

# Off Wall Street Consulting Group, Inc.

P.O. Box 2647  
Cambridge, MA 02238

tel: 617.868.7880  
fax: 617.868.4933  
internet: offwallst@yahoo.com

All information contained herein is obtained by Off Wall Street Consulting Group, Inc. from sources believed by it to be accurate and reliable. However, such information is presented "as is," without warranty of any kind, and Off Wall Street Consulting Group, Inc., in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, or completeness of any such information. All expressions of opinion are subject to change without notice. Off Wall Street Consulting Group, Inc. hereby discloses that the clients of Off Wall Street Consulting Group, Inc., and we the company, or our officers and directors, employees and relatives, may now have and from time to time have directly or indirectly a long or short position in the securities mentioned and may sell or buy such securities at any time.

## Copyright 1999 by Off Wall Street Consulting Group, Inc.

N.B: Federal copyright law (Title 17 of the U.S. Code) makes it illegal to reproduce this report by any means and for any purpose, unless you have our written permission. Copyright infringement carries a statutory fine of up to \$100,000 per violation. We offer a reward of \$2,000 for information that leads to the successful prosecution of copyright violators.

<b>New Rec: USWeb/CKS</b>	<b>(USWB- \$37.25)</b>	<b>April 8, 1999</b>
---------------------------	------------------------	----------------------

**Position: Sell**                      **Target: \$15**                      **Timing: 2 (1=aggressive; 5=cautious)**

\$M	Q4 98	Q1 99e	Q2 99e	Q3 99e	F1998	F1999e
<b>REVS</b>	<b>72,648</b>	<b>81,000</b>	<b>90,000</b>	<b>100,000</b>	<b>228,600</b>	<b>380,000</b>
<b>EPS \$</b>	<b>0.07</b>	<b>0.08</b>	<b>0.09</b>	<b>0.10</b>	<b>0.18</b>	<b>0.38</b>
<b>Y/Y %</b>	<b>NM</b>	<b>NM</b>	<b>121%</b>	<b>44%</b>	<b>NM</b>	<b>111%</b>
<b>PE</b>					<b>207x</b>	<b>98x</b>
<b>PSR</b>					<b>12.7x</b>	<b>7.6x</b>
<b>Consen</b>		<b>0.08</b>	<b>0.10</b>			<b>0.43</b>

**Shares Out: 77.7 M**

**Market Cap: \$2,894 M**

**FYE: Dec.**

Summary: Wall Street positions USWeb/CKS as a "pure play" on Fortune 1000 companies' spending on internet-specific professional services. USWB shares have appreciated 400%, since its IPO at \$7.50 in the fourth quarter of 1997, and currently trade at 10 times Q4 98 annualized revenues. Recurring earnings are difficult to calculate, due to an aggressive acquisition strategy. Although the company reported a loss of \$3.07 for 1998, excluding all non-cash and merger related charges it claims to have earned \$0.18, putting the P/E at a mere 207x.

As a result of its numerous acquisitions, USWeb's revenue has increased from \$9.7 million in Q3 97, at the time of the IPO, to \$72.6 million in Q4 98. The

company has acquired over 39 companies since the first quarter of 1997, culminating with the acquisition of CKS Group in Q4 98.

Investors seem to believe the notion that by merging with CKS USWeb has created a fully integrated internet professional services company, focusing on large clients, and larger assignments. Management claims it will be able to increase operating margins to 15-17% by the end of 1999, up from pre-charge operating margins of 4.3% for fiscal 1998 and 7.0% in Q4 98. As evidence of USWeb's success with this strategy, the company claims 46 of the Fortune 100 as clients.

While their story may have a certain theoretical appeal, it also has many real problems. First, USWB's acquisition spree is leading investors and analysts to overestimate organic revenue growth, and growth potential. Although the company claimed organic growth of 13% from Q3 to Q4 1998, sequential organic growth at USWeb was 17% in Q4, and sequential organic growth was about 8% at CKS. We expect the CKS part of the business to continue to grow at 20% annually, at best, while internal USWB growth should slow to 40% by 1999 year end.

Management has stated its acquisition phase is largely complete, and that USWB must rely predominantly on internal growth to meet expectations. If this is the case, then we doubt that USWB can meet consensus revenue projections of \$400 million for fiscal 1999, up 75% from 1998. We project that the USWB division will do about \$208 million in 1999, CKS will do about \$139 million, and acquisitions will add about \$33 million. We think these estimates, despite being well below consensus, are still very aggressive, and are unlikely to be achieved.

Second, investors do not understand that the current "metrics" being used to measure the health of USWeb, such as account size and growth, are being distorted by a significant contribution from CKS' just acquired traditional advertising business. An internet multiple is not appropriate for the competitive, slower growing advertising part of the business. Investors have also not noticed that a change in CKS' accounting by USWB raised its gross margins from 30% to 36%, thus boosting restated historical results and enabling USWB to lead analysts to higher operating margin estimates.

Investors may not understand that the 46 Fortune 100 "customers" appear to be the result of acquired relationships, rather than USWeb-won business. Moreover, many of the relationships that the company touts are not important strategic relationships for the clients, as USWB would like investors to believe, but represent only occasional work.

The USWeb part of the business should be viewed as a specialty IT system integrator. This industry is under pressure, witnessed by the significant declines by certain stocks in the sector. Although the "street" remains confident that USWeb is isolated from these macro issues due to its internet niche, other IT companies are entering this market. Still other specialized consulting companies are receiving significant funding, and traditional IT integrators are developing or acquiring internet expertise. As the internet part of the IT business becomes more mainstream,

USWB will be awarded a multiple like that of other IT companies, not like that of an internet company.

Finally, it is not clear that USWeb's business model will succeed. USWB's rapid acquisition strategy must be executed nearly flawlessly in order for the story to work even near term. There is evidence that many acquisitions may go awry. Already, the company has had to write off goodwill on two acquisitions, and goodwill remaining on the balance sheet is \$168 million.

Discussion:

1. Strong revenue growth is largely the result of acquisitions.

USWeb's extraordinary growth is largely the result of an aggressive acquisition program and purchase accounting. The company has grown rapidly by acquiring over 39 companies since it began its acquisition program in the first quarter of 1997. USWeb recently completed its largest deal by merging with CKS Group in December 1998, in a \$540 million pooling transaction. Prior to the CKS acquisition, purchase accounting acquisitions were increasing USWeb's revenues at a dramatic rate.

Growth prior to CKS Merger, as reported

	Three months ended Sept.			Nine months ended Sept.		
	1997	1998	%	1997	1998	%
Revenue	5,738	34,018	493%	8,676	73,086	742%
Gross profit	125	7,981	6,285%	334	16,266	4,770%

Sequential:

	Q2 98	Q3 98	%
Revenue	25,417	34,018	33.8%
Gross profit	5,359	7,981	48.9%

Combining CKS Group with USWeb decreases the reported pace of growth, because CKS was acquired using pooling, rather than purchase accounting, and CKS is growing at a slower rate than USWeb:

Growth after CKS Merger, as reported

	Three months ended Dec			Year ended December		
	1997	1998	%	1997	1998	%
Revenue	34,883	72,648	108%	114,302	228,600	100%
Gross profit	9,465	15,228	61%	37,187	59,318	60%

Sequential:

	Q3 98	Q4 98	%
Revenue	62,586	72,648	16.1%
Gross profit	18,687	23,128	23.8%

These reported financial results still overstate internal revenue growth because of the significant purchase accounting acquisitions completed in 1997. The growth rate decreases significantly if the results for all of the acquired companies are studied on a pro forma basis, as if they had all been together since December 1, 1997, rather than from the time of acquisition. The pro forma results are important because USWeb acquires web-consulting firms in separate offices that provide few acquisition synergies. On a pro forma basis, assuming all of USWeb's acquisitions had been together since Jan. 1, 1997, revenue growth is a far less impressive 48%.

Growth after CKS Merger, pro forma for acquisitions

	Three months end Dec			Year ended December		
	1997	1998	%	1997	1998	%
Revenue	45,656	72,648	59%	166,317	246,035	48%
Gross profit	8,620	15,228	77%	34,849	58,480	68%

Even 48% is too high an estimate of the growth of USWeb's businesses, since several companies did not exist in 1997, making 1998 comparisons easy.

2. By far the biggest and most important acquisition for USWeb was its acquisition of CKS Group, completed in Q4 98. The "street" had a mixed reaction when the merger between USWeb and CKS Group was announced in September 1998. CKS Group had originally pitched the idea of a creative/technical shop to the "street" when it came public at \$34 in June 1996. Despite its pioneering efforts to create an interactive agency, CKS had trouble meeting analyst expectations, and the stock collapsed in late 1997. CKS's problems stemmed from its inability to integrate a series of acquisitions.

However, the "street" warmed to the merger because it appeared to combine the technical side of USWeb with the creative side of CKS to create a one-stop internet shop. Interestingly, the idea for the merger did not originally come from the companies, but rather from a shareholder, in both companies. The match was "made in Wall St. heaven." The combined value of the companies jumped from about \$800 million at the time the deal was announced to \$1.6 billion at the time of closing.

CKS Group was predominantly an advertising company. Together, USWeb/CKS presents itself as a leader in, "strategic internet and marketing communications services". As this tag line suggests, the company has two distinct elements: web integration services and marketing communication services.

A review of CKS' August 98 10-Q reveals that only 30% of CKS's business was "interactive" and the other 70% is traditional advertising and marketing. Prior to its merger with USWeb, CKS Group was predominantly an advertising agency, with 5 clients accounting for approximately 37% of revenues in fiscal 1997. Instead of growing at a 50%+ rate, revenues for the company were growing at less than 20%.

CKS Group revenue breakdown

Three months ended Aug

Nine months ended Aug

	1997	1998	Growth	1997	1998	Growth
Advertising	29,450	32,535	10%	73,780	86,633	17%
New media	10,300	14,100	37%	26,200	32,000	22%
Total revenue	39,750	46,635	17%	99,980	118,633	19%

CKS's revenue is now a significant component of USWeb/CKS revenue. A table from the back of the 1998 10-K shows that for the first nine months of 1998, CKS had more revenue than USWeb. Together in the fourth quarter they generated \$72.6 million.

	1997	1998
	9 months	
<u>Revenues</u>		
USWeb	19,278	73,086
CKS	95,024	82,866
Total	114,302	155,952

For the first nine months of 1998 CKS accounted for 53% of pooled revenue. The pro forma income statement that breaks apart the pieces of the merger provides a better understanding of the CKS impact on the USWeb business model. Not only is CKS now approximately half of revenue, but also CKS is responsible for USWeb's operating income.

	Nine months ended Sept 1998			1998
	USWeb Pro Forma*	CKS Group Historical	USWB/CKS Combined	USWB/CKS As reported
Total revenues	90,964	82,866	173,830	228,600
Cost of revenues:				
Services	59,092	52,948	112,040	141,119
Other	700	0	700	5,132
Provision for contract loss	2,094	0	2,094	9,994
Stock compensation	15,744	0	15,744	13,037
Total cost of revenues	77,630	52,948	130,578	169,282
Gross profit	13,334	29,918	43,252	59,318
Marketing & sales	21,972	1,697	23,669	27,384
G&A	19,227	15,532	34,759	45,071
Acquired in-process tech.	0	0	0	25,508
Stock compensation	35,227	0	35,227	31,760
Amort. of intangibles	50,779	1,237	52,016	74,538
Merger, integ. costs				39,901
Total operating expenses	127,205	18,466	145,671	244,162
Inc. (loss) from operations	(113,871)	11,452	(102,419)	(184,844)
Add back: charges	103,844	1,237	105,081	194,738
Op margin, pre- charge	(10,027)	12,689	2,662	9,894
<u>Operating Margin (%)</u>	USWeb	CKS Group	USWB/CKS	USWB/CKS

Including charges	-125.2%	13.8%	-58.9%	
Operating Margin (%)	-11.0%	15.3%	1.5%	4.3%

\* Pro Forma. As if all USWeb companies had been together since 1/97.

Unlike other early stage technology and internet companies that have strong gross margins, but have weak operating profits due to aggressive sales and marketing, USWeb/CKS's gross margins were 36% in 1998 on a pooled basis, excluding non-cash items, and 26% after non-cash items. This is because USWeb is a "body shop", whose main costs are the salaries of consultants who complete client consulting assignments. General and administrative costs were 20% of revenues, and sales and marketing costs were 12%, leaving operating margins excluding non-cash items at 4%. After non-cash items, operating margins were negative 81%.

Management claims that investors should evaluate the company on a pre non-cash item basis, due to the significant goodwill amortization, stock compensation costs, and merger costs. Instead of just excluding charges, management also wants investors to exclude depreciation associated with physical assets that represent actual costs. However, the problem with ignoring "non-cash" items is that the company may be writing off assets that do have value, leading to overstatement in the future. USWeb wrote off \$25.5 million of in-process R&D in 1998. Significant stock compensation is also diluting EPS. The company has also taken reserves in connection with acquisitions. For instance, "accrued expenses" on the balance sheet at the end of Q4 98 total \$52.9 million, as compared to marketing & sales, and general & administrative expense on the income statement of \$21.6 million, or 2.4 quarters of accrued expenses. Ignoring non-cash items, USWB earned \$5.1 million in Q4 98 and \$9.9 million for the full year. The trend suggests that the operating model is improving.

	(\$000)	3/98	6/98	9/98	12/98	1997	1998
Loss from operations		(15,476)	(59,982)	(26,521)	(82,865)	(43,059)	(184,844)
Prov. For contract loss		0	9,430	(7,336)	7,900	0	9,994
Stock compensation		1,681	3,576	4,158	3,622	2,420	13,037
Acquired in-process tech		4,323	18,289	2,896	0	9,472	25,508
Stock compensation		2,568	13,534	7,860	7,798	6,698	31,760
Amort. of intangibles		4,860	17,364	23,552	28,762	12,963	74,538
Merger, integration costs		0	0	0	28,822	0	28,822
Impairment of goodwill		0	0	0	11,079	0	11,079
Op. inc. after charges		(2,044)	2,211	4,609	5,118	(11,506)	9,894

While these results still seem unimpressive, even using the company's interpretation, the results may be further misleading because USWeb/CKS utilizes percentage of completion accounting for a portion of its business to recognize revenues. Percentage of completion accounting involves significant estimates as to the length of time needed to complete a project. For instance, losses on projects for fixed price engagements may not be foreseeable until the project is nearing completion. This risk will be increasing for USWeb, as it implements its stated strategy of seeking a higher percentage of fixed price contracts.

3. In order to measure USWeb/CKS earnings more realistically after backing out all of the non-cash items, we think that investors should compare the company's operating income after charges to its cash from operations, as derived from the cash flow statement. Management appears eager to discuss pre charge results, as if it were cash, but "cash" earnings are better evaluated by studying the cash flow statement.

Quarterly cash flow from operations:

	Pre-merger			Post-merger	
	3/98	6/98	9/98	1997	1998
USWeb	(7,014)	(10,321)	(11,912)	(23,595)	-
CKS	(2,253)	6,993	7,601	5,620	-
Merger adj.				2,170	
Combined	(9,267)	(3,328)	(4,311)	(20,145)	(11,838)

Despite its claim to have positive operating income, the company is persistently operating cash flow negative. We break apart USWeb and CKS' cash flows to demonstrate that while CKS is cash flow positive in Q2 and Q3, USWeb is cash flow negative. USWeb's internet consulting business is the sizzle in the USWeb story, but even in the current strong market for internet services the company remained cash flow negative. This elevates the importance of CKS to the long-term success of the combined company.

4. In another example of the triumph of perception over reality in the USWB/CKS merger, it is interesting to note that when pooling USWeb and CKS, the timing of the end of the quarters did not match by a month. USWeb has a December year-end while CKS had a November year-end. This created a "stub" month, the month of September for CKS that is excluded from the financials. During September, CKS recorded revenues of \$7.9 million and a net loss of \$1.5 million, which was recorded to equity, but little else is known about the missing month. We wonder what type of "housecleaning" may be in the month, and if CKS accelerated any expenses to allow the fourth quarter operating results to be strong.

5. The CKS acquisition is also largely responsible for the current metrics that the company wants the "street" to applaud. Since CKS has positive operating margins, and USWeb does not, the pooling immediately improved operating margins, as discussed above. However, USWeb may be getting an additional margin boost due to some unusual acquisition accounting used to pool CKS Group. This is important because the "street" views management's promise of increasing margins as evidence of strength in the underlying business.

When USWeb consolidated CKS Group it showed that CKS had operating margins of nearly 14%. However, pre-merger, CKS Group actually reported operating margins of 9.7%. As a result of "conforming adjustments" made when CKS was merged with USWeb, certain CKS revenues were netted out against certain expenses, with the result that sales declined, operating earnings remain unchanged, but margins appear to be much higher. The December 1998 registration statement reads:

“Such reclassifications included the netting of certain production revenue and related costs, where were separately disclosed in CKS Group’s historical financial statements, and the classification of certain costs between operating expense categories.”

However, CKS’s 10-K does not distinguish production revenue from project revenue, and the expenses on the CKS income statement are categorized as “direct” and “other direct” expenses. Direct expenses include wages and benefits, and indirect expenses include materials, contract freelance, equipment and facility expense. These expenses are not “pass-through” expenses that seem appropriate to net against revenues, as USWeb has done during consolidation.

These bookkeeping changes lowered total revenues, but resulted in increased profitability. CKS’s gross margins were boosted from 31% to 36%, an 18% increase, and operating margins from 9.7% to 13.8%, a 42% increase.

	Nine months ended August 1998		
	As reported	As acquired	Difference
Revenues:	118,633	82,866	(35,767)
Cost of revenues:	82,264	52,948	(29,316)
Gross profit	36,369	29,918	(6,451)
Marketing & sales		1,697	
Gen. and admin	24,917	15,532	
Amort of intangibles		1,237	
Total operating expenses	24,917	18,466	(6,451)
Inc. (loss) from operations	11,452	11,452	0
Gross margin (%)	30.7%	36.1%	5.4%
Operating margin (%)	9.7%	13.8%	4.2%

6. Just as the acquisition and restatement of CKS revenues seems to make USWB's stated goal of 15-17% operating margins more obtainable, it also improves other “metrics” that the company likes to cite.

A key component of USWeb’s strategy is to target large accounts, and to win ever-bigger deals. Management releases the annualized average size of its billings. First, we note that the figure is misleading, because it is simply taking the top billings during the quarter and multiplying them by four, and this calculation may be significantly different from the actual size of the assignments, which may last less than a year. CKS’s 10-K reports that its average client assignment lasts only 4-6 weeks.

Second, this metric is being significantly influenced by the addition of CKS business. CKS has several large clients, such as Apple and Audi, who are predominantly advertising and marketing clients. These clients appear to be

skewing the numbers upwards. Although CKS's customer concentration was not released for 1998, in 1997 five customers accounted for 37% of revenues, and two customers accounted for 22% of revenues. Comparing USWB's Q3 and Q4 98 average annual revenues, as they were released, demonstrates our point, since the original Q3 release did not include CKS clients. In Q4, USWB/CKS did give an indication of what Q3 would have been on a combined basis, as shown below.

In Q3 98, USWeb reported that the average annualized revenues for its top 30 clients was about \$1.8 million, and the average for its top 10 clients was \$3 million. The combination with CKS dramatically improved these numbers, as the Q3 restated and Q4 98 financial release indicates.

Average Annualized Revenues:

<u>USWeb, alone</u>	<u>Q3 1998</u>	
Top 30 Clients	<u>1.8</u>	
11-30 Clients	<u>0.3</u>	
Top 10 Clients	<u>3.0</u>	
 <u>USWeb/CKS</u>	 <u>Q3 1998</u>	 <u>Q4 1998</u>
Top 30 Clients	<u>3.6</u>	<u>4.5</u>
11-30 Clients	<u>0.6</u>	<u>0.7</u>
Top 10 Clients	<u>6.4</u>	<u>8.3</u>

Adjusted for the merger with CKS, Q3 98 average annualized revenue for "Top 10" clients more than doubles to \$6.4 million, up from \$3.0 million, and the average revenue for "Top 30" clients increases likewise, from \$1.8 million to \$3.6 million.

The average annualized revenue size also increased sequentially from Q3 pro forma to Q4 98. However, we believe the 30% increase in the average Top 10 revenue was probably due to a higher mix of advertising business and seasonality in advertising. Apple is one of CKS's largest clients, and Q4 included the launch of the iMac and the strong promotional activity of the holiday season. The strength appears to be mainly concentrated in the Top 10. Although the Top 30 increased 25% sequentially, through subtraction we calculate that the average revenues for clients 11-30 increased from 0.6 to 0.7 million, or 17%.

7. Some of the "large deal" announcements being used by the company's management to tout its success may be misleading.

For example, to support its claim that it is increasing the size of its average client assignment, USWeb cites its May 1998 "strategic alliance" with NBC Multimedia. As part of the agreement, USWeb expects to earn revenues over several years that will total \$11 million. In exchange, USWeb issued warrants to NBC to acquire a total of 2.1 million shares, at an average price of \$23.20. At the time of the transaction, the value of the warrants was calculated to be \$12.57 million, higher than the estimated revenues to be received. Of the \$12.57 million in

options granted, \$6.286 million was expensed as “stock compensation”, and the remaining options are revalued quarterly. Needless to say, USWeb will record an overall loss on the contract, and has recorded a \$10 million loss provision for this business.

The economic benefit to USWB shareholders of this transaction is unclear. USWeb grants warrants worth \$12.57 million, in exchange for future revenues of \$11 million. Based on a current share price of \$37.25, NBC has profits of \$29.5 million. In effect, USWeb converts its own equity into \$11 million in revenue, gets to claim a high profile customer, and claims that the loss is a “non-cash” expense, and then asks the “street” to ignore the expense when calculating its earnings. The transaction appears more designed to improve the stock price, than the value of the company.

The relationship with NBC hardly seems to be “strategic.” NBC can contract with other design firms, and USWeb can work with other large media companies. In fact, NBC recently completed a deal with 24/7 Media to increase the online advertising reach of its local stations. Once again, NBC acquired a stake, of 1% in 24/7. Was the USWB deal good for NBC? Certainly. Was it a great deal for USWeb shareholders? Probably not.

Another large deal where a dollar amount was released was USWeb’s \$8 million contract with the World Economic Forum, in June 1998. The contract sounds impressive. USWeb will revamp the Internet-based video electronic community called WELCOM. Simultaneous to securing the contract, USWeb acquired Advanced Video Communications (AVC Inc.), a company described as a USWeb “partner”. The press release mentions Microsoft, Intel and USWeb as investors in AVC. We note that these three companies became investors in February 1998, just five months prior to the contract. Prior to February, AVC Inc. was majority-owned by the World Economic Forum, which was probably still the major owner at the time AVC Inc. was acquired.

In sum, USWeb acquires AVC Inc. from the World Economic Forum and its investors, and in turn receives a contract from World Economic Forum, to finish work on a proprietary AVC Inc. project. We wonder if this \$8 million deal was won, or purchased.

8. USWB management also touts its impressive client list, but this list is more a result of acquisition than it is won by the synergies of the new entity. In the fourth quarter of 1998, USWeb/CKS claimed 46 of the Fortune 100 as clients. However, none of the announced new business engagements were with Fortune 100 companies, although some were with major companies. During the fourth quarter, USWeb/CKS announced a \$500,000 initial engagement with Cleaver Brooks, a leading manufacturer of commercial and industrial boiler systems, and unspecified engagement sizes with the Motion Picture Association, Ocean Spray, 20<sup>th</sup> Century Fox, Jenny Craig, Remerica and the Hard Rock Café. We think that the 46 assignments with Fortune 100 companies may be smaller engagements, and USWeb may not be their key internet partner.

Instead of winning Fortune 100 clients, we think USWeb acquired them when it “rolled up” smaller consulting companies. Now USWeb must prove it can retain clients and generate new business. We think that many large companies seek web-consulting partners based upon the qualifications of the individuals who will be on the job, rather than based on the size of the web-consulting firm. This is important because a significant part of the USWeb story is that Fortune 1000 companies want to work with large consulting firms. Our discussions with other large consulting companies, however, lead us to think that it is not size but rather available talent that counts. As proof, most of USWeb’s larger clients originally chose small consultants for their internet projects.

While USWeb lists many top tier companies as clients, it is unclear how many of these customers are active clients, and to what extent they actually employ USWeb. Indeed, many of the named high profile customers do not appear to have a strategic relationship with USWeb. For instance, although Charles Schwab is listed as a client, its major internet asset, the eSchwab website, was developed by Razorfish, another web consultant. Polk Audio is listed as a client, but its website was developed by web consultants Gr8. Amgen is listed as a client, but Amgen only used USWeb to assist it on one project, and is no longer under contract. REI’s logo is also on a USWeb prospectus, but IBM developed the REI e-commerce website. Indeed, the REI website is presented as a case study of the important relationship between REI and IBM, not between USWeb and REI. Although we did not confirm the specific project behind every listed relationship, we did discover that, in many circumstances USWeb was not the primary provider of internet solutions to the high profile customers.

USWeb appears to have become reluctant to disclose its significant customers. In the 1997 10-K, selected customers who generated more than \$50,000 in revenue were disclosed, even though the company’s stated strategy was to target clients who would generate \$150,000 to \$3 million in revenue. The recently released 1998 10-K omits a table of representative clients, and client concentration is not disclosed under “risk factors”.

The current USWeb/CKS homepage displays a rainbow of Apple iMacs, the tag line reads, “how we launched five iMac flavors in fourteen countries – simultaneously”. USWeb/CKS’s work with Apple is brand positioning, and is not internet related. Apple’s eCommerce website, on the other hand, was developed by Adjacency, a San Francisco-based consulting firm, recently acquired by Sapient. Apple’s decision to assign brand positioning to CKS, but its e-commerce initiative to a smaller, specialized firm, speaks volumes about USWeb/CKS’s business strategy of providing a one-stop-shop.

Other advertising firms, such as Omnicom, have chosen to partner, rather than to integrate, with web consultants. CEOs of other firms have also questioned the value of the USWeb/CKS integrated strategy. Modem.Media.Poppe.Tyson used to have a similar structure to that of CKS, but the firm sold its traditional advertising back to True North to focus on interactive advertising. Organic Online’s

Jonathan Nelson argued in an interview with Red Herring that, “Integrated marketing and communications’ is a tag line very few people buy.” He further argues that the trend is towards increasing specialization.

9. Traditional advertising agencies are not awarded internet multiples, even though many have departments that develop or have significant activity in “new media”. Omnicom will soon bring its Agency.com unit public, and the company also has interests in other “new media” companies, including Razorfish, Organic Online and Think New Ideas. True North recently took its interactive unit, Modem.Media.Poppe.Tyson public, and TNO retains an 85% controlling stake. Grey Advertising has also formed a department to pursue internet activities. Despite these interactive activities, leading advertising agencies are valued at 1-3 times revenues, and newly public “pure play” Modem.Media.Poppe.Tyson is priced at 9.1 times revenues.

#### Advertising Comparables

	98 Rev.	98 Op. Margin	98 Op. Margin %	Rev. Y/Y	Market Cap.	Price/98 Rev.	Price/Op. Margin
True North	1,242	131	10.6%	3.1%	1,282	1.0	9.8
Grey Adver.	935	55	5.9%	8.9%	448	0.5	8.1
Young & R.	1,522	163	10.7%	10.1%	3,199	2.1	19.6
Omnicom	4,092	560	13.7%	30.1%	14,007	3.4	25.0
Modem.Media	43	(2)	-3.7%	44.6%	386	9.1	NM
USWeb/CKS	229	10	4.3%	100.0%	2,893	12.7	292.4

Despite the major contribution of advertising and brand development to USWeb/CKS’s total revenues, the “street” compares USWeb to information technology system integration companies such as Sapient, Cambridge Technology Partners, and Complete Business Solutions. It excludes CKS’ former comparables, including the “interactive” agencies such as Think New Ideas, Leap Group, K2 Design, and Eagle River Interactive, or the traditional advertising agencies such as Omnicom, True North, and Grey Advertising. Also excluded from USWeb comparables are the fallen angels in the IT system integrator camp, such as Renaissance Worldwide, Technology Solutions, Keane, Computer Horizons and Harbinger. With Cambridge Technology Partner’s recent stock collapse, we believe this company will soon disappear as a comparable, leaving only a handful of exceptional integrators who trade at multiples similar to USWeb’s.

Below, we present selected comparable companies to reflect the wide discrepancy between the “have” and the “have-nots” IT consultants. Increasingly fewer IT integrators have been able to maintain their lofty price/revenue multiples. USWeb/CKS’s price/sales ratio is currently higher than market darlings Sapient, and International Network Services. However, Sapient’s and INS’ growth is of higher quality because they have not depended on acquisitions to build revenue. Moreover, their income statements do not ask investors to back out “non-cash” items in order to show a profit.

## IT System Integrator Comparables

	98 Rev.	98 Op. Margin	98 Op. Margin %	Rev. Y/Y	Market Cap.	Price/98 Rev.	Price/Op. Margin
Sapient	160	31	19.0%	77.5%	1,898	11.8	62.2
Int'l Network S.	225	38	16.8%	78.8%	2,994	13.3	79.3
Metzler Group	267	56	20.8%	35.6%	1,713	4.4	21.1
Complete Bus.	377	42	11.2%	36.8%	549	1.5	13.1
Cambridge T. P.	612	89	14.6%	39.6%	867	1.4	9.7
Renais. W.W.	776	25	3.3%	31.4%	267	0.3	10.6
<b>USWeb/CKS</b>	<b>229</b>	<b>10</b>	<b>4.3%</b>	<b>100.0%</b>	<b>2,893</b>	<b>12.7</b>	<b>292.4</b>

Valuations in the IT systems integration sector have recently collapsed, largely due to missed earnings expectations, and fears of a slowdown in IT spending. The “street” assumes that since the internet is growing so quickly, corporations will be forced to increase spending on web-based projects, and that USWeb/CKS will remain isolated from these problems. Although some IT integrators may have been slow to offer internet services, integrators are now acquiring web design firms, hiring talented individuals, and are offering internet services. Companies such as Sapient and Platinum Technology have completed niche web consulting firm acquisitions and the big consultants such as Andersen and IBM view this business as being important and are offering complete internet solutions. These companies have experience managing consultants, have the ability to hire and combine different talents, and have existing relationships to leverage into internet work.

Although USWeb was an early consolidator in the industry, it is not clear that a consolidation strategy will win in the end. Indeed, integration difficulties may prevent USWB from succeeding. USWeb may be caught between competing with major integrators such as IBM and Andersen Consulting who are expanding their offerings to include internet services, and emerging internet niche solution providers such as Viant, Scient, and Razorfish.

USWeb’s business model poses numerous risks to investors. While USWeb has been successful in making acquisitions, we question whether all of the disparate parts will work together. In addition, at the time of the merger with CKS, it was unclear that all of CKS' problems, some arising from its numerous acquisitions, had been resolved. In the first half of 1998, CKS was still trying to reorganize itself, and it is not certain that all CKS’s problems are behind it.

10. Although the “street” has expressed confidence in the management team, one of the company’s co-founders and “visionary”, Joe Firmage, recently resigned after his belief that extra-terrestrial beings were responsible for major technological breakthroughs became known. Both the CEO and the CFO are recent additions, and are faced with the difficult task of integrating the companies and talents that now comprise USWeb. Firmage’s replacement, Robert Shaw, joined from Oracle, but he has only been with the company since November 1998. Shaw managed consultants at Oracle but he is not an internet expert, and does not appear to have experience

integrating many far-flung pieces. Carolyn Aver, the Chief Financial Officer, joined the team in May 1998. She had previously been with Backwebs, an internet technology company for a year. Most of her experience, from March 1993 to May 1997, was at ParkPlace-Digitalk, a software company that imploded while she was CFO.

11. Recent write-offs of investments and goodwill may indicate problems with USWeb's acquisition-driven model. In June 1997, USWeb wrote off its \$4 million in Utopia, a Boston based consulting company. Utopia is a good example of what can happen if the talent leaves. Utopia's founder and "creative" person left Utopia soon after the deal was done. In the fourth quarter of 1998, \$11.1 million of \$13.1 million of goodwill associated with a CKS acquisition, Schell/Mullaney, an advertising and marketing firm, was also written off after an employee contract negotiation revealed that future cash flows would be significantly lower than expectations.

Shares subject to performance review suggest acquisitions may be under-performing. When USWeb completes an acquisition, 50% of shares related to the purchase price are placed in escrow for 12 months. The acquisitions are re-evaluated 6 and 12 months after completion. If the acquired company is performing better than expectations more shares may be issued, and likewise, if the company is performing below expectations, shares may be withdrawn. Comments in the December 23, 1998 registration statement imply that while an additional 418,000 shares may be issued, another 818,500 may be withdrawn, for a net withdrawal of 400,500 shares.

“The Company has excluded from the recognized purchase price calculations approximately 818,500 shares that it estimates are not probable of issuance at the end of the respective escrow periods. ...management estimates that approximately 418,000 additional shares are probable of issuance at the completion of the respective valuation periods.”

12. At its current market capitalization of \$2.9 billion, USWeb is valued at a significant premium to the acquisition price of its pieces. As of December 1998, USWeb had paid a total of \$246.3 million in stock to acquire the 33 firms that comprise USWeb. USWeb's formula for valuing its acquisition targets typically valued them at 1.5-3.0 times revenues. At the time of the CKS acquisition, CKS's market capitalization was about \$540 million.

#### Purchase price of USWeb/CKS pieces

USWeb company acquisitions	\$246
CKS acquisition	540
Combined purchase price	<u>\$786</u>

USWeb/CKS' market capitalization currently stands at \$2.9 billion, or about four times the price USWeb paid to acquire all the companies that now comprise the whole.

Investors are currently paying a “top of the range” price for USWeb, when comparing the company to leading IT integrators. Nevertheless, only about half of USWeb/CKS business is similar to IT consulting, with the other half being advertising. If we place an above market multiple of 5 times revenues on CKS, to reward it for its 30% interactive component, we arrive at a \$450 million valuation for CKS. Subtracting this price out of USWeb’s current market capitalization of \$2.9 billion suggests investors are paying \$2.5 billion, or approximately 22 times revenues for USWeb’s internet businesses. This is over twice the revenue multiple awarded market leaders Sapient and International Network Services. That is, even if USWeb’s stock dropped by 40% it would still be valued in-line with leading system integrators.

It is interesting to look at Cambridge Technology Partners, which at its July 98 high traded at \$58.375, and had a market capitalization of \$3.6 billion. At that point CATP had 2,868 employees, annualized revenues of \$585 million, and a price/annualized revenue of 6.2x. CATP’s shares currently trade for about \$14, after an earnings disappointment. This compares to USWeb’s current market capitalization of \$2.9 billion, 1,960 employees, annualized revenues of \$290 million and a price/annualized revenues of 10x.

13. Numerous challenges confront USWeb, as it seeks to integrate all of its pieces, while at the same time it defends its market position against other major integrators and niche consulting firms. If the advertising segment of the company cannot grow at a very high rate, we think that USWeb will have trouble meeting analyst estimates. The “street” expects that USWeb/CKS will be able to increase revenues 76% in 1999, while at the same time increasing margins to 20% by the end of the year. We think these estimates will prove to be too aggressive.

CKS grew revenues only 6% y/y in the August quarter and sustaining a 20% growth rate may be difficult. The “street” appears to assume that CKS can grow as fast as USWeb, which we think is very unlikely. CKS revenues increased 8% sequentially in the fourth quarter, but the end of the year is historically the strongest quarter. We estimate that CKS will generate \$138 million in revenue in 1999.

In addition, USWB's consensus revenue estimates appear to rely on continued acquisitions, despite the fact that the company has said it will rely less on acquisitions for growth. We believe quality acquisitions will become more competitive, especially transactions large enough to meaningfully add to revenue. Continued acquisitions will also make 15-17% operating margins more difficult to achieve, as management will be integrating, and acquiring at the same time. We assume operating margins will increase to 11%, and the pace of acquisitions will slow throughout 1999. We estimate that the USWeb business will generate total 1999 revenues of \$208 million, and \$33 million in additional revenues will come from new acquisitions. We think our estimates are very generous, and it would not surprise us if USWB fell short of our numbers.

Not achieving “street” estimates would cause the shares to decline

substantially. As noted above, well respected IT integrators trade at approximately 2.0 revenues, after a disappointment. At three times our estimated 1999 revenues of \$381 million, USWB would have a market capitalization of \$1.1 billion, and the stock would trade at \$15. Hence our target.

#### 14. Financials:

<b>INC. STATEMENT</b>	<b>3/98</b>	<b>6/98</b>	<b>9/98</b>	<b>12/98</b>
Revenues:	39,325	54,041	62,586	72,648
Cost of revenues:				
Services	26,750	33,862	39,741	45,898
Pvsn, contract loss		9,430	(7,336)	7,900
Stock comp.	1,681	3,576	4,158	3,622
Total cost of revs	28,431	46,868	36,563	57,420
Gross profit	10,894	7,173	26,023	15,228
Operating exp:				
Marktng, sale & supt	5,261	7,071	7,268	8,161
G&A	9,358	10,897	10,968	13,471
Acq in-process tech.	4,323	18,289	2,896	0
Stock comp	2,568	13,534	7,860	7,798
Amort of intangibles	4,860	17,364	23,552	28,762
Merger, integration		0	0	28,822
Impairment of goodwill		0	0	11,079
Total operating exp.	26,370	67,155	52,544	98,093
Loss from operations	(15,476)	(59,982)	(26,521)	(82,865)
Interest income	925	1,051	1,081	1,245
Net loss before taxes	(14,551)	(58,931)	(25,440)	(81,620)
taxes	704	2,181	2,325	2,529
Net loss	(15,255)	(61,112)	(27,765)	(84,149)
Net loss per share:				
Basic	(0.29)	(1.08)	(0.44)	(1.26)
Weighted avg shares	52,408	56,648	63,451	66,792
Diluted	(0.26)	(0.91)	(0.37)	(1.08)
Diluted shares	58,900	67,500	74,300	77,675

<b>Non-cash earnings</b>	<b>3/98</b>	<b>6/98</b>	<b>9/98</b>	<b>12/98</b>
Loss from operati	(15,476)	(59,982)	(26,521)	(82,865)
Provision, contract loss	0	9,430	(7,336)	7,900
Stock compensation	1,681	3,576	4,158	3,622
Acquired in-process tech	4,323	18,289	2,896	0
Stock compensation	2,568	13,534	7,860	7,798
Amort of intangibles	4,860	17,364	23,552	28,762
Merger, integration	0	0	0	28,822
D&A	1,410	1,600	1,900	2,039
Impairment of goodwill	0	0	0	11,079
Operating Inc. after charges	(634)	3,811	6,509	7,157
Interest	925	1,051	1,081	1,245
Taxation	704	2,181	2,325	2,529
Non-cash item earnings	(413)	2,681	5,265	5,873
Basic	(0.01)	0.05	0.08	0.09
Diluted	(0.01)	0.04	0.07	0.08
<b>% OF REVENUE</b>	<b>3/98</b>	<b>6/98</b>	<b>9/98</b>	<b>12/98</b>
Revenues:	100.0%	100.0%	100.0%	100.0%
Cost of revenues:				
Services	68.0%	62.7%	63.5%	63.2%
Pvsn, contract loss	0.0%	17.4%	-11.7%	10.9%
Stock comp.	4.3%	6.6%	6.6%	5.0%
Total cost of revs	72.3%	86.7%	58.4%	79.0%
Gross profit	27.7%	13.3%	41.6%	21.0%
Operating exp:				
Marktg, sale & supt	13.4%	13.1%	11.6%	11.2%
G&A	23.8%	20.2%	17.5%	18.5%
Acq in-process tech.	11.0%	33.8%	4.6%	0.0%
Stock comp	6.5%	25.0%	12.6%	10.7%
Amort of intangibles	12.4%	32.1%	37.6%	39.6%
Merger, integration	0.0%	0.0%	0.0%	39.7%
Impairment of goodwill	0.0%	0.0%	0.0%	15.3%
Total operating exp.	67.1%	124.3%	84.0%	135.0%
Loss from operations	-39.4%	-111.0%	-42.4%	-114.1%
Interest income	2.4%	1.9%	1.7%	1.7%
Net loss before taxes	-37.0%	-109.0%	-40.6%	-112.3%
taxes	1.8%	4.0%	3.7%	3.5%
Net loss	-38.8%	-113.1%	-44.4%	-115.8%

<b>Non-cash earnings</b>	<b>3/98</b>	<b>6/98</b>	<b>9/98</b>	<b>12/98</b>
Loss from operations	-39.4%	-111.0%	-42.4%	-114.1%
Provision, contract loss	0.0%	17.4%	-11.7%	10.9%
Stock compensation	4.3%	6.6%	6.6%	5.0%
Acquired in-process tech	11.0%	33.8%	4.6%	0.0%
Stock compensation	6.5%	25.0%	12.6%	10.7%
Amort of intangibles	12.4%	32.1%	37.6%	39.6%
Merger, integration	0.0%	0.0%	0.0%	39.7%
D&A	3.6%	3.0%	3.0%	2.8%
Impairment of goodwill	0.0%	0.0%	0.0%	15.3%
Operating Inc. after charges	-1.6%	7.1%	10.4%	9.9%
Interest	2.4%	1.9%	1.7%	1.7%
Taxation	1.8%	4.0%	3.7%	3.5%
Non-cash item earnings	-1.1%	5.0%	8.4%	8.1%

<b>YEAR/YEAR</b>	<b>3/98</b>	<b>6/98</b>	<b>9/98</b>	<b>12/98</b>
Revenues:	107.0%	94.8%	91.5%	108.3%
Cost of revenues:				
Services	110.9%	96.6%	90.9%	91.5%
Stock comp.	NM	930.5%	571.7%	149.1%
Total cost of revs	124.1%	166.7%	70.6%	125.9%
Gross profit	72.5%	-29.5%	131.5%	60.9%
Operating exp:				
Marktg, sale & supt	25.1%	31.7%	12.4%	11.3%
G&A	105.8%	61.5%	36.6%	60.1%
Acq in-process tech.	NM	NM	NM	NM
Stock comp	7033.3%	1384.0%	208.0%	143.8%
Amort of intangibles	166.3%	879.4%	503.1%	426.8%
Total operating exp.	132.9%	296.5%	111.6%	261.2%
Loss from operations	208.9%	786.1%	95.2%	368.4%
Interest income	74.5%	279.4%	300.4%	97.9%
Net loss before taxes	224.8%	461.7%	91.0%	378.4%
taxes	304.6%	7.7%	-0.1%	220.1%
Net loss	227.8%	388.2%	77.4%	371.4%
EPS	50.6%	126.3%	-18.3%	164.8%

<b>Non-cash earnings</b>				
Loss from operations	208.9%	786.1%	95.2%	368.4%
Stock compensation	NM	930.5%	571.7%	149.1%
Acquired in-process tech	508.0%	755.8%	NM	NM
Stock compensation	7033.3%	1384.0%	208.0%	143.8%
Amort of intangibles	166.3%	879.4%	503.1%	426.8%
D&A	NM	NM	NM	62.7%
Operating Inc. after charges	-74.0%	-338.2%	-346.9%	-414.0%
Interest	NM	NM	NM	97.9%
Taxation	NM	NM	NM	220.1%
Non-cash item earnings	NM	NM	NM	-340.7%
Basic	NM	NM	NM	-235.2%
Diluted	NM	NM	NM	-238.8%

<b>INC. STATEMENT</b>	<b>3/99e</b>	<b>6/99e</b>	<b>9/99e</b>	<b>12/99e</b>
Revenues:	80,860	89,478	99,537	110,072
Cost of revenues:				
Services	50,133	55,476	61,713	68,245
Stock comp.	3,700	3,900	4,100	4,100
Total cost of revs	53,833	59,376	65,813	72,345
Gross profit	27,027	30,102	33,724	37,727
Operating exp:				
Marktg, sale & supt	8,895	9,843	10,949	12,108
G&A	14,959	16,374	18,116	20,033
Acq in-process tech.				
Stock comp	10,500	11,500	11,500	11,500
Amort of intangibles	25,250	21,463	18,243	15,507
Total operating exp.	59,604	59,180	58,808	59,148
Loss from operations	(32,577)	(29,078)	(25,084)	(21,420)
Interest income	1,189	919	860	801
Net loss before taxes	(31,388)	(28,159)	(24,224)	(20,619)
taxes	3,109	3,361	3,696	3,986
Net loss	(34,497)	(31,520)	(27,920)	(24,606)
Net loss per share:				
Basic	(0.50)	(0.44)	(0.38)	(0.32)
Weighted avg shares	69,147	71,532	73,922	76,312
	71%	-59%	-14%	-74%
Diluted	(0.43)	(0.38)	(0.33)	(0.28)
Diluted shares	80,030	82,415	84,805	87,195
<b>Non-cash earnings</b>	<b>3/99e</b>	<b>6/99e</b>	<b>9/99e</b>	<b>12/99e</b>
Loss from operations	(32,577)	(29,078)	(25,084)	(21,420)
Provision, contract loss	0	0	0	0
Stock compensation	3,700	3,900	4,100	4,100
Acquired in-process tech	0	0	0	0
Stock compensation	10,500	11,500	11,500	11,500
Amort of intangibles	25,250	21,463	18,243	15,507
Merger, integration	0	0	0	0
D&A	2,300	2,500	2,700	2,800
Operating Inc. after charges	9,173	10,285	11,459	12,486
Interest	1,189	919	860	801
Taxation	3,109	3,361	3,696	3,986
Non-cash item earnings	7,253	7,842	8,623	9,301
Basic	0.10	0.11	0.12	0.12
Diluted	0.09	0.10	0.10	0.11

<b>% OF REVENUE</b>	<b>3/99e</b>	<b>6/99e</b>	<b>9/99e</b>	<b>12/99e</b>
Revenues:	100.0%	100.0%	100.0%	100.0%
Cost of revenues:				
Services	62.0%	62.0%	62.0%	62.0%
Pvsn, contract loss	0.0%	0.0%	0.0%	0.0%
Stock comp.	4.6%	4.4%	4.1%	3.7%
Total cost of revs	66.6%	66.4%	66.1%	65.7%
Gross profit	33.4%	33.6%	33.9%	34.3%
Operating exp:				
Markt, sale & supt	11.0%	11.0%	11.0%	11.0%
G&A	18.5%	18.3%	18.2%	18.2%
Acq in-process tech.	0.0%	0.0%	0.0%	0.0%
Stock comp	13.0%	12.9%	11.6%	10.4%
Amort of intangibles	31.2%	24.0%	18.3%	14.1%
Merger, integration	0.0%	0.0%	0.0%	0.0%
Impairment of goodwill	0.0%	0.0%	0.0%	0.0%
Total operating exp.	73.7%	66.1%	59.1%	53.7%
Loss from operations	-40.3%	-32.5%	-25.2%	-19.5%
Interest income	1.5%	1.0%	0.9%	0.7%
Net loss before taxes	-38.8%	-31.5%	-24.3%	-18.7%
taxes	3.8%	3.8%	3.7%	3.6%
Net loss	-42.7%	-35.2%	-28.0%	-22.4%
<b>Non-cash earnings</b>				
Loss from operations	-40.3%	-32.5%	-25.2%	-19.5%
Provision, contract loss	0.0%	0.0%	0.0%	0.0%
Stock compensation	4.6%	4.4%	4.1%	3.7%
Acquired in-process tech	0.0%	0.0%	0.0%	0.0%
Stock compensation	13.0%	12.9%	11.6%	10.4%
Amort of intangibles	31.2%	24.0%	18.3%	14.1%
Merger, integration	0.0%	0.0%	0.0%	0.0%
D&A	2.8%	2.8%	2.7%	2.5%
Impairment of goodwill	0.0%	0.0%	0.0%	0.0%
Operating Inc. after charges	11.3%	11.5%	11.5%	11.3%
Interest	1.5%	1.0%	0.9%	0.7%
Taxation	3.8%	3.8%	3.7%	3.6%
Non-cash item earnings	9.0%	8.8%	8.7%	8.5%

<b>YEAR/YEAR</b>	<b>3/99e</b>	<b>6/99e</b>	<b>9/99e</b>	<b>12/99e</b>
Revenues:	105.6%	65.6%	59.0%	51.5%
Cost of revenues:				
Services	87.4%	63.8%	55.3%	48.7%
Pvsn, contract loss	NM	NM	NM	NM
Stock comp.	120.1%	9.1%	-1.4%	13.2%
Total cost of revs	89.3%	26.7%	80.0%	26.0%
Gross profit	148.1%	319.7%	29.6%	147.8%
Operating exp:				
Markt, sale & supt	69.1%	39.2%	50.6%	48.4%
G&A	59.9%	50.3%	65.2%	48.7%
Acq in-process tech.	NM	NM	NM	NM
Stock comp	308.9%	-15.0%	46.3%	47.5%
Amort of intangibles	419.6%	23.6%	-22.5%	-46.1%
Merger, integration	NM	NM	NM	NM
Impairment of goodwill	NM	NM	NM	NM
Total operating exp.	126.0%	-11.9%	11.9%	-39.7%
Loss from operations	110.5%	-51.5%	-5.4%	-74.2%
Interest income	28.5%	-12.6%	-20.5%	-35.6%
Net loss before taxes	115.7%	-52.2%	-4.8%	-74.7%
taxes	341.6%	54.1%	59.0%	57.6%
Net loss	126.1%	-48.4%	0.6%	-70.8%
EPS	71.4%	-59.2%	-13.7%	-74.4%
<b>Non-cash item earnings</b>				
Loss from operations	110.5%	-51.5%	-5.4%	-74.2%
Provision, contract loss	NM	NM	NM	NM
Stock compensation	120.1%	9.1%	-1.4%	13.2%
Acquired in-process tech	NM	NM	NM	NM
Stock compensation	308.9%	-15.0%	46.3%	47.5%
Amort of intangibles	419.6%	23.6%	-22.5%	-46.1%
Merger, integration	NM	NM	NM	NM
D&A	63.1%	56.3%	42.1%	37.3%
Intel investment	NM	NM	NM	NM
Impairment of goodwill	NM	NM	NM	NM
Operating Inc. after charges	-1546.9%	169.9%	76.1%	74.5%
Interest	28.5%	-12.6%	-20.5%	-35.6%
Taxation	341.6%	54.1%	59.0%	57.6%
Non-cash item earnings	-1856.3%	192.5%	63.8%	58.4%
Basic	-1431.1%	131.6%	40.6%	38.6%
Diluted	-1392.6%	139.6%	43.5%	41.1%