Market Roundup

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The Lesson from Nimda

By Jim Balderston

The latest virus attack – coming on the heels of disruption and concerns created by the events of September 11 – made no small amount of news this week. The Nimda worm was spread quickly through many networks and the Internet, and companies and ISPs across the country were forced to take a range of measures to prevent further spread of the worm, which affected more than 150,000 computers at its peak. Some providers were forced to shut down operations while they cleansed their systems of the persistent infection. The worm attacked Web servers through Microsoft's Internet Information Server, and security firms said it was an automated type of code that needed little human intervention to spread. Most security and anti-virus firms posted antidotes to the virus within hours of its appearance and its infection rate slowed dramatically later in the week.

The proximity of Nimda's debut to the events of September 11 made everyone a little jumpy, to be sure. Some service providers went so far as to associate the two incidents. We cannot make any assertions to such a connection, yet we think the worm's impacts provide a valuable lesson. While anti-virus and security firms were quick to respond and limit the spread of the new virus, even the most up to date anti-virus services cannot guarantee zero latency between the release of a virus and its countermeasure. Certainly companies like McAfee.com – which offers anti-virus as a service – can decrease the time window between the release of a virus and the availability of its cure. This decreased window of vulnerability is certainly valuable. But enterprise networks will have to take a new direction if they wish to be robust and functional in the new times that have so dramatically been thrust upon us. Not only will traditional security measures need to be re-evaluated and in most cases reinforced; so will the need for networks with greater tensile strength. In other words, simply slapping another firewall or anti-virus program – while perhaps necessary – will not be enough. Instead, both private and public networks are going to have to be reconfigured so that there are redundancies and fail-over capabilities that allow these networks to stay up in more than a nominal form throughout crisis situations. We suspect that many companies provide networks that barely get the job done – most of the time. Such scrimping on infrastructure may make sense down in finance, but to the overall operations of a company, such thinking is all but inexcusable.

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EMC Gets "Illuminated"

By Charles King

EMC Corporation announced that it has acquired Luminate Software, a privately held company based in Redwood City, California in a cash transaction valued at approximately $50 million. Since its founding in 1995, Luminate has directed its efforts toward the management service provision (MSP) area, offering application management services and software for implementing, operating and monitoring enterprise ERP solutions for SAP R/3, Oracle, and Windows 2000 and NT. The company's competitors include MSPs such as Silverback, NetIQ and TriActive, as well as traditional management software providers like HP and Candle that are exploring the MSP space. Luminate is the seventh software acquisition EMC has made in the past twenty months.

Like most of its competitors in the enterprise hardware space, EMC has focused increasing attention and company expenditures on developing software and services for managing increasingly complex corporate networks, and has seen dramatic revenue growth from its storage management product portfolio. While the company created a large portion of its management offerings in-house, it has also benefited from a number of software acquisitions, including FilePool and TerraScape. Where Luminate fits into the mix is fairly self-evident. As the dependence on network and application performance expands for businesses of every kind, so does the need for methodologies and tools that allow users to accurately measure that performance. In theory, performance is so crucial to enterprises that measurement should be a seller's market, but the continuing struggles of specialists like Keynote Systems suggests otherwise. In the end, the best place for network and application performance measurement providers such as Luminate may well be under the broad umbrellas of deep-pocketed vendors like EMC, rather than standing cold and alone beneath increasingly stormy skies.

Early Shipments of PCs with Windows XP: A Spark?

By Jim Balderston

A number of personal computer manufactures are planning on shipping new PCs with the Windows XP operating system in the next week, a full month before the official Microsoft retail launch on October 25. Dell, Compaq and Gateway are all taking orders for the new systems now, and plan to ship beginning September 24. HP is offering new systems with the XP system in their retail outlets now. Presales of the systems have been made as early as September 4. Microsoft has given no public statement concerning this activity by PC manufacturers.

Consider a moment from the (not so) distant past, when four English mop-heads were dominating the country's airwaves with their music. The Beatles' new records were the hottest items in record stores, and radio stations helped drive the demand for record sales with endless airplay. In most cases, radio stations received copies of the new albums (or singles) before the official release date. In most cases, record companies held the threat of blackball against any radio station that played the songs before the specified date. Most complied, although some took the risk and broke the embargo. In doing so, of course, they created more word of mouth demand for the records, by "pre-seeding" the market place with a very limited amount of airplay. Those lucky enough to hear the songs told others, thereby spreading the word and building demand.

So we see this situation. While we do not know if Microsoft has any contractual agreements with PC vendors to honor an embargo date, we think that the financial environment of the technology sector would force Microsoft to relent on any enforcement or reaction to the actions of Dell, Gateway, Compaq

and HP. In fact, this trickle release may in fact serve Microsoft, the PC vendors and associated application vendors well. In an environment as cluttered with (negative but mostly uncertain) opinions and noise as the technology sector, word of mouth can be a powerful communication channel that cuts through the clutter. Even a wildly positive response to XP is not enough to cure the ills of the tech sector, but it would serve as a psychological counterpoint to the gloom and doom that dominates most discussions of this sector. A little good news may go a long way in these times, so to Microsoft, we would simply say: "Let it be."

Behavior Modification

By Jim Balderston

Shares in wireless companies rose Wednesday as investors anticipated increased demand for the devices in the wake of the events surrounding September 11. Companies like Verizon, AT&T Wireless, Nextel and Sprint PCS all enjoyed moderate upward movements. Wireless industry representatives have projected that more than 70% of the U.S. population will have cell phones, this projection coming before the terrorist attacks last week. The industry is nowhere near that figure, with predictions set more modestly at half or less of the population.

Whether or not investors are right – and we have all seen how wrong they can be – this situation bears commenting. While we do not think that every man, woman and child will be toting around a cell phone or wireless handheld anytime soon, the prominent role the wireless phones and, to a lesser degree, handhelds played in many different aspects of the tragedy cannot be ignored. We would not be surprised in the least to see an uptick in the penetration rates of cell phones, simply because they do offer instant communication in both quiet and stressful times. For an increasing number of people, the wireless phone is becoming their primary phone, as the limitations of land line phones is brought into stark relief by the mobility and falling costs of wireless service. Similar attributes – to a much smaller number of people – can be attached to wireless handheld devices. Just as the Internet played a major role in the aftermath of last week's terrorist attacks and thereby, we believe, more firmly cemented its place in the day-to-day fabric of everyday life, so may wireless networks become an indispensable part of more and more people's lives. If indeed the wireless market at large gets a positive jolt from consumers who now feel they must have a cell phone or handheld email machine, it will be incumbent upon wireless carriers to take the same actions necessary on the landline-based Internet side of things. More resilient wireless networks, with greater ability to handle the ebb and flow of traffic, will be the determinant of whether or not the wireless phone or handheld becomes a valuable tool during times of crisis. Without such networks, these devices are just a battery with display screen.

A Healthy Skepticism

By Jim Balderston

At least two CEOs that we know of have come forward with comments that the terrorist attacks on the East Coast will have negative impacts on not only the tech sector but perhaps their own companies' performances as well. On Monday, Oracle CEO Larry Ellison announced that not only is the sector not recovering, "in light of last week's events, things will get slightly worse." Prior to the attacks, Oracle had warned of an 8-10% decline in sales, a drop they had experienced in the prior two quarters. Oracle now expects a 15% drop in the quarter ending in November. Meanwhile, on Tuesday, Computer Associates

Chairman Charles Wang told reporters that the terrorist acts will "likely delay the tech recovery," but did not indicate how it would impact CA's earnings, only noting that "in the short term, there is no way to assess it yet."

Since there is no doubt that the tech sector – and the market in general – was negatively impacted by the events of September 11, we suspect that Ellison and Wang will not be the last CEOs to point to these events as the reason for lowered guidance to Wall Street. While the tech slowdown – regardless of its reasons – is a legitimate factor for slipping performance of many companies, we also believe that it will be used by many CEOs as cover for more fundamental weaknesses. Excessive product in channels, products that are being slowly taken up by the market due to product deficiencies and over-optimistic forecasting all have a role to play for many, many of the tech sector participants. The general market downturn – exacerbated by the terrorist attacks – will, we believe, bring to light many of the companies in the sector that have been doing it with large infusions of smoke and reflective surfaces. While we name no names, we believe that in the coming 12-18 months, many companies will find themselves unmasked as pretenders to the throne. We think in the long haul – and that is where the tech sector will shine most brightly – such a separation of wheat from chaff will be very beneficial, indeed. In the short term, the Sageza group will maintain a reasonable skepticism toward those attaching each and every shortcoming to the events of September 11.