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Letter from Rob

Fear returned to Wall Street in late summer and brought volatility along with it. Investors have any number of things to worry about. Will the debt crisis and S&P downgrade lead to higher interest rates? Are corporations about to experience an abrupt demand slowdown? Is the global economy headed into another recession? With the 2008-2009 market collapse still a fresh memory, many investors decided to sell now and ask these questions later.

The level of fear in the market, as measured by the CBOE's VIX, has spiked to the highest reading in 15 months. Traders are selling one day on a bit of bad news and buying the next based on an encouraging economic report, not sure whether to be bearish or bullish. The truth is there are still plenty of positive markers out there. While some Q2 earnings reports showed some signs of weakness, particularly in Europe, others were quite strong.

The tech sector in particular is in much different shape than it was just two years ago. Balance sheets are even more loaded up with cash. Expenses have been trimmed to the core. New growth markets are being exploited. But a tremendous rebound in stock prices from the March 2009 low pushed up valuations ahead of a significant improvement in the overall economy. The thinking is if the economy is stalling, stocks have to give up some of these gains.

That's the short-term picture. And with volatility like we're experiencing now, it's difficult to think clearly about the long term. But it's the long-term growth potential for the tech sector that must remain the center of focus. If we pick the right tech companies, we will be rewarded over the long term.

The best thing about market volatility is that it creates inefficiencies, or opportunities to purchase quality companies on sale. In July, I added **Fortinet** (FTNT, $19.75), a leading provider of networking security solutions, to the TSP Small-Cap Portfolio after the stock fell 22% in one session. The company is the market leader in unified threat management (UTM) and has a product portfolio equally distributed across the low, mid and high end. I am quite impressed with CEO Ken Xie (who founded and then sold NetScreen to Juniper Networks) and CEO Ken Goldman.

The stock was priced for perfection going into the Q2 earnings report. While revenue rose 35% year over year to $103 million, topping the consensus of $96.6 million, the stock sold off on concerns about relative weakness in EMEA, which represents 36% of revenue. Billings in that region were up just 2% in the June quarter, vs. 32% growth for the Americas and 41% growth in APAC. The company expects growth in EMEA to pick up in Q3 because of improved execution. But even if it takes an extra quarter, Fortinet is still well positioned to take advantage of secular trends in the security segment.

For Q2, product revenue rose 50% to $46.7 million thanks to strong demand from the service provider, financial services, retail and govern-

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2. **Broadcom** positive on Q3
3. Goldman sees **Cisco** turnaround
4. **NetApp** falls 36% from high
5. **MicroStrategy** off 35% from high
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ment verticals. The company closed 125 deals worth more than $100K each, up from 111 in Q1, and 37 deals worth more than $250K each, vs. 34 in the March quarter. Gross margin came in at 75% and operating margin was 22%. Cash flow from operations totaled $34.1 million and the company ended the quarter with $468.5 million in cash, representing $3.08 a share. Deferred revenue advanced 21% year over year to $273.2 million.

For 2011, the company guided revenue to a range of $395 million to $410 million, vs. the consensus of $401.6 million, with billings of $460 million to $470 million. The revenue midpoint indicates growth of 24%. My fair-value price target of $26.50 is based on a P/S ratio of 7.5X applied to the 2012 revenue estimate, plus cash on the balance sheet. Since last fall, Fortinet has been a rumored takeover target. IBM is said to have made acquisition overtures, but was rebuffed by management. I still think the odds are high that Fortinet ends up as part of a larger tech company.

* Another name that got slammed this earnings season, **F5 Networks** (FFIV, $82.94) paid the price for reporting modest fiscal Q3 EMEA revenue growth of 15%. The region accounts for 20% of total revenue, but it's what investors decided to focus on, paying no attention to the fact that Americas revenue, which accounts for 57% of total revenue, rose 22% year over year. The real standouts were APAC (16% of revenue) and Japan (7%), which saw growth of 58% and 42%, respectively.

On the earnings call, CEO John McAdam said the EMEA pipeline remains strong, although some of that comes from deals pushed out of fiscal Q3. The pipeline in North America (across enterprise, service provider and government accounts) is the highest it has ever been. Some of the U.S. pipeline strength can be attributed to project delays from the financial vertical, which accounted for 19% of total revenue in the quarter. The telco vertical bounced back this quarter, accounting for 21% of total revenue, up from 19% in fiscal Q2. Revenue from the ARX file-virtualization product came in at $8.3 million, up 16% sequentially and up 32% year over year. ARX is finally seeing some traction and the fact that there were repeat buyers is a positive sign.

For fiscal Q4, the company sees EPS of 97 cents to 99 cents (the consensus is 98 cents) on revenue of $307 million to $312 million, vs. the consensus of $309.6 million. It's interesting that F5 Networks shares have sold off even as analysts have been boosting their earnings estimates for fiscal 2011 (Sept) and fiscal 2012. The consensus EPS estimate for the current fiscal year is now $3.72, up from $3.64 in the middle of July. The FY12 consensus estimate is up a penny to $4.41 during the same period.

Ticonderoga upgraded F5 Networks to 'Buy' with a price target of $130, saying the sell-off over the past few weeks has created an opportunity to purchase the shares at a reasonable valuation just as the company heads into its seasonally strong period with new products.

* The latest quarterly report from **Symantec** (SYMC, $18.39) marked the fourth time in a row that the company beat expectations on both the top and bottom lines. Fiscal Q1 EPS of 40 cents came in three cents above the consensus estimate on revenue of $1.65 billion (+15.4% year over year), vs. the consensus estimate of $1.58 billion. The company saw particular strength in the following segments: backup, DLP, managed security services and consumer. Gross margin rose 50 basis points year over year to 86%, while operating margin dipped 30 basis points to 27%. Cash flow from operations totaled $503 million and the company ended the quarter with cash & investments of $2.3 billion. For fiscal Q2, the company expects EPS of 38 cents to 39 cents (the consensus is 38 cents) on revenue of $1.655 billion to $1.675 billion (the consensus is $1.62 billion). My revised fair-value target for Symantec shares of $24.60 is based on a forward P/E of 15 (in line with the expected growth rate) applied to a fiscal 2012 (March) EPS estimate of $1.64.

* **Informatica** (INFA, $45.19)—the data-integration software specialist I profiled in the July 2011 issue (TSP #113)—reported Q2 EPS of 33 cents, two cents above the consensus estimate, on revenue of $192.7 million

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(+23.8% year over year), above the consensus of $186 million and $5 million above the high end of the guidance range. New license revenue rose 23% to $86.3 million. This good news didn't stop the stock from falling as much as 25% from its July high of $62.42.

The company added 96 new customers (up from 68 in Q1), including 22 from the acquisition of WisdomForce Technologies, a provider of real-time database movement and integration solutions. Informatica signed repeat business with 299 existing customers (up from 252 in Q1), which made up 84% of the license order value, vs. 79% in Q1. There were 79 deals worth more than $300,000 each and 13 deals worth more than $1 million each. The average deal size for transactions over $100,000 was $462,000, up from $409,000 in the year-ago period. For deals over $50,000, the average transaction size was $336,000, up from $289,000 in the year-ago period.

North America accounted for 65% of all license orders. The top verticals were financial services, communications and technology. Operating margin rose 70 basis points sequentially to 27.2%. Deferred revenue rose $45 million year over year to $196.2 million, made up of $189.7 million in current deferred revenue. Cash flow from operations totaled $30 million. Informatica ended the quarter with cash and investments of $564 million.

For Q3, Informatica expects EPS of 30 cents to 32 cents (the consensus is 32 cents) on revenue of $192 million to $197 million (the consensus is $188.8 million). Management now sees 2011 EPS of $1.33 to $1.38 (including two to three cents of acquisition-related dilution), vs. the consensus of $1.36. The revenue guidance range was boosted by $20 million to $765 million to $785 million, vs. the consensus of $768.8 million.

* In the business-intelligence (BI) segment, **Qlik Technologies** (QLIK, $25.92) reported accelerated Q2 revenue growth of 44.8%, up from Q1 growth of 43.8%, Revenue of $74 million rose 17.4% sequentially, topping the consensus of $70.2 million. License revenue advanced 39% to $45.3 million. Gross margin remained healthy at 88.4%.

The company generated 53% of revenue (license and 1st-year maintenance revenue) from new customers. Business was strong across all geographies: Americas (31% of revenue) +44%, Europe (60% of total) +40% and Rest of World ((9% of total) +90%. Qlik ended the quarter with an active customer count of about 21,000, up from 15,000 in the year-ago period. Large deals worth more than $100K each rose 70% to 104 from 61 in the year-ago period.

For 2011, Qlik raised revenue guidance to a range of $310 million to $320 million (the consensus is $306.1 million), above previous guidance of $295 million to $305 million. According to CFO Bill Sorensen, management's main focus at this point is to increase revenue and build market share. For the year, EPS is expected to come in at 26 cents to 30 cents.

To help Qlik expand its presence in North America, the company recently hired Joe DiBartolomeo as new president of the Americas. He was president and GM of D&B's Purisma unit. Prior to that, he spent 19 years in numerous management roles at Oracle.

In the spring, Qlik CEO Lars Bjork gave an upbeat presentation at the JP Morgan technology conference, saying transactional data is doubling every 14 months. Qlik's tools provide customers with an analytics dashboard that gives management a detailed view into what's going on at the transaction level. Qlik competes with Microsoft (at the very low end), MicroStrategy, Tibco and privately held Tableau.

* **LinkedIn** (LNKD, $75.47) turned in an impressive Q2 earnings report. Revenue of $121 million easily topped the consensus estimate of $112.6 million and the company actually made a profit of four cents a share, vs. the consensus of a loss of three cents. Membership jumped 61% year over year to 115.8 million. LinkedIn now has 6,000 corporate customers, up a whopping 163% from the year-ago period. International markets accounted for 58% of the user base. For Q3, the company sees revenue of $121 million to $125 million, above the consensus of $111.8 million. For 2011, revenue guidance of $475 million to $485 million is comfortably above the consensus of $467.6 million. Based on the 2011 revenue-guidance midpoint, I am raising my fair-value target to $76.25 from $71.50 (still using a forward P/S multiple of 15X), which means the stock continues to look overvalued.

* I raised my **Apple** (AAPL, $353.21) fair-value target to $496 from $413. The new target is based on a fiscal 2012 EPS estimate of $32 (the consensus is $32.22) and a forward P/E of 15.5, which is in line with the expected growth rate. I was most impressed by the fact that Apple's blowout fiscal Q3 report was powered by continued strong demand for the iPhone (20.43 million units sold in the quarter) and the iPad (9.25 million units sold). Wall Street has underestimated the positive momentum for these two product lines. With the iPhone refresh expected within weeks and a potential iPad refresh as early as November, Apple remains well positioned as we head into the holiday season.

Rob

Riverbed Technology (RVBD)

Recent price: $26.01
52-week high/low: $44.70/$15.68
Recent market cap: $4.0 billion
Estimated 2011 revenue: $724 million
Estimated 2012 revenue: $900 million
Estimated 2011 EPS: $0.87
Estimated 2012 EPS: $1.16

Shares of **Riverbed Technology** (RVBD) fell 22.5% in one day in July following a Q2 top-line miss caused by weaker-than-expected results in EMEA, a region that accounts for about a quarter of total revenue. In the subsequent market sell-off, the stock dropped to a low of $25 in early August. Over the course of 13 trading sessions, Riverbed lost $2.6 billion of market cap.

Suffice to say, I would have preferred to start coverage of Riverbed at these lower levels as opposed to in the upper-$30s. Timing is always tricky when it comes to selecting tech stocks, especially when they are of the high-valuation variety. That's why it is usually best to scale into tech names, buying a little at a time and adding on dips to establish a full position.

The long-term outlook for Riverbed in the WAN-optimization market remains promising. But even a company of Riverbed's size hits air pockets. If Riverbed were to have another "light" quarter, I'd revisit the bullish argument. But for now, I advise buying on this weakness.

For the June quarter, revenue of $170.3 million missed the consensus of $172.8 million (EPS of 21 cents met the consensus) because EMEA revenue rose just 8.6% year over year, vs. 51% growth in the U.S. and 32% growth in the rest of the world. While part of the problem was an overall slowdown in spending in the EMEA region (deal close rates declined as sales cycles were elongated for new and existing customers), there were some company-specific execution problems as well.

Riverbed has already appointed a new sales boss for EMEA to help reinvigorate the sales force. In early July, the company announced that Willem Hendrickx would join the team. He is a former senior VP of global channels at EMC, where he focused on the development and execution of that company's global go-to-market strategy for its channel ecosystem, including the growth of EMC's Velocity Partner Program. This is a good hire for Riverbed because Hendrickx is a seasoned leader in the enterprise space and comes with a successful track record in developing new business opportunities that led to strong revenue growth.

There were bright spots in Q2. Product revenue advanced 38% to $116.9 million.The U.S. business remained quite strong, with U.S. product revenue up 68% from the year-ago period. Management said the deal pipeline in the U.S. remained healthy for the second half of the year. Gross margin rose 140 basis points year over year to 78.7% and operating margin was a record 29.6%. Cash flow from operations totaled $32 million and Riverbed ended the quarter with cash & investments of $611 million.

The company is not sitting still. Last month, it announced the $110-million purchase of privately held Zeus Technology, a provider of high-performance, software-based load balancing and traffic management solutions for virtual and cloud environments. Zeus is one of the pioneers of virtual application delivery controllers (ADCs). Its virtual ADCs support the broadest range of hypervisors—including VMware, Xen and HyperV.

Zeus' virtual ADCs are used by more than 1,500 customers worldwide, including seven of the top 10 telecom companies and a majority of the leading cloud service providers. While the virtual ADC market is still nascent (Gartner sizes it at just $100 million), it's a fast-growing segment of the overall ADC space, which is dominated by Vulture Portfolio holding F5 Networks (FFIV).

Riverbed also announced the acquisition of privately held Aptimize, a market leader in Web content optimization. Aptimize's technology allows customers to deliver both internal Web applications, such as SharePoint, and external applications, such as e-commerce websites, much faster. The Aptimize Website Accelerator transforms content in real time with a simple software installation on a Web server. No extra hardware, code or browser changes are needed. Organizations that deploy the Aptimize solution have accelerated performance by up to 400%.

For Q3, Riverbed sees EPS of 21 cents to 22 cents (including a negative impact of 1 cent from the two acquisitions) on revenue of $184 million to $189 million, including $2 million to $3 million from acquisitions. The consensus estimates: EPS of 23 cents on revenue of $185.8 million. @

TSP Watch List Update

Juniper Networks (JNPR)

Recent price: $22.23
52-week high/low: $45.01/$21.76
Recent market cap: $11.8 billion
Estimated 2011 revenue: $4.6 billion
Estimated 2012 revenue: $5.3 billion
Estimated 2011 EPS: $1.34
Estimated 2012 EPS: $1.65

In early June, when shares of **Juniper Networks** (JNPR) sold off by nearly 10% in one day following cautious comments from CEO Kevin Johnson, investors were not expecting that the sharp pullback would be just the start of the damage. But that's how it turned out. Following disappointing Q2 earnings and weak Q3 guidance, the stock fell a whopping 20.8% (representing $3.47 billion of market cap) in one session at the end of July. The March 8 high of $45.01 is now a distant memory.

For the June quarter, EPS of 31 cents came in two cents light and revenue of $1.12 billion (+14.6% year over year) fell short of the consensus of $1.15 billion. Gross margin of 65.6% was below the guidance range of 66% to 68%. Operating margin declined 70 basis points sequentially to 21.6%. Cash flow from operations totaled $318.3 million and the company ended the quarter with cash & investments of $4.22 billion. Deferred revenue fell $20 million sequentially to $930 million.

It is apparent that Juniper is not executing well in the Americas (52% of total revenue) as this geography saw its second consecutive quarter of flat revenue on a sequential basis. While EMEA (29% of total revenue) bounced back from a weak Q1 with sequential growth of 10%, Asia Pacific (19% of total revenue) experienced a 3% decline in revenue on a sequential basis mainly because of a 34% sequential dip in Japan.

Juniper is getting hit by a combination of macro concerns, order delays ahead of new product launches and increased competition (particularly on the security front). In Q2, revenue growth from the important service provider segment (65% of total revenue) decelerated to 18% year over year from 25% in Q1. The enterprise business saw growth slow to 9% from 13% in Q1.

Sales of SRX security products totaled $62 million, representing a sequential revenue improvement of just $1 million after the business declined by $26 million sequentially in the March quarter. On the earnings call, Johnson said Juniper is seeing increased competition in the enterprise datacenter security market, which makes sense given that Check Point Software (CHKP) experienced strong Q2 demand for its high-end firewall products.

For Q3, Juniper sees EPS of 26 cents to 30 cents, well below the consensus at the time of 38 cents, on revenue of $1.07 billion to $1.12 billion, vs. the consensus of $1.22 billion. The company blamed the bulk of the expected Q3 weakness on the timing of certain service provider deployments. Historically, service providers normally spend 55% to 57% of their CapEx budgets in the second half of a given calendar year, but this year looks to be more balanced, which translates into lower-than-expected revenue from this customer segment for the final two quarters.

With management still forecasting 2011 revenue growth of 12% to 14%, Q4 is going to have to be a big rebound quarter on a sequential basis. This means elevated risk surrounding Q4 expectations, which is never a good thing when the macro environment is not constructive.

I did some analysis to try to figure out a fair-value target and potential downside risk for Juniper shares going forward. Applying the trough forward P/E of 15 from Juniper's tough 2006, when Japan was weak and Verizon deferred a $30-million order by two quarters into early 2007, to a 2012 EPS estimate of $1.60 (below the revised consensus estimate of $1.64) results in a fair-value target of $24. This is a current worst-case scenario, but does not factor in the potential for a Q4 guide-down if revenue growth doesn't rebound. On a technical basis, there's support at $21.75. The worst looks to be over for Juniper in the short term, but there is still downside risk to around $20.

Juniper has become a big potential turnaround story for 2012. The next two quarters will represent resets and then Q1 2012 will be a transition quarter as new products (QFabric, T4000, PTX and MobileNext) begin to contribute to the mix. The key will be to figure out when the stock has bottomed before the fundamentals. Juniper remains on the TSP Watch List. @

Acme Packet (APKT)

Recent price: $52.39
52-week high/low: $84.50/$26.00
Recent market cap: $3.4 billion
Estimated 2011 revenue: $326 million
Estimated 2012 revenue: $425 million
Estimated 2011 EPS: $1.19
Estimated 2012 EPS: $1.56

The networking sector came under heavy selling pressure during Q2 earnings season on concerns about weaker-than-expected results from the EMEA region. **Acme Packet** (APKT) shares declined 13% over the course of the three trading sessions leading up to the company's Q2 report, so investors were braced for the worst. But the numbers were not bad at all.

For Q2, Acme Packet reported EPS of 29 cents, two cents above the consensus estimate, on revenue of $79.7 million (+49% year over year), vs. the consensus of $76.9 million. Product revenue rose 8% sequentially to $64.7 million, with strength most evident in the Net-Net 4500 product line. Gross margin was stable at 84% and operating margin rose 100 basis points sequentially to a record 41%. Cash flow from operations totaled $8.7 million and the company ended the quarter with cash & investments of $318 million.

Management went out of its way to emphasize that the EMEA region (representing about 25% of total revenue) experienced its third consecutive quarter of sequential revenue growth. North America, the biggest contributor to revenue at 58%, saw sequential growth as well. The company added a record 94 new customers, including 38 service providers and a record 56 enterprise accounts.

On the earnings conference call, CEO Andy Ory said a recent companywide account review indicated that the new-business pipeline "has never been busier or shown more activity." The enterprise segment remains strong and wireline service providers continue to buy gear.

In Q2, one customer, Verizon Business, accounted for 12% of total revenue. Recently, Acme Packet has generated around 20% of quarterly revenue from Verizon Business and Verizon Wireless combined. There are indications that the company is beginning to see a faster-than-expected uptake for its products as part of the LTE infrastructure build-out, so Verizon Wireless business could pick up again in the second half of the year.

Overall, sequential revenue growth is expected for both Q3 and Q4. For 2011, Acme Packet raised its EPS and revenue guidance once again. Management now sees EPS of $1.14 to $1.18 (previous guidance range was $1.10-$1.15) on revenue of $315 million to $320 million (previous range was $310 million to $315 million). With the 2011 consensus revenue estimate now up to $326.5 million, Wall Street thinks management is being conservative in its outlook. The high revenue estimate is all the way up at $336.9 million.

Looking ahead, Acme Packet remains well positioned to take advantage of the transition to all-IP networks. The company continues to expand its enterprise channel. At the end of July, it announced that Hewlett-Packard had integrated Net-Net session border controllers (SBCs) into the HP Unified Communications Solutions portfolio. Acme Packet's SBCs address critical interoperability, service quality and security challenges that are encountered when using IP to deliver real-time voice, video and unified communications. The integrated solutions enable consolidation of communication services onto a unified IP network infrastructure without disrupting existing applications or compromising security.

Given the elevated valuation and the fact that Acme Packet is a high-beta stock that gets pummeled when the overall market goes into correction mode, the solid Q2 results were still met with more selling pressure. The stock dipped to an intraday low of $50.54 on August 5, 40% below the 52-week high of $84.50 from April 29.

It's important to keep in mind that Acme Packet added 500 basis points of enterprise market share in 2010, ending the year with a 32% share. The enterprise SIP trunking market remains less than 5% penetrated. On the service-provider side, Acme Packet's Q1 market share of 65% was eight times greater than the #2 player. Given the market-share performance and the company's growth profile (the 2011 revenue-guidance midpoint indicates growth of 37%), Acme Packet will remain pricey. But the recent pullback in the stock has compressed the valuation enough that it's now in line with the 2011 consensus EPS growth-rate estimate.

I've reduced my fair-value price target to $73.35 from $79.50. I applied a PEG of 1.2 (down from 1.25) to the estimated 2011 EPS growth rate of 48% and the consensus estimate of $1.19, adding in $4.80 a share in cash. @

Teradata (TDC)

Recent price: $50.81
52-week high/low: $62.71/$29.12
Recent market cap: $8.5 billion
Estimated 2011 revenue: $2.24 billion
Estimated 2012 revenue: $2.48 billion
Estimated 2011 EPS: $2.22
Estimated 2012 EPS: $2.57

When I last wrote about **Teradata** (TDC), a provider of data-warehousing solutions, in the April 2011 issue (TSP #110), the stock was trading around $50. It ran up to a high of $62.71 in early July before pulling back along with the overall market. A strong Q2 earnings report in early August helped stabilize the shares.

For the June quarter, Teradata delivered EPS of 60 cents, seven cents above the consensus estimate, on revenue of $581 million (+23.6% year over year), vs. the consensus of $550.7 million. Product revenue of $269 million advanced 21%, with particularly strong demand from the financial services and retail verticals. Gross margin declined 110 basis points year over year primarily because of a boost in consulting services, a lower-margin business. Operating margin of 24.3% rose 50 basis points from the year-ago period.

On a regional basis, revenue from the Americas was up 21% year over year, thanks in part to strong sales of the 1000-series Big Data appliance and increased cross-selling opportunities of Teradata solutions with offerings from the recent Aprimo and Aster Data acquisitions. Revenue from EMEA advanced 34% and Asia Pacific rose 20%.

During the first half, Teradata added 30 new sales territories and plans to pick up another 30 in the second half. In 2010, new sales territories added $70 million in revenue. Teradata forecasts that the initial 30 territories brought online in the first half should generate $50 million in added revenue this year.

Cash flow from operations totaled $179 million for the quarter and $285 million for the first half. Teradata ended the quarter with cash & investments of $682 million, $550 million of which resides offshore. The company has $300 million outstanding under a five-year term loan.

Teradata, spun off from NCR in 2007, operates in a $20-billion market with a CAGR of 7%. The company's goal is to try to grow about 30% faster than the overall market. The analytical side of the business (structured/unstructured data from social media, click streams and sensors) is growing faster than the transactional side. The financial services sector is Teradata's largest and fastest-growing vertical, while the retail segment represents a big growth driver as well.

For example, a retail customer might use data-warehousing tools to run scenarios using historical and current sales data, managing markdowns across stores based on the results. Also, retailers can analyze sales down to the product level. One Teradata retail client discovered that customers buying one type of cheese were also purchasing the most expensive wine in the store. While the retailer was losing money on cheese spoilage, it was moving a lot of pricey wine. This type of valuable information is only available by analyzing large amounts of sales data in a timely and efficient manner.

Teradata tends to see long sales cycles of 18 to 24 months when it comes to new customers. That's because the average first-year sale for its flagship 5600 product, aimed at large enterprises, is a hefty $1.7 million. Once in the door with a new customer, sales could total $15 million to $20 million over a period of three to five years. It's no surprise then that Teradata generates 95% of revenue from existing customers.

The company's newer 1000-series and 2000-series appliances have lower margins and price points, respectively, but shorter sales cycles. The 1000 appliance for large, non-complex data sets, such as click streams or call records, tends to see lumpy sales flows because it's not sold in volume. The 2000-series appliance, which competes with IBM's Netezza and Oracle's Exadata products, has an average deal size of $500,000 to $700,000. The 2000 appliance accounts for about 10% of product revenue, so it's still ramping as a significant top-line contributor.

On the competitive front, CEO Mike Koehler, responding to a question on the earnings conference call, said Teradata continues to have strong win rates against IBM, EMC (Greenplum) and Oracle. In fact, Teradata has won many customers from Oracle since Exadata was released three years ago. For 2011, Teradata raised its revenue growth estimate to a range of 18% to 20% from its previous forecast of 14% to 16%. @

NetSuite (N)

Recent price: $30.25
52-week high/low: $42.81/$15.00
Recent market cap: $2.0 billion
Estimated 2011 revenue: $230 million
Estimated 2012 revenue: $275 million
Estimated 2011 EPS: $0.14
Estimated 2012 EPS: $0.29

Shares of **NetSuite** (N)—a provider of cloud-based business applications—are experiencing a good year, having ended 2010 at $25. After reporting better-than-expected Q1 billings, the stock jumped 14.9% in one day in April. Buyers stepped in again in late July following a Q2 top-line beat, sending the shares up more than 9% in one day.

For the June quarter, revenue of $57.8 million (+23% year over year) came in above the consensus of $55.9 million and bested the high end of guidance of $56 million. This quarter marked the seventh consecutive quarter of accelerated revenue growth for NetSuite, which offers on-demand ERP software covering accounting, CRM and e-commerce applications. Recurring revenue accounted for 83% of total revenue. Gross margin rose 210 basis points year over year to 73.1%.

In Q2, NetSuite added 328 new customers, including big names such as Qualcomm and Groupon, the highest quarterly number in two years. It also closed its largest recurring revenue deal in company history with a 45,000-employee client who plans to use NetSuite to automate its entire operation, including all customer-facing solutions. While 40% of NetSuite's customer base pays less than $10,000 annually, it's these big multi-application deals that will take the company to the next competitive level.

One sure sign that business is strong, the average selling price jumped 25% year over year to more than $40,000. The average deal size for the company's OneWorld offering, which is aimed at midsize & larger enterprises and accounts for about 30% of new business, once again topped $100,000. The pipeline of business for larger customers (those with 1,000+ employees) jumped 85% sequentially. With this ramping demand from large clients, it's no wonder that NetSuite CEO Zach Nelson, a veteran of Network Associates and Oracle, has called competitor SAP's enterprise installed base "very vulnerable."

Calculated billings (revenue plus the change in deferred revenue) of $62.6 million rose 30% year over year. Revenue from channel partners advanced 50%. Cash flow from operations for the first half rose 65% against the same period a year ago.

For Q3, the company sees EPS of three cents to four cents on revenue of $59.5 million to $60 million. For 2011, management raised revenue guidance to a range of $233 million to $234 million, vs. previous guidance of $228 million to $230 million. Cash flow from operations is now expected to total $32 million to $33 million, up from previous guidance of $26 million to $28 million.

NetSuite operates in a fragmented market where no one vendor holds more than a 20% of share. The company's solutions usually replace legacy homegrown offerings or those from midsize competitors. Increasingly the solutions being ripped out are from the big vendors, such as Oracle and SAP. Obviously NetSuite does not compete with these big guys when its solutions are replacing their applications.

NetSuite recently announced that Magellan GPS, a provider of portable navigation devices, is using its cloud-based solution to run e-commerce, marketing, merchandising and customer service. NetSuite unified Magellan GPS's telesales, support and e-commerce efforts onto a single platform, which resulted in real-time order processing that was unavailable with the outdated legacy system that was replaced.

The excellent merchant gateway as well as deep integration with well-known fraud protection and risk scoring has made it possible for Magellan GPS to triple the number of orders processed per day while at the same time cutting e-commerce IT spending by more than 20%. Creating new products and associated workflows is done at least 3X faster than with the previous system. In addition, the NetSuite solution has reduced call handling times by 35% and overall transaction processing times by 10%. Magellan GPS now manages more than 800 transactions per day via NetSuite.

One key growth driver for NetSuite going forward is the addition of verticals to its solution set, including such things as warehouse management and inventory management. The new Demand Planning feature enables customers to forecast peaks and troughs in demand to minimize capital tied up in inventory. This bridges the gap between the front and back offices, allowing companies to tightly align sales forecasts with inventory replenishment plans. @

ACTION ALERTS: Monster Worldwide (MWW) Removed

* **Monster Worldwide** is removed from the Vulture Portfolio because of increased competition from LinkedIn and other social-networking sites.
* Brean Murray upgraded **Electronic Arts** to 'Buy' with a price target of $29 based on several positive factors, including the continued push into digital games and upcoming new titles. The firm now has a higher conviction that fiscal 2012 EPS guidance is conservative, saying the sports division will benefit from a full NFL season.

The Vulture Portfolio

Stock (symbol)	Current action	When recommended	Price then	Price now	Total return
Akamai Tech. (AKAM)	Buy-2/M	3/13/07	$51.66	$21.73	-57.9%
Cisco Systems# (CSCO)	Buy-2/L	8/31/04	18.48	14.33	-22.4
Electronic Arts† (ERTS)	Buy-2/H	3/11/03	26.72	19.01	-28.8
EMC (EMC)	Buy-2/L	9/22/05	12.55	22.30	77.7
F5 Networks (FFIV)	Buy-2/H	1/20/11	106.74	78.33	-26.6
Google (GOOG)	Buy-2/M	5/18/10	499.26	560.02	12.2
Intel (INTC)	Buy-2/L	7/27/07	23.86	20.63	-13.5
Marvell Technology§§ (MRVL)	Buy-2/H	5/22/06	26.95	12.20	-54.7
Riverbed Technology (RVBD)	Buy-2/H	2/22/11	39.65	24.24	-38.8
Symantec† (SYMC)	Buy-2/M	6/21/05	21.90	16.58	-24.2
ValueClick (VCLK)	Buy-1/H	1/27/06	18.86	14.22	-24.6
Yahoo (YHOO)	Buy-3/H	2/23/06	32.95	11.73	-64.4

Closed-out positions	Date recommended	Date sold	Buy price	Sell price	Total return
Adobe Systems (ADBE)	8/17/05	11/17/06	$26.25	$41.25	57.1%
Avid Technology (AVID)	11/1/04	6/12/08	52.10	19.45	–62.7
Citrix Systems (CTXS)	12/18/06	5/11/10	29.20	46.75	60.1
F5 Networks (FFIV)	4/26/06	5/10/10	30.03	68.28	127.4
Flextronics (FLEX)	3/11/03	10/26/05	8.35	9.55	14.3
Foundry Networks (FDRY)	3/11/03	1/29/04	8.41	25.38	201.8
Harris Corp. (HRS)	3/11/03	6/12/08	13.60	55.00	304.4
Hyperion Solutions (HYSL)	3/23/05	2/28/07	30.58	42.97	40.5
Informatica (INFA)	3/11/03	4/21/06	6.26	16.40	162.0
Intersil (ISIL)	3/11/03	2/7/06	14.51	29.90	106.1
Kronos (KRON)	3/11/03	8/2/05	22.39	46.40	107.2
L-3 Communications (LLL)	5/3/05	6/12/08	70.70	98.26	39.0
Monster Worldwide (MWW)	7/17/06	8/8/11	36.81	9.10	-75.3
Motorola (MOT)	10/26/06	6/12/08	23.68	9.01	–62.0
NAVTEQ (NVT)	6/21/06	10/2/07	43.38	76.05	75.3
Oracle (ORCL)	1/6/05	10/21/10	13.20	27.05	105.1
PeopleSoft (PSFT)	6/05/03	2/5/04	15.11	23.02	52.3
Polycom (PLCM)	3/11/03	7/5/05	9.51	14.75	55.1
Sepracor (SEPR)	2/20/07	7/27/07	53.17	31.8	–40.1
SunGard Data Systems (SDS)	3/11/03	4/12/05	18.10	34.50	90.6
Synopsys (SNPS)	3/11/03	8/19/04	20.01	14.62	–26.9
Texas Instruments (TXN)	3/11/03	7/17/06	16.02	29.00	81.0
VeriSign (VRSN)	7/19/05	11/29/07	28.25	40.03	41.7
VERITAS Software (VRTS)	3/11/03	7/5/05	16.21	23.60	45.6

As of August 8,, 2011. *Estimates. †Fiscal years end in March 2010 and 2011. ‡Fiscal years end in May 2010 and 2011. #Fiscal years end in July 2010 and 2011. †† Fiscal years end in September. §§Fiscal years end in January 2010 and 2011. Source: Bloomberg.

TSP Rating System

Buy-1 = Strongest buy. Stock looks most attractive over the short and long run.
Buy-2 = Stock has the potential for price appreciation of 25% over the next 12-to-18 months.
Buy-3 = Stock is a long-term buy, but I'm cautious over the near term.

Risk Levels:
H = High (Speculative)
M = Moderate (Average)
L = Low

ACTION ALERTS: Fortinet (FTNT) Added

* **RightNow Technologies** reported Q2 EPS of 15 cents, three cents above the consensus estimate, on revenue of $54.8 million (+25.1% year over year), vs. the consensus of $54.1 million. For 2011, RightNow expects EPS of 58 cents on revenue of $226 million.
* **Taleo** reported Q2 EPS of 27 cents, six cents above the consensus, on adjusted revenue of $76.2 million (excludes a settlement), vs. the consensus of $75.9 million. Taleo added 275 new customers for its Talent Management solutions and closed seven new contracts worth $250,000 or more in first-year subscription revenue.

TSP Small-Cap Portfolio

Stock (symbol)	Current action	When recommended	Price then	Price now	Total Return
Aruba Networks (ARUN)	Buy-2/H	12/28/07	$14.76	$20.01	35.5%
Blue Coat Systems (BCSI)	Buy-2/H	6/3/08	18.04	15.74	-12.7
Fortinet (FTNT)	**Buy-2/H**	**7/20/11**	**20.75**	**18.34**	**-11.6**
Harmonic (HLIT)	Buy-2/H	8/31/07	9.22	5.35	-41.9
Powerwave Tech. (PWAV)	Buy-3/H	10/19/05	11.09	1.66	-85.0
RightNow Tech. (RNOW)	Buy-2/H	1/3/06	17.78	27.31	53.6
Taleo (TLEO)	Buy-2/H	6/26/07	22.35	25.75	15.2

Closed-out positions	Date recommended	Date sold	Buy price	Sell price	Total return
Acme Packet (APKT)	5/21/07	4/3/10	$12.06	$27.00	123.9%
Callidus Software (CALD)	11/1/07	6/30/09	7.05	2.88	–59.2
Isilon Systems (ISLN)	3/16/07	12/9/10	18.92	33.81	78.7
Manhattan Associates (MANH)	5/3/05	12/12/06	18.87	29.26	55.1
Omniture (OMTR)	1/17/08	10/29/09	24.09	21.50	–10.8
Openwave Systems (OPWV)	12/1/05	11/29/07	15.95	2.67	–83.3
RSA Security (RSAS)	5/22/06	6/30/06	14.95	27.24	82.2
RSA Security (RSAS)	5/30/05	4/6/06	10.35	17.94	73.3
Rackable Systems (RACK)	9/21/06	4/2/07	27.72	16.83	–39.3
Riverbed Technology (RVBD)	4/21/08	6/30/09	12.02	23.75	97.6
SafeNet (SFNT)	8/25/06	4/2/07	17.35	28.30	63.1
Skyworks Solutions (SWKS)	5/24/10	3/9/11	14.82	32.16	117.0
SonicWALL (SNWL)	11/24/03	11/29/07	7.25	10.42	43.7

As of August 8, 2011. *Estimates. Source: Bloomberg.

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