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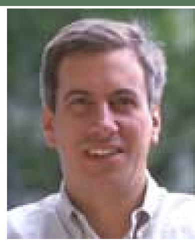

Software Took It on the Chin

But Will Be First to Bounce Back

By Mark Verbeck, Managing Director, Senior Analyst

This quarter distinguished itself as perhaps the most difficult environment for enterprise software spending in recent memory. So far, more than 30 prominent names in software have issued warnings that quarterly results will be worse than expected.

In the majority of cases, pipelines remained strong, but closure rates declined precipitously. This has led to a lack of visibility into future sales which we expect will persist into next quarter. We have compiled a list of selected pre-announcements in the sector, which we believe underscores the pervasive impact economic conditions have had on sales this quarter.

Company	Ann. Date	Epoch Comments	Consensus EPS	Pre-Announced EPS
March Quarters				
Remedy Corp.	**4/6/2001**	Slowing economy and delayed IT spending	$0.16	($0.05) to ($0.07)
SilverStream Software	**4/5/2001**	Economic uncertainty	($0.17)	($0.60) to ($0.65)
Hyperion Solutions	**4/5/2001**	Postponed spending due to economy	$0.07	$0.01 to ($0.04)
WebMethods	**4/5/2001**	Deferral in IT spending decisions	$0.06	$0.00 to ($0.03)
Eprise	**4/4/2001**	Longer sales cycles amid weaker economy	($0.22)	($0.29) to ($0.31)
Selectica	**4/4/2001**	Delayed purchases by key customers	($0.08)	($0.27) to ($0.29)
WatchGuard Tech.	**4/4/2001**	Deferral in customer capital spending	$0.06	($0.10) to ($0.14)
Click Commerce	**4/4/2001**	Lengthening sales process	($0.01)	($0.08) to ($0.09)
Commerce One	**4/4/2001**	Challenging economic environment	($0.06)	($0.11)
Agile Software	**4/3/2001**	Merger costs and economy	$0.02	($0.03) to ($0.06)
Broadbase Software	**4/3/2001**	Challenging business climate	($0.11)	($0.23)
EXE Technologies	**4/3/2001**	Project deferrals due to economic climate	$0.04	$0.03
Kana Communications	**4/3/2001**	Slowdown in customer spending	($0.19)	($0.43)
Onyx Software	**4/3/2001**	Reduction in anticipated sales	$0.01	($0.31) to ($0.33)
Sybase	**4/3/2001**	Effects of the current economic malaise	$0.28	$0.23 to $0.26
Clarus	**4/3/2001**	Lower than expected revenue	($0.97)	($0.97)
MicroStrategy	**4/3/2001**	Slow sales & restructured debt	($0.30)	($0.31) to ($0.37)
Rational Software	**4/3/2001**	Challenging economic environment	$0.22	$0.20 to $0.22
Resonate	**4/3/2001**	Slowdown in IT spending	($0.26)	($0.31) to ($0.33)
Ariba[2]	**4/2/2001**	Unexpected drop-off in sales closure	$0.05	($0.20)
Broadvision	**4/2/2001**	Uncertainties in current economic climate	$0.02	($0.14) to ($0.16)
Documentum	**4/2/2001**	Delays & cancellations of customer orders	$0.07	Net Loss
E.piphany	**4/2/2001**	Longer sales cycles	($0.09)	($0.40)
Entrust	**4/2/2001**	Slowing of sales due to weaker economy	$0.01	($0.32) to ($0.34)
i2 Technologies[2]	**4/2/2001**	Delayed purchase decisions	$0.05	$0.02
Inktomi	**4/2/2001**	Declining economic conditions	($0.04)	($0.23) to ($0.25)
Primus	**4/2/2001**	Cautious capital spending by customers	($0.07)	($0.20) to ($0.23)
Synquest	**4/2/2001**	Delayed deals due to economic conditions	($0.04)	($0.12) to ($0.14)
Art Technology Grp.	**4/2/2001**	Declining economic conditions	$0.09	($0.19) to ($0.22)
Blue Martini	**3/29/2001**	Delayed and unrealized sales	($0.09)	($0.22) to ($0.25)
Net Perceptions	**3/22/2001**	Deferred customer purchase decisions	($0.29)	($0.42) to ($0.46)
February Quarters				
Tibco Software	**3/7/2001**	Delayed IT spending	$0.07	$0.06
Oracle[2]	**3/1/2001**	Delayed sales due to economic climate	$0.12	$0.10
J.D. Edwards	**2/5/2001**	Disappointing sales execution	$0.01	($0.01) to ($0.02)

[more]

Research

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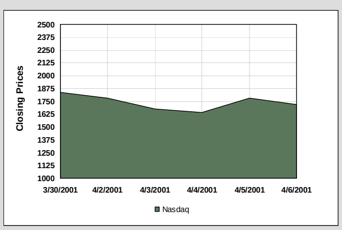
Epoch Indices for the Week

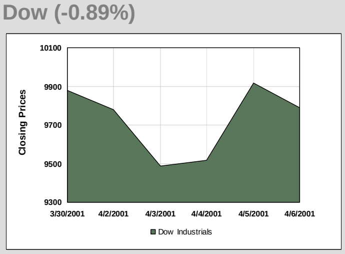
Broadband & IP Svcs:	-21.58%
Comm Equipment:	-4.91%
Internet:	-1.79%
Software:	+1.47%

Market Statistics (5-Day)

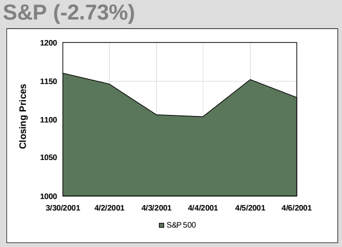
Nasdaq (-6.52%)



Dow (-0.89%)



S&P (-2.73%)



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Top 10 Stocks Bought*

Packeteer (PKTR)	10.31%
Ariba (ARBA[2])	8.74%
Agile Software (AGIL)	6.12%
Avanex (AVNX)	5.11%
WebMethods (WEBM)	4.85%
Juniper Networks (JNPR)	4.77%
Webvan (WBVN)	4.68%
Brocade Comm. (BRCD)	4.50%
Niku Corp. (NIKU)	4.23%
I3 Mobile (IIIM)	3.89%%

Top 10 Stocks Sold*

Efficient Networks (EFNT)	-46.75%
Interact Commerce (IACT)	-20.61%
Micromuse (MUSE)	-1.95%
Great Plains Software (GPSI)	-1.85%
Metawave (MTWV)	-1.75%
Vignette (VIGN)	-1.67%
Verisign (VRSN)	-1.54%
BroadVision (BVSN)	-1.20%
Adaptive Broadband (ADAP)	-1.17%
Navisite (NAVI)	-1.13%%

*Notes

Percent change from the prior week in the number of technology-related shares held by customers of our brokerage partners.

For those companies that have not yet preannounced, we expect little or no upside to published estimates. A handful of companies, including BMC Software and Peregrine Systems, have preannounced results that meet current expectations. Even so, these companies are reporting tougher conditions and many are undertaking similar cost cutting measures to those that fell short of Street expectations.

We believe all areas of software have been affected by the economy, whether they make their numbers or not. Invariably, slowing sales have occurred across product lines, geographies and verticals. Some segments have held up better than others with supply chain solutions doing relatively well while eCRM companies suffered disproportionately. Companies are reporting that, with the notable exception of Japan, international conditions appear to be weakening as well. Pricing does not appear to be a critical factor on whether or not deals are consummated and we expect to see minimal margin pressure as a result.

We expect that cost cutting measures including product rationalization will continue to be a common solution to weaker top-line prospects. Not all workforce reductions are the same. In some cases, these cuts reflect a reduced long-term business opportunity where companies have endeavored to do too much, too soon. In others, layoffs cull under-performers, preserving cash and the company's ability to grow given a rebound in IT spending. In some instances, we think more reductions may be necessary for companies to achieve sustainable models. Lastly, cash becomes a consideration in an uncertain spending environment. We like companies with strong balance sheets. They afford some flexibility with which to continue pursuing long-term business objectives.

When corporations open the purse strings, software companies will be immediate beneficiaries. Earnings will likely rebound rapidly because there will be no inventory backlog to work through and no impediments to delivering products. Therefore we think software company shares should be purchased at the first indication of improving economic conditions.

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This Past Week at Epoch

04/02/01 **Ariba Misses Big in Q2; Back to Basics?**

04/02/01 **i2 Warns on 1Q in Line With Our Expectations, But is the Worst Over?**

04/02/01 **Netro Alters 1Q01 Outlook**

04/02/01 **ART Bankruptcy Creates Consternation**

04/03/01 **Loudcloud: Say Goodbye to Co-opetition**

04/03/01 **New Focus Affirms Lower Rev, Announces Departure of Key Exec**

04/03/01 **Aether Raises the Red Flag**

04/03/01 **Layoffs and Reduced Estimates Usually Go Hand-In-Hand**

04/04/01 **Commerce One Warns on 1Q; Still Executing**

04/05/01 **Loudcloud Shines Through**

04/05/01 **Earnings Preview: CE Systems: The Charts Speak for Themselves:Wanna Buy a Router?**

04/05/01 **Merger Makes Sense for Floware**

04/05/01 **Sycamore Gets Whacked**

EPOCH PARTNERS

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Heard on the Desk

Compiled by the Epoch Partners Equity Capital Markets Team

Software Reigns Again

Four of the top five stocks registering the largest increase in holdings during the week ending March 30 were software companies. Today we will analyze the weekly changes and also look into the first quarter's greatest increases.

Packeteer (Nasdaq: PKTR, $3.03) saw the largest weekly increase, gaining 10%. The provider of Internet application infrastructure systems continues to trade at levels which are attractive to retail investors.

Agile Software's (Nasdaq: AGIL, $11.02) holdings gained 6% after announcing on Monday that Microsoft's (Nasdaq: MSFT, $54.69) XBox video game system division chose Agile to provide its collaborative manufacturing solution.

Of the companies that saw the largest weekly decrease, one stock must be highlighted. On Wednesday, Sage Group PLC announced it would acquire Interact Commerce (Nasdaq: IACT, $11.75) for $12.00 in cash per share. The news sent the stock up 49% and investors took their profits.

A Quarter to Forget

As the Nasdaq fell further and further over the first quarter of 2001, investors in technology stocks did not wait on the sidelines. Many investors chose to start new positions and others added to existing positions of companies that provide value at these depressed levels. Below is a table of the companies that saw the largest gains over the first quarter.

Ticker	Company Name	% Change in Holdings over 1st Quarter
INAP	InterNap Network Services	134.96%
ARBA	Ariba	126.16%
KANA	Kana Communications	123.22%
AVNX	Avanex	117.90%
JDEC	JD Edwards	115.69%
NUAN	Nuance Communications	94.56%
TIBX	Tibco Software	75.13%
MTWV	Metawave Communications	64.85%
NASC	Network Access Solutions	61.88%
SCMR	Sycamore Networks	61.36%

Company Highlight: Loudcloud[1]

Nasdaq: LDCL

Investment Thesis

Loudcloud stock provides an opportunity for investors to profit from what we believe will become one of the most important companies in the Broadband and IP data services space. Loudcloud offers a fully outsourced service for managing Web applications and infrastructure, with higher quality and at a lower cost than in-house or other outsourced solutions. Loudcloud uses automation and technology in place of human processing and localized knowledge to achieve these advantages and scale its service. Loudcloud's proprietary Opsware technology is continuously being improved with the knowledge learned from deploying and operating Web applications and infrastructure for many customers. The result is a highly scaleable, automated and improving service that competitors currently cannot match with traditional solutions. For investors, Loudcloud is building a business with an attractive financial model: recurring revenue, operating efficiencies from automation and a high return on investment. Accordingly, we believe LDCL stock is undervalued relative to its long-term potential. [04/03/01]

Company Description

Loudcloud is what we term a Managed Application Infrastructure Provider (MAIP), meaning that it provides a fully outsourced solution for managing customers' Internet-based applications. The company's service allows customers to quickly deploy, easily manage and seamlessly scale their application operations environments, rather than having to purchase the infrastructure and hire IT staff to architect and manage it themselves. In order to create operational efficiency and provide scale, Loudcloud has created a software operating system called Opsware that automates much of the deployment and maintenance of these application environments. This software technology is key to marrying the complicated and distinctly different worlds of computing and software technology with data networking. In doing so, it brings machine-like precision, predictability, process and replication of tasks to the deployment and ongoing operation of these data-oriented applications. The result is faster deployment times, better economies of scale, unique service capabilities and higher quality of service.

Key Investment Points

- ·Large and Rapidly Growing Market: Epoch Partners estimates the managed application infrastructure provider (MAIP) services market will grow from approximately $800 million in 2000 to more than $4 billion in 2002.
- ·Barriers to Entry: Loudcloud's Opsware technology, a software-based operating platform, provides a service offering and financial model that differentiates the company and creates a barrier to entry for other providers looking to replicate the company's capabilities.
- ·Substantial Traction: Since February 2000 the company has added 45 customers and amassed a contract value that has grown from $0 in September 1999 to $120 million in the fourth quarter.
- ·Superior Business Model: Loudcloud can deliver services without massive upfront capital expenditures, resulting in a more success-based and less risky model than those of its competitors.
- ·Leading Management Team: The pedigree of Loudcloud's executive team -- led by Netscape co-founder Marc Andreessen and former AOL executive Ben Horowitz -- has attracted an engineering and development staff that few competitors can match.

Read our full company report on Loudcloud.

1. Epoch Securities, Inc. has been an underwriting manager or co-manager of the company in the last three years.

2. The analyst(s) involved in the preparation of this report has an investment position in the subject security.