTION is dominant in Korea, controlling 63% of the Korean online auction market, within shouting distance of E-BAY's 75% share of the United States market. INTERNET AUCTION 's nearest competitor, Sellpia, comes in at only 13%, and that company's focus is the business-to-consumer auction market. What's more, while QXL and other regional online auction companies must cope with increasing competition from E-BAY itself, INTERNET AUCTION disclosed in late October that it was in discussions with E-BAY concerning a possible alliance. Whether or not these talks lead to anything, the discussions are yet another sign of INTERNET AUCTION's strong prospects.

Should the E-BAY talks fall apart, INTERNET AUCTION would continue to be in a very viable position. The company is believed to have enough cash to take it to profitability, likely by mid-2002. Its brand name is well-established in its home market, and the firm has made some moves towards branching out into other Asian markets. Like E-BAY – but unlike some other Internet auction companies – INTERNET AUCTION uses a no-inventory model and charges a listing fee, both strategies that generally find favor with analysts.

The online auction business model ensures that INTERNET AUCTION does not rely on sometimes cyclical advertising revenues, as many Internet companies do. Phil Kang, an analyst for ABN AMRO, for one, recently referred to the online auction model as "one of the most profitable and scalable models we have seen." As for the Korean market, it's obviously much smaller than the U.S. market, and also somewhat less well off. But as a nation, Korea has been a rapid adopter of Internet technology, and the potential for online auctions is considered very promising.

INTERNET AUCTION 's strength has been reflected in the relative strength of its stock, at least compared to the battered Asian Internet sector. The company recently climbed to 36,000 won from about 30,000 won in the wake of the E-BAY rumors, although that's still down considerably from the levels it achieved shortly after its June IPO.

Merrill Lynch's Mark Yoon rates INTERNET AUCTION a BUY, with a 12-month target price of 50,000 won. Merrill Lynch recently called the stock its top pick for 12-month performance in the Asia/Pacific Internet sector. Mr. Kang of ABN AMRO, also rates the company a BUY, with a target of 46,550 won. INTERNET AUCION closed at 31,800 won (around $28 at the current exchange rate) on Nov. 14.

Despite the company's positives, there's no denying that the E-BAY talks add a particularly attractive element to the stock. For one thing, even a loose alliance could eliminate the risk of one day competing against E-BAY in Korea, or perhaps even elsewhere in Asia, potentially a very big plus for INTERNET AUCTION 's long-term prospects. Access to E-BAY 's network also could make INTERNET AUCTION more appealing to Internet auction sellers in Korea – increasing the size of an auction's audience adds to its attractiveness.

And of course, there's the possibility that E-BAY could acquire the company, either in part or outright. From E-BAY 's perspective, such a move might seem the best way to gain a foothold in Asia. In addition, Samsung Securities' Eric Choe points out, INTERNET AUCTION's patented auction engine system with its built-in escrow system to avoid fraud might be an attractive acquisition for E-BAY.

10. The Analyst's Spotlight

Clarus

Jeanette Sing, Wasserstein Perella Securities

Interviewed by John Bishop

The Internet Analyst℠ *spoke recently with Jeanette Sing, Vice President for Wasserstein Perella Securities, about CLARUS (CLRS), a provider of e-commerce software. (Ms. Sing is not a CLARUS shareholder and the firm has not done any investment banking work for the company. Wasserestein Perella does make a market in CLARUS.)*

[THE INTERNET ANALYST – JOHN BISHOP] How does CLARUS's business compare to that of ARIBA (ARBA) and COMMERCE ONE (CMRC)?

[JEANETTE SING] In addition to running e-marketplaces, as ARIBA and COMMERCE ONE do, CLARUS also sells e-procurement software. But COMMERCE ONE and ARIBA are definitely the leaders in the business-to-business space. CLARUS' original strategy was to go for the medium-sized business market. Unfortunately, that's meant the company has more dot-com customers than enterprise customers, and that hurt its third-quarter results. CLARUS also isn't as well known as ARIBA and COMMERCE ONE, which hurts the firm in the crucial enterprise market. Enterprise customers are buying mission critical software, so they're willing to pay a higher price for respected names like ARIBA and COMMERCE ONE.

[JB] Are there any recent developments at CLARUS?

[JS] In association with COMPAQ (CPQ) and MICROSOFT (MSFT), CLARUS released a new set of business-to-business software and solutions called ExchangePaqs, and COMPAQ has committed to help market the software with their own hardware and services to the enterprise market.

[JB] What impact will this have on CLARUS's business?

[JS] It remains to be seen, but I think it's a positive development. The agreement serves two needs: First it reaffirms that the relationship between MICROSOFT and CLARUS is still strong. Second, it takes the company's relationship with COMPAQ to a higher level. COMPAQ has been a reseller of CLARUS software in the past, but the firm is now committing 150 sales people to promoting CLARUS e-market software, and they are training 200 consultants. This is a good development, but it's a wait-and-see situation.

[JB] What is your rating on the stock?

[JS] I have a HOLD rating on CLARUS.

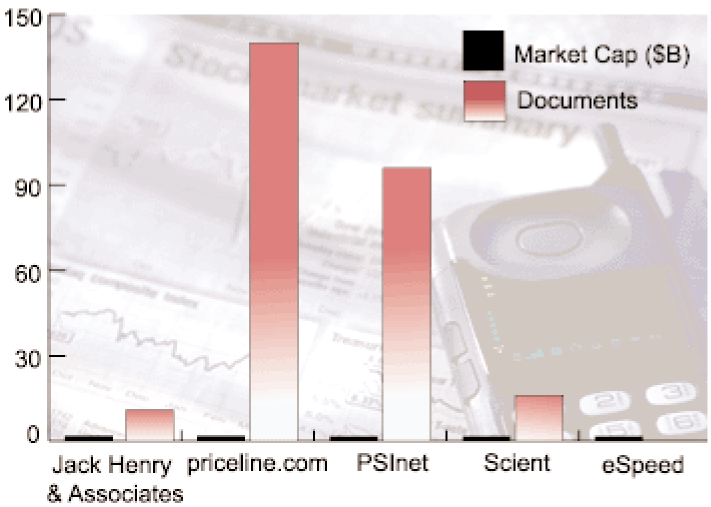
Recent Analyst's Spotlights:

Vital Statistics Jeanette Sing Vice President, Wasserstein Perella Securities	
Education	MBA from NYU Stern business school.
Industry	E-business software and services.
Companies	ARIBA (ARBA), COMMERCE ONE (CMRC), BROADVISION (BVSN), DOCUMENTUM (DCTM), USINTERNETWORKING (USIX), INTERLIANT (INIT)

11. Top U.S. Picks

Priceline.com Suffers Management Defections

By Eric Lopkin



86	Jack Henry & Associates	JKHY	Documents 11	MarketCap $1.89
87	priceline.com	PCLN	Documents 140	MarketCap $1.79
89	PSInet	PSIX	Documents 96	MarketCap $1.70
91	Scient	SCNT	Documents 16	MarketCap $1.64
93	eSpeed	ESPD	Documents N.A.	MarketCap $1.60

N.A. Not available

JACK HENRY & ASSOCIATES (JKHY): On Nov. 1, this provider of integrated computer systems and automated teller machine networking products for banks and credit unions declared a quarterly cash dividend of $0.05 a share on its common stock. Since the announcement, Robert W. Baird raised its price target to $66 from $60. The firm rates JACK HENRY a STRONG BUY based on its solid business fundamentals and track record of growth. From Oct. 30 to Nov. 5, research on JACK HENRY was accessed 58 times and 11 new reports on the company were added to the Multex.com database.

PRICELINE.COM (PCLN): The "name-your-own-price" Internet retailer, has had a rash of defections recently. Maryann Keller, the head of its auto-services business, has left, along with William Pike, vice president of financial planning and investor relations, and Allison McEnerney, director of investor relations. The departures come on the heels of the company losing Heidi Miller, its chief financial officer who made headlines when she left CITIGROUP (C) to join the company in February 2000. In response to the difficulties it is facing, PRICELINE unveiled a restructuring plan that included laying off 87 of its 535 employees.

Merrill Lynch, a co-manager of PRICELINE.COM's March 1999 initial offering, cut its estimate of fourth-quarter revenue to $302 million from $369 million and the firm now sees a loss of $0.05 a share in the quarter. Merrill had been forecasting breakeven for PRICELINE in the quarter. The firm also reduced estimates for fiscal 2001. The brokerage's revenue forecast was cut to $1.5 billion from $1.8 billion. Earnings are now projected to be $0.12 a share; the firm had been predicting earnings of $0.20 a share. The brokerage went on to say that it has "almost no confidence in these estimates." From Oct. 30 to Nov. 5, company research on PRICELINE.COM was accessed 1,888 times and 140 new reports were added to the Multex database.

PSINET (PSIX): This Internet service provider has found itself under fire in three class action lawsuits. The complaints charge that the company and certain of its officers and directors violated the federal securities laws by providing materially false and misleading information about PSINET's financial condition and future growth potential. As a result of these false and misleading statements, the lawsuits claim that the stock traded at

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artificially inflated prices. PSINET said that it views these claims to be without merit and that the company will vigorously defend itself, directors and officers against the allegations. Research on PSINET was accessed 1,687 times from Oct. 30 to Nov. 5 and 96 new reports were added to the Multex.com database.

SCIENT (SCNT): UBS Warburg initiated coverage of SCIENT with a HOLD rating and a 12-month price target of $20. The firm believes the company is "creating a valuable franchise that combines best-of-breed strategy consulting, deep technical skills and design capabilities." The firm says it expects the next few quarters to be choppy but they have confidence that management will be able to steer the company through. UBS Warburg thinks that the company's stock price will rise when news in the sector becomes more positive. Multex.com users downloaded reports on SCIENT 556 times between Oct. 30 and Nov. 5, and during that time, 16 new reports were added to the database.

ESPEED (ESPD): This company provides electronic trading, credit analysis, and clearing services to financial services to institutional customers through the Internet or over the company's global private network. One of the company's major competitors, Tullett & Tokyo Liberty announced that it would close LibertyDirect, its electronic fixed-income platform. UBS Warburg believes that there will continue to be consolidation in the sector and reiterated its STRONG BUY rating on ESPEED on the news. ESPEED continues to hold the dominant market share, and UBS Warburg believes it will maintain that lead.

Companies ranked 86 through 93 in The Internet Analyst℠ *Internet Industry 150. Market caps based on Nov. 2 closing stock prices. When available, documents are the number of new documents contributed to the Multex.com database from brokerage firms during the week of Oct. 30 to Nov. 5.*

12. Microcap Scope

LivePerson

Providing Online Assistance for E-Commerce Companies

By Michael Middleton and Timothy Middleton

Going into the holiday shopping rush, bricks-and-mortar retailers may still have some advantages over their Internet counterparts, but one-on-one contact with a human sales clerk may not be one of them.

New York-based LIVEPERSON (LPSN) provides e-commerce companies with a suite of applications that includes chat, allowing Web site customers to interact directly with operators via real-time text-based chat. The program, called LivePerson Chat, takes Internet customers a step past limited frequently-asked-questions pages and e-mail response systems (although the product suite offers these as well) by allowing a customer visiting an online site to gain more information about a product instantly. More than 800 Web sites subscribe to the technology, including international companies, which make up 15% of the LIVEPERSON client base.

And while e-commerce companies prepare for what they hope will be a larger Internet holiday shopping season than in years past, companies are finding that LIVEPERSON technology is useful for more than just dealing with potential customers. INTUIT (INTU), maker of the popular Quicken software, has used LIVEPERSON technology to guide more than 13,000 users with online assistance. And virtual shopping giant iQVC.com, 57%-owned by COMCAST (CMCSK), plans to expand its LIVEPERSON services to 24 hours a day and 100 operators – up from 14 operators a year ago. A variety of companies including PLAYBOY (PLA), SONY (SNE), Godiva, and the Franklin Mint also are on board with LIVEPERSON service.

New clients are being added at a brisk clip. In the most recent quarter, deals were done with The College Board, Virginia Tech, and PROCTER & GAMBLE (PG). In addition, LIVEPERSON signed at least 16 international clients in the quarter, including Zidi Net of Saudi Arabia, Commonwealth Bank of Australia, and eBookIt of Hong Kong.

Noel Parks, who covers LIVEPERSON for Stephens and rates the stock OUTPERFORM, noted that the company's chat software is now available in 14 languages in addition to English. Mr. Parks expects the company's international representation to increase significantly as LIVEPERSON's London office adds personnel to target France and Germany.

According to Mr. Parks, a LIVEPERSON client pays $350 a month for every workstation on which the company's software is operating. Steady revenue flow may help see the company through a close call on financing. LIVEPERSON's burn rate for the quarter was approximately $10.4 million, according to the Stephens analyst, leaving less than $30 million in cash in the company's coffers.

However, Mr. Parks now projects an improved operating margin for 2001, and says "it is less certain that the company will need more cash." He projects that the company will break even in the second quarter of 2002, and following the announcement of last quarter's results, he trimmed his 2001 loss estimate to $0.66 a share from $0.87 a share.

Mr. Parks believes the potential for mergers and acquisitions in the sector of e-CRM (customer-relationship management) is strong, and "will be an important catalyst in raising prices [in the sector]." But he noted that a lack of excess cash could prevent LIVEPERSON from being able to exploit some opportunities. "Without sufficient cash, the risk always exists that a company's future strategic moves – expansion, acquisitions – may be hampered."

For a different take on LIVEPERSON, please see The Sell Report, The Internet Analyst, Aug. 17, 2000.

Vital Statistics
LivePerson (LPSN)

Market Cap		$53.4 million
Shares Outstanding		29.5 million
Recent Stock Price		$1.81 (11/13/00)
52-Week Range		$11 – $1.44
Years end December	**EPS**	**Revenue (millions)**
1999A	($0.46)	$0.6
2000E	($1.04)	$6.3
2001E	($0.66)	$24.0
2002E	($0.10)	$55.6

Source: Stephens Inc.

13. IPO Update

Trinagy

Joining the Crowded Field for Network Monitoring

By John Filar Atwood

After watching the initial public offering of its competitor INFOVISTA (IVTA) in July, TRINAGY (TRGY-proposed) has decided to try an IPO. Both companies provide software that measures the performance of computer networks, including those that form the backbone of the Internet.

Their recent revenue numbers are comparable. TRINAGY's 1999 revenue was $10.3 million, and INFOVISTA reported $8.9 million for its fiscal year ended June 30, 2000. However, TRINAGY's revenue grew 59% from the previous year, while INFOVISTA's revenue grew 269%.

INFOVISTA went public at $12.23, climbed to $49.06 in late October and closed at $27.88 on Nov. 6, up 128% from its offering price. That's not bad, especially considering the recent rout in technology stocks, which has also cast a pall over the IPO market. Some industry participants have struggled of late, however, and a strong showing by TRINAGY is not guaranteed.

The value of CONCORD COMMUNICATIONS' (CCRD) stock has dropped 86% during the past year. After the company warned analysts and investors that its third-quarter results wouldn't meet expectations the stock dropped 58% to close at $9. CONCORD closed at $8.44 on Nov. 13. Third-quarter revenue grew only 3% growth from the previous quarter and analysts from Morgan Stanley Dean Witter and Bear Stearns warned that sales of the company's flagship software may be facing increased competitive pressures.

CONCORD still rates a BUY from Wit SoundView's Gary Spivak, who feels that the company is an attractive acquisition candidate. Although Mr. Spivak believes CONCORD's product has scalability problems, he said "One cannot ignore 2,000 mostly happy enterprise customers."

NETSCOUT SYSTEMS (NTCT) recently concluded a record quarter and rates a BUY from Daniel Peris of Argus Research. He provides a $25 price target for the stock, which currently sells at $18.63.

The company's revenue grew to $28.8 million in the quarter ended Sept. 30. It claims to serve half of the Fortune 500 companies, and lists 3M (MMM), AT&T (T) and SUN MICROSYSTEMS (SUNW) among its customers.

Recent Internet IPOs

Filing Date	Company	Description	Price
11-6	Transmeta TMTA	Low power-consuming microprocessors	$21

14. Rants & Raves

Opinion

What the Charts Are Saying About Nortel Networks

By K. C. Grainger
Grainger Beaulac Inc.

OK, I have said it before, NORTEL NETWORKS (NT) was overvalued when I suggested it would have a harsh downward move (Rants & Raves, The Internet Analyst, Aug. 31, 2000). But let's look at it and see what technical analysis says for NORTEL today. The world of investing has changed so dramatically. What investors have to realize is that it's much harder to be successful today by following professional recommendations. That's because most of these buy recommendations are made when a stock is at or near its 52-week high.

Readers should be aware of how things have changed in the stock market. Old approaches can be dangerous to your financial health. Ask yourself how many buy recommendations you've seen on a stock before it begins a solid move higher. Not too many, I'll bet. Investors have to do a lot of the research on their own, before they buy. For instance, the typical high-tech or Internet stock has an average price variation of more than 60% a year. Therefore, it makes sense to set price targets for purchases at much lower prices than the stock's current price – unless it is selling at or near a low. Just as important, always watch the insider transactions. I would like to tell you that insiders are now buying the Internet group, but they are not. That doesn't mean that the Internet sector cannot have a good rally once the election results are determined, they can. But the old highs are not possible in my view.

To get back to NORTEL, the largest component of the Canadian S&P 60 index; it is a classic case of a drop so severe that the old highs are at least two, and probably four, years away. Grainger's rule states that when a stock loses half its value and cascades down through its 200-day moving average, 90% of the time, it will take at least two years on average – and up to four years – to get back to its old highs. I am not trying to disparage any company. I'm simply stating what technical analysis tells me. There is still that 10% chance that NORTEL can return to its old high, but that's a long shot.

The chart indicates that if I am correct in expecting a bull market to commence very shortly, NORTEL could move up to between $50 and $60. Even if the market does move up to my target for the Dow Jones Industrial Average of between 13500 and 14000 in the next 12 months, NORTEL probably will not see its old high of $86 or even break into the $70-range. First, let's see if we can get to $60, then we can look at the chart. And from today's price of $38 a share, $60 would be a very solid move up.

The bottom line here is that Bob and I think a bull market is looming, although perhaps it will be delayed by the election uncertainty. Most stocks should benefit, but investors should have reasonable expectations and set realistic price targets. Suppose Bob's target of over 14000 Dow Jones industrials is correct, that would represent a move up of about 35%. The average annual price variation for most stocks is well over 35%, so I don't think that it's too high a target. – *With Robert S. Morrow, Robert S. Morrow Institutional Advisory Services*

Convergence Industry Index (in alphabetical order)

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

Public:

1 **ACTV** / www.actv.com (IATV) $10.00 -$0.47
505.92M New York
Software to synchronize TV programming with Net content delivery

2 **AT&T** / www.att.com (T) $21.19 $1.78 79.58B
New York
Telecom, Internet, computers, cable TV

3 **BellSouth** / www.bellsouthcorp.com (BLS)
$48.00 $2.19 89.67B Atlanta
Telecom, Internet, cable and digital TV, wireless access

4 **Chequemate International** / www.3d.com (DDD)
$0.75 -$3.28 7.68M 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)$109.57 $1.78 18.04B Woodbury, NY
Phone/computer access to voice/fax/e-mail; multi media systems

7 **Convergent Communications** / www.converg.com
(CONV)$3.88 -$4.12 114.65M Englewood, CO

Telecom & Net services, networking, Web/e-busi ness development

8 **Datalink.net** / www.datalink.net (XLNK) $7.94 -$0.60 112.32M San Jose, CA
Web-to-wireless platform for delivery of content; software

9 **Deutsche Telekom** / www.dtag.de (DT) $34.88 $1.48 105.66B Bonn, Germany
Telecom, cable TV, radio, Internet, programming

10 **General Electric** / www.ge.com (GE) $54.56 $1.23 540.65B Fairfield, CT
Telecom, broadcast and cable TV, Internet, comput ers

11 **Gemstar-TV Guide International** / www.tvguideinc.com (GMST) $66.00 $0.45 27.01B Pasadena, CA
Technology for delivering cable & Net content to various platforms

12 **Global Crossing** / www.globalcrossing.com (GBLX) $17.56 -$1.04 15.4B Hamilton, Bermuda
Fiber optic telecom and Net service, Web hosting, software

13 **Handspring** / www.handspring.com (HAND) $77.19 -$0.98 9.80B Mountain View, CA
Handheld computers offering wireless Net and modem connection

14 **InfoSpace** / www.infospace.com (INSP) $21.81 -$0.71 5.10B Redmond, WA
Content for Web sites and wireless; software

15 **ITXC** / www.itxc.com (ITXC) $10.69 -$1.57 411.83M Princeton, NJ Net-based voice & fax serv ice, voice-enabled applications

16 **Liberate Technologies** / www.liberate.com (LBRT) $18.31 -$1.68 1.89B San Carlos, CA
Software platform for content to delivery via Net and telecom

17 **Lucent Technologies** / www.lucent.com (LU) $23.31 $0.68 77.85B Murray Hill, NJ
Telecom equipment, Internet, content, computer net working

18 **Microsoft** / www.microsoft.com (MSFT) $70.88 $1.71 379.56B Redmond, WA
Internet, telecom, computer hardware, cable TV

19 **Nextlink** / www.nextlink.net (NXLK) $25.00 -$2.90 6.43B McLean, VA
DSL service, Net access, Web design & hosting, VPNs

20 **Nokia** / www.nokia.com (NOK) $41.44 $0.64 193.48B Espoo, Finland
Mobile phones, Internet, computer hardware, inter active TV

21 **Oracle** / www.oracle.com (ORCL) $27.19 $1.09 152.18B Redwood City, CA
Database software enabling Net access from PCs and appliances

22 **Palm** / www.palm.com (PALM) $54.25 $0.10 30.70B Santa Clara, CA
Handheld computers offering wireless Internet con nection

23 **Primus Telecommunications** / www.primustel.com (PRTL) $5.13 -$4.32 206.29M McLean, VA
Telecom and Net services, networking, Web hosting and design

24 **Pumatech** / www.pumatech.com (PUMA) $14.75 -$0.74 631.68M San Jose, CA
Software for exchanging data via Internet and tele com

25 **Real Networks** / www.realnetworks.com (RNWK) $21.38 -$0.46 3.34B Seattle
Software for playing audio and video over the Internet & broadband

26 **Research in Motion** / www.rim.net (RIMM) $97.94 $0.07 7.01B Waterloo, Canada
Handheld computers offering wireless Net and modem connection

27 **SBC Communications** / www.sbc.com (SBC) $57.63 $2.45 195.32B San Antonio, TX
Telecom, Internet, cable TV, networking

28 **Scientific-Atlanta** / www.sciatl.com (SFA) $62.00 $1.45 9.98B Norcross, GA
Set-top boxes for cable and Net transmission; net working services

29 **Sony** / www.world.sony.com (SNE) $83.75 $0.95 76.29B Tokyo
Media, Internet, computer monitors, telecom

30 **Source Media** / www.sourcemedia.com (SRCM)
$2.84 $2.39 48.78M Dallas
Streaming media content via Net, cable; networking services

31 **TiVo** / www.tivo.com (TIVO) $13.75 -$2.21
523.59M San Jose, CA
Set-top boxes for cable and Net transmission

32 **United Pan-Europe Communications** / www.upc corp.com (UPCOY) $16.19 N/A
7.08B Beverly Hills, CA
Set-top boxes for cable & Net transmission, telepho ny

33 **USA Video Interactive** / www.usvo.com (USVO)
$1.22 N/A 102.79M Mystic, CT
Video on demand systems and software via Web and telecom

34 **Virage** / www.virage.com (VRGE) $13.63 -$1.67
271.34M San Mateo, CA
Software for distributing media via Internet and telecom

35 **Wave Systems** / www.wavesys.com (WAVX)
$12.63 -$0.83 592.26M Lee, MA
Secure delivery of content over Net by cable, satel lite; software

36 **Winstar Communications** / www.winstar.com
(WCII) $25.63 -$9.41 2.33B 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 11/9/00. 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.

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