



## Market Roundup

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November 20, 2001

This Week

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### Finding Security in Unity: IBM Announces Global Security Initiative

*By Charles King*

IBM has announced that it will expand its existing security and technology services through a new global initiative that aligns the safety and security services offered through IBM Global Services and creates a new Global Solutions office to address broader and emerging safety and security issues. The expanded IBM Global Services Practice will deliver new IBM security and privacy offerings including enhanced intrusion detection, security and vulnerability assessments, managed firewall services for hosted customers, scalable virtual private networking and authentication services, content delivery, mobile connectivity and public wireless local area networks. In addition, IBM announced that it will align with Kroll, Inc. to offer physical security assessments, information technology infrastructure security assessments, gap analyses and "next steps" to help protect companies against physical and cyber intrusions and resulting business interruptions and loss. IBM's new Global Security Solutions office will act as a central coordination point for security technologies, trends and solutions, and will add new areas of specialization including biometrics and biohazards. Finally, in conducting enterprise-wide safety and security assessments, IBM has mobilized security solutions targeting the Financial, Travel and Transportation industries as well as the public sector.

What we find most interesting in this announcement is the notion that IBM believes an essentially new practice group is necessary to centrally manage the company's current security offerings and help define new solutions. It should be said that computing has always suffered security concerns, from the earliest examples of government and business espionage to more modern Internet-delivered viruses and worms. But the events of September 11 have inspired a new spirit of insecurity that permeates nearly every level of the private and public sectors. In this not so brave new world, security is not considered simply to be an item on corporate and government wish lists but is regarded instead as a critical, strategic issue for organizations of every kind. We believe that IBM's decision to proactively centralize its security and safety efforts will help the company to quickly develop services that address immediate customer needs, and to assess and integrate new technologies when appropriate. That IBM has already mobilized solutions for

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the financial, travel and transportation industries and public sector entities suggests that the company thoroughly understands that the security needs of no two industries are alike, and is focusing its efforts on developing vertical-specific solutions. In our view, this strategy is likely to pay IBM handsomely over both the near and long term.

## Merrill Lynch, Salomon Smith Barney, Thomson Financial and Microsoft Announce i-Deal

*By Jim Balderston*

Merrill Lynch, Salomon Smith Barney, Thomson Financial and Microsoft will join forces to form a separate company, i-Deal LLP, by which the equity and taxable debt raising process used by financial broker/dealers can be accomplished with a single application over the Internet. All four of the companies will have board seats. Merrill Lynch and Salomon Smith Barney will roll out the application to its broker/dealers in the first half of 2002. Thomson Financial will provide capital markets data to i-Deal, and Microsoft will provide technology, including .NET enterprise servers; notably the BizTalk server. The technology platform will use XML to tie together a wide array of data formats.

While this deal will surely not be a revenue leader for Microsoft, it does bear comment. What we see here is a conscious move by Microsoft to enter ever more vertical market segments, offering technology that will provide the company increased expertise and the ability to offer higher and higher granularity of applications over time. We maintain that technology vendors will have to bolster their vertical expertise in the coming years if they are going to successfully offer the productivity and efficiencies that enterprises are demanding. This situation will become ever more critical in the wake of an increasingly global marketplace with ever thinner margins on rapidly commoditizing products. In other words, enterprises don't have the time to fool around with "one size fits all" applications or frameworks. Instead, enterprises will increasingly demand that they be given exactly what they want in the way of applications; such demand will be forthcoming from the mailroom to the boardroom. With i-Deal, what we see is Microsoft getting its nose into the financial markets in a significant fashion. In other words, while the company may indeed sell more servers into the financial markets at some point down the road, it will not simply be due to brand awareness. Instead, we see i-Deal as an excellent opportunity for Microsoft to run what essentially is a beta test for the financial services vertical, thereby gaining the invaluable expertise needed to offer ever more granular application suites in future markets.

## Dell Introduces the PowerEdge 1500SC

*By Charles King*

Dell Computer has introduced the PowerEdge 1500SC, the company's latest addition to its network server product line. The 1500SC features ServerWorks' HE-SL chipset, which supports the 1.13 GHz Intel Pentium III, and can be configured with dual processors. The server is available with factory installation of Microsoft Windows 2000 Server, Microsoft Windows NT 4.0 and Red Hat Linux 7.2. The 1500 SC includes Intel's PRO/1000 XT network connection and Dell's OpenManage Server Assistant system for onsite OS installation. While the 1500SC comes standard with ECC memory and hot-plug hard drives, it offers optional support for advanced RAID and hot-plug redundant power supplies. In addition, the machines are sold with embedded manageability features including temperature, fan and voltage

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monitoring, and a hardware monitor that automatically reboots the system if the OS fails. The PowerEdge 1500SC is currently available at prices starting at approximately \$1,400, operating system not included.

Dell is positioning the PowerEdge 1500SC as an affordable solution for SMBs looking for expandable Intel-based servers Web site and email processes, and enterprises that want dependable departmental or workgroup servers. To tempt potential customers, Dell is pricing the 1500SC aggressively, and has also imported some features from its higher-end 2500SC to this lower-end machine. All that said, how big a deal is the 1500SC? It is probably wise to mention that Dell's major competitors all offer dual-processor Intel-based servers that are roughly analogous to the 1500SC, including IBM's xSeries 220, HP's Netserver e800 and Compaq's Proliant DL 300. Specific prices and features vary a bit from machine to machine (and vendor to vendor) but all are targeted at the same groups of SMB and enterprise customers. In fact, most of Dell's competitors are also tying financial enticements to Intel server sales. Compaq is offering free product delivery and installation and no payments until 2002, while IBM announced last week that it would provide 0% financing for all Intel-based servers and related products through the end of the year.

It is safe to say that fire sales seldom occur when vendors are experiencing happy financial times. The past year has been difficult for technology companies in general, and especially tough for hardware vendors during the second and third quarters of 2001. In a way, the special deals on Intel-based products mentioned above can be considered a strategic exercise by vendors who would like to close 2001 on a positive economic note. The real question is how successful Dell or its rivals will be, but considering the competition, we believe Dell could be looking at rough going ahead. While Dell has fought its way to the head of the desktop pack ahead of Compaq, HP and others, the company's efforts to progress up the food chain to higher-end server and storage products have been complicated by the queasy economy. In these stormy seas, vendors with wide, deep offerings, like IBM, Compaq and HP, tend to ride more steadily than companies with narrower product sets. Simply put, a recession is a tough time to enter or progress in a new market, and to our way of thinking, it is unlikely that the new PowerEdge 1500SC will ease Dell's way appreciably during the coming months.

## Microsoft Announces Settlement Proposal for Private Lawsuits

*By Jim Balderston*

Microsoft announced this week it has a proposed settlement to more than 100 private antitrust lawsuits nationwide that will be reviewed by a federal court judge in Baltimore in the coming weeks. Under the terms of the settlement – which has been agreed to by a significant number of the parties involved – Microsoft will spend more than \$1 billion in software, hardware, training and other grants to provide computers to needy schools. The class action cases claimed that Microsoft overcharged for its products, using its monopoly position to do so. The proposed settlement will receive its first hearing on November 27 before U.S. District Court Judge Frederick Motz in Baltimore. The settlement has been signed off on by a number of plaintiffs who, according to Microsoft and various press reports, would not have received any meaningful compensation for the cases. In many instances, it was unclear if the costs of actually capturing any monetary awards would be greater than the awards themselves. Under the terms of the settlement, Microsoft will create a national foundation that will disperse \$150 million in grants to needy schools, will provide up to \$100 million in matching funds for grants and will provide \$160 million in training plus free software and funds for computer refurbishing. The length of the settlement period is five years. This settlement will have no impact on the federal or state antitrust cases underway. The judge must approve the settlement and it is subject to appeal.

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While Microsoft attorneys stated in a conference call that they believed they would prevail in many if not most of these cases, they decided that the opportunity to settle made more sense than fighting a prolonged and public battle against individual consumers. The ability to settle the case was in no small way helped along by the realization of the plaintiffs' counsel that individual monetary awards to plaintiffs would be miniscule at best. It is unclear how the legal fees question will be resolved; Judge Motz will make his ruling on that topic in the near future.

Microsoft is making a strategic decision to get this potential PR nightmare out of the way. Just as the company appears to have reached agreements on the federal level, and a number of the states have decided to back away from their anti-trust actions, the company seems to have realized that the damage from fighting these individual consumers would be entirely political, and that victory would be worth little or nothing. This represents, in our minds, a real sea change in the company's attitude. Not so long ago, Microsoft refused to acknowledge that the company could do anything wrong, and fought for what it called the "right to innovate" regardless of the collateral damage in the arena of public opinion. This stance, of course, did nothing but spawn additional legal action and political sniping from the lowest to highest levels of government. By not only moving to settle these cases, but to do so by offering to spend a significant amount of money in needy schools, suggests that Microsoft apparently has learned that it can win by losing, as it were. One cannot help but wonder how a similar approach might have affected the company's long-running antitrust case.

## UDDI Project Launches Next Version of UDDI Business Registry

*By Clay Ryder*

The Universal Description, Discovery and Integration (UDDI) Project on Monday announced the public availability of the UDDI Business Registry v2 beta, and that Hewlett Packard, IBM, Microsoft and SAP launched beta implementations of their UDDI sites that conform to this latest specification. The UDDI v2 specification expands UDDI functionality to enhance support for deploying public and private Web service registries. Using the UDDI specifications, enterprises can deploy private registries to manage internal Web services, thereby extending access to internal Web service information to a private network of business partners. In addition, the latest implementation of the specification provides improved programmatic access to UDDI data, stronger business relationship modeling to allow the modeling of large businesses, organizational structure of various business units and services within UDDI, and enhanced availability of UDDI information to the end user.

While a beta release of a specification or code is not normally a big deal, in this case we believe the importance of UDDI is different. Without UDDI, neither Web Services nor the larger context of Service Computing can effectively exist. Of particular note in this beta release is the critical ability of businesses to access publicly described Web Services through vendor registries, and to expose private services to business partners. This is not to downplay the paramount importance of finding and accessing public services. Ultimately, however, just as with other business processes and information, the value to enterprises of their private data exchange can often exceed that of publicly available resources. Also, these private interchanges between businesses can build upon the value of public resources, which in turn can drive more private interchanges, building considerably the round robin nature of value added. Additionally, we believe the enhanced support for business relationship modeling with its support for third party certifications and other processes will prove to be an important tool as potential users assess the reliability, capability and integrity of Web Services providers. Overall, this v2 beta release is an

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important step in the continued evolution of UDDI and Web Services, but it is certainly not the last to be taken before Web Services achieve critical mass.

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