

E - FINANCE



What will be the effect of September 11?

By Peter L. Martin

We believe that the events of September 11 will negatively impact the corporate sector short term. Orders of new products, implementations of existing products, and payment for goods and services globally will undoubtedly be held up by the recent turn of events.

Essentially, two weeks were lost due to the shock of events and shutdown of services. That loss of commerce and productivity could negatively affect the business of e-learning providers, especially those that depend on the sale of a relatively small number of high-priced contracts each quarter. We think companies such as WebEx and SmartForce that

book subscription-based revenue are better positioned to weather this sort of crisis and economic environment than companies that depend on mostly one-time sales of perpetual software licenses, such as Saba and Centra. Because Saba and Centra depend largely on one-time sales of perpetual licenses to meet estimates each quarter, a lost week or two of productivity and the distracted environment that has followed could have an effect on their ability to meet estimates. To Centra's credit, the demand for their products and services should increase, but the timing of recent events (two and one-half weeks before the end of the

quarter) will no doubt have short-term implications. In fact, our short-term concern is based on the fact that most software providers close a majority of their business in the last two weeks of the quarter, not on the functionality or reliability of their products.

Long-term, we believe the corporate e-learning and especially the collaboration providers are well positioned to benefit from the psychological and logistical issues of recent events that could permanently change corporate business practices. The recent turn of events in New York and Washington did cause airports to shut down and created a potential long-term worldwide apprehension of flying. However, we think

that will spur companies to seek alternatives to air travel to complete not only time-sensitive business, but also transactions going forward.

WebEx and Centra offer collaboration technology, which enables virtual meetings, presentations, and training—thus reducing the need for companies to send employees to physical locations. WebEx has a deeper penetration in the business communication market; Centra has built a leadership position in the virtual classroom space. But both companies offer application service provider products for easy startup and Web meeting centers for ad hoc usage. In addition, SmartForce, Click2Learn, and other e-learning infrastructure providers offer

products to deliver proprietary or third-party training curriculum online, which would also significantly reduce travel costs and time.

As companies begin to evaluate new business practices to alleviate the need to travel while maintaining and improving productivity and customer relationships, they'll have to seriously consider e-learning and collaboration applications.

We've cautioned investors about the companies in the corporate sector near term due to the disruption of normal business operations caused by recent events and continued weakness in the economy, which has dramatically reduced funds available for instructor-led training and e-learning initiatives.



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Company eLearning	Ticker	Rating	Price	52 Week		Mkt
			9/28	High	Low	Cap (mm)
Picturetel Corp	PCTL	NR	\$5.98	\$8.00	\$1.75	\$310.38
Centra Software	CTRA	Accum	\$8.56	\$17.14	\$2.75	\$207.62
Insightful Corporation	IFUL	NR	\$2.38	\$4.44	\$1.25	\$23.94
Wire One Technologies	WONE	NR	\$6.11	\$11.56	\$1.44	\$134.03
Raindance Communications	RNDC	NR	\$2.16	\$7.06	\$0.74	\$102.69
Act Teleconferencing	ACTT	NR	\$8.30	\$9.75	\$3.89	\$50.96
John Wiley & Sons	JWa	NR	\$20.88	\$23.89	\$17.90	\$1,022.83
WebEx	WEBX	Buy	\$21.24	\$52.13	\$5.06	\$727.88
Imanage	IMAN	NR	\$4.00	\$9.13	\$1.50	\$86.79
Skillsoft Corp.	SKIL	NR	\$15.98	\$38.94	\$11.75	\$245.07
Dow Jones & Company	DJ	NR	\$45.43	\$64.30	\$43.19	\$2,894.45
Polycom	PLCM	NR	\$24.37	\$72.25	\$10.75	\$1,988.09
VCampus Corp.	VCMP	NR	\$0.56	\$4.50	\$0.38	\$8.52
FactSet Research Systems	FDS	NR	\$24.26	\$47.49	\$17.80	\$807.17
RWD Technologies	RWDT	NR	\$1.91	\$8.69	\$1.85	\$29.20
Corporate Executive Board	EXBD	NR	\$26.08	\$47.25	\$22.85	\$817.30
Eloquent	ELOQ	NR	\$0.88	\$3.94	\$0.50	\$16.12
DigitalThink	DTHK	NR	\$7.73	\$44.50	\$5.34	\$261.77
SmartForce Public Ltd. Co.	SMTF	Buy	\$16.36	\$57.25	\$13.40	\$835.55
Adobe Systems	ADBE	NR	\$23.98	\$87.31	\$22.50	\$5,455.65
Innodata	INOD	NR	\$2.00	\$9.25	\$1.26	\$43.66
Stellent	STEL	NR	\$14.40	\$64.00	\$13.33	\$313.14
Click2learn.com	CLKS	Accum	\$2.60	\$18.25	\$1.00	\$49.84
Docent	DCNT	NR	\$2.07	\$27.13	\$1.48	\$88.81
Vignette Corp.	VIGN	NR	\$3.54	\$34.88	\$3.08	\$933.74
Actuate Corp.	ACTU	NR	\$4.19	\$37.38	\$2.80	\$239.88
Macromedia	MACR	NR	\$12.11	\$85.25	\$11.30	\$664.15
Mentergy	MNTE	NR	\$0.33	\$11.38	\$0.23	\$4.49
Documentum	DCTM	NR	\$8.19	\$63.88	\$5.88	\$311.82
Nuance Communications	NUAN	NR	\$6.50	\$131.88	\$5.65	\$221.30
Interwoven	IWOV	NR	\$3.86	\$67.69	\$3.11	\$372.83
Saba Software Systems	SABA	Sell	\$1.98	\$30.19	\$1.52	\$78.22
Speechworks International	SPWX	NR	\$4.93	\$99.50	\$4.10	\$141.24
Broadvision	BVSN	NR	\$0.91	\$37.13	\$0.68	\$270.22
ProsoftTraining.com	POSO	Accum	\$0.64	\$15.00	\$0.56	\$14.57
Genesys	GNSY	NR	\$7.00	\$15.29	\$4.55	\$182.51
Corporate eLearning Average						\$554.34
Traditional						
New Horizons Worldwide, Inc.	NEWH	NR	\$11.52	\$18.70	\$11.00	\$125.34
Learning Tree International	LTRE	NR	\$20.30	\$59.75	\$14.50	\$391.36
Provant, Inc.	POVT	Hold	\$0.38	\$7.94	\$0.32	\$8.29
Corporate Traditional Average						\$175.00
					Total	\$525.16
Indices						
			Russell 2000	\$404.84	\$524.40	\$373.62
			S&P 500 Composite	\$1,040.90	\$1,461.65	\$944.75
			Nasdaq Composite Index	\$1,498.80	\$3,778.38	\$1,387.06

3-Mon Avg Trdg Vol	Return (%)				
	1-Mo.	3-Mo.	6-Mo.	12-Mo.	YTD
793,923	11.7	19.1	111.3	-13.1	144.6
448,913	-37.5	-36.3	37.7	22.4	113.2
38,675	-42.6	-21.0	51.1	7.6	39.3
110,980	35.0	25.0	163.2	-34.6	37.0
504,918	147.7	74.4	14.4	-62.9	24.6
43,126	26.1	29.3	15.1	7.5	15.1
50,343	-5.3	-12.1	10.1	-9.8	-3.7
929,992	-3.1	-32.6	129.5	-42.0	-11.4
88,259	-25.7	12.1	51.8	-53.0	-18.9
242,020	-45.5	-57.3	-25.2	-19.2	-19.7
275,972	-21.4	-23.5	-14.3	-24.8	-21.0
1,791,786	3.3	14.3	42.6	-63.8	-26.1
4,500	-40.0	-60.0	-43.5	-84.8	-28.9
182,251	-5.6	-24.0	-19.0	-32.5	-34.4
11,489	-36.3	-40.9	-37.6	-73.7	-37.6
431,020	-32.5	-40.1	-19.1	-38.2	-40.9
56,351	-15.5	-30.5	-0.6	-68.7	-52.0
541,910	-43.3	33.3	-14.1	-81.6	-56.6
1,574,808	-54.5	-49.1	-39.4	-69.6	-60.1
4,301,560	-36.3	-48.5	-37.6	-69.2	-60.7
110,561	-23.0	-44.9	-64.1	-20.4	-62.9
470,318	-36.6	-56.9	-45.9	-70.8	-72.6
108,685	-35.7	47.9	37.9	-82.1	-74.4
269,341	-62.6	-67.4	-47.9	NA	-76.0
3,718,249	-52.3	-54.4	-44.8	-86.0	-79.0
650,023	-40.4	-41.6	-61.0	-86.6	-79.1
751,918	-21.4	-38.7	-31.5	-85.2	-81.1
25,236	-22.9	-56.0	-76.3	-96.6	-81.5
446,143	-47.7	-27.2	-41.1	-79.7	-83.4
949,154	-43.9	-55.0	-45.0	-94.5	-84.4
3,323,221	-54.9	-78.1	-72.6	-93.4	-89.1
746,525	-81.9	-86.7	-78.5	-93.5	-89.3
387,064	-50.9	-68.0	-48.8	-91.2	-91.0
3,944,221	-56.1	-80.2	-83.8	-96.5	-91.8
240,672	-57.5	-47.5	-92.0	-95.3	-94.9
14,779	-6.5	-36.1	NA	NA	NA
793,858	-25.4	-29.4	-12.0	-58.1	-38.0
26,211	-5.7	-11.8	-21.2	1.5	-11.3
144,792	-18.0	-11.6	3.6	-60.9	-58.9
104,552	-79.3	-79.5	-93.7	-94.2	-91.1
91,852	-34.3	-34.3	-37.1	-51.2	-53.8
739,858	-26.1	-29.8	-14.0	-57.5	-39.2
	-18.0	-20.7	-13.2	-22.7	-18.7
	-13.6	-15.9	-13.8	-28.6	-22.8
	-23.6	-29.6	-25.9	-60.0	-40.9

Moreover, the tragedy will surely drive the United States into a recession, prolonging by a quarter or two any inklings of recovery.

We predict that budgets will be severely limited heading into 2002. Near term, we believe collaboration will be the only segment of the industry that has the strong possibility of increased demand for its services due to travel fears and limitations. In the event of a dramatic sell-off in the sector, we would need to revisit our investment thesis on a case-by-case basis. We recommend focusing on the better-positioned and capitalized providers in the individual niches that would benefit from the long-term success of online learning and its ability to solve some of the fundamental business practices that will be changed forever by the events of September 11.

The performance of our corporate sector in September was severely affected by the events of September 11 and the view that economic recovery will be pushed back. The sector declined 26.1 percent in September compared to the NASDAQ and Russell 2000, which were down 23.6 percent and 18 percent respectively during the month. Saba had the toughest month as it tumbled 82 percent over concerns regarding the demand for its high-end, behind-the-firewall learning management system. Smartforce, Docent, and Click2Learn all fell in sympathy. On a positive note, Raindance (up 148 percent) as well as other conferencing companies rose on the anticipated benefit of recent events on the demand for their services. The collaboration segment as a group was up 6 percent in September.

Peter L. Martin, CFA, is a senior vice president with Jefferies & Co., San Francisco. He follows various segments within the knowledge services industry, which are broadly categorized under e-learning and traditional education and training.