
Market Roundup

December 17, 2004

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Season's Greetings

In a surprise announcement this morning, Sageza unveiled a study **asserting** that 2004 is near an end and that the traditional winter holidays will likely occur before January 1. We don't believe this is cause for panic as we've dealt with issues such as these in the past. "This is the first time we've seen anything like this since the winter of 2003," said Harry Fenik, President **and** CEO of Sageza. In an effort to help everyone deal with this potential crisis, Sageza will make this the last set of **Roundups** for the year. Further, we will be closed for normal business during **the** most dangerous of upcoming periods, December 24 through January **3**.

We suggest that everyone, clients and friends of Sageza alike, consider following a similar course of action to protect the industry and IT professionals everywhere. Failure to act could cause a downturn in the upswing that impact products and services for months to come.

On behalf of everyone at Sageza, enjoy the winter holiday of your choice (**we** like to celebrate all of them) and have a happy and prosperous New Year.

Oracle and EMC: Virtually Everywhere

By Jim Balderston

Oracle and EMC have announced they will begin jointly offering Oracle products that include VMware virtualization software and said that the two companies have entered into an agreement to develop new offerings in the future. Oracle CEO Larry Ellison went so far as to say that VMware was Oracle's virtualization vendor of choice on Intel platforms and that Oracle would ensure that its Oracle 10G software would be developed to run optimally on VMware-virtualized environments. The more closely knit agreement comes on the heels of the availability of a trial version of the same Oracle/VMware offering. VMware is owned by EMC and is operated as an independent entity. Oracle and EMC have a longstanding working relationship.

This announcement would seem to further validate EMC's purchase of VMware, the widely acknowledged leader among independent virtualization vendors. While EMC and Oracle had earlier ties on the storage side of the world, this would seem to be a very strong bond going into the future, as virtualization will become — along with grid computing — core technologies of future IT deployments. And when we say future, we believe we are not talking about a decade but a matter of a single digit number of years. EMC recognized that reality when it scooped up VMware, and the rest of the market is sure to follow, given the fact that, yes, virtually every major IT vendor is working on virtualization everywhere.

For Oracle, making this deal frees it from having to do business with one of its least favorite companies, Microsoft, for virtualization. Oracle, like EMC before it, chose wisely given VMware's highly regarded technology and stature in the market. By tightening its relationship with Oracle, EMC is now increasingly well positioned to offer broader solution sets for datacenter management and deployment while simultaneously evangelizing virtualization

through the large Oracle customer base. As such, EMC is positioned to reap continued value from the VMware acquisition well into the foreseeable future, as virtualization technology moves through the enterprise and SMB markets. In this respect, both Oracle and EMC have increased their abilities to effectively offer products into the often elusive SMB market, thereby ensuring that they can go virtually anywhere.

At Last, Oracle Finds the Right Way

By Jim Balderston

Oracle announced this week that it has reached an agreement to acquire PeopleSoft for \$10.3 billion, or \$26.50 a share. The announcement ends a bitter eighteen-month battle between the two companies which was initiated when Oracle CEO Larry Ellison announced he was commencing a hostile takeover bid for PeopleSoft. The announcement of the accepted offer ended various legal actions between the two companies and cemented a deal that seemed to be slowly gaining momentum at a lower offering price. Recently more than 60% of PeopleSoft stockholders had agreed to sell to Oracle at \$24 a share, Oracle's previous "final offer." Oracle upped the ante after a PeopleSoft executive testified in a deposition as part of one of the ongoing lawsuits that the company would be open to accepting an offer higher than \$24. Ellison said Oracle would provide ten years of support for PeopleSoft's Version 8, and would upgrade it as well. Ellison also said a Version 9 would be developed and released within two years.

With this deal Oracle moves up into the number two slot for business software behind the German juggernaut SAP. That's an improvement over its previous number 3 spot, behind PeopleSoft. The remaining questions on how the two companies' products and cultures can be melded together will be an interesting postscript to the merger deal, and of course, the final determinant on whether or not this merger was ever a good idea. Before that messy task is completed or at least well underway, all analysis of the deal is really no more than someone's well intentioned fantasy.

It's apparent that the shift in Ellison's position concerning the post-merger status of PeopleSoft and its technology, employees, and customers improve the odds of this being a successful and sensible merger of the two companies. A year and a half ago Ellison said that he wanted to buy PeopleSoft to eliminate a competitor and to gain its market share of more than 12,000 customers. He said he had no plans to continue development of PeopleSoft products and instead would try and migrate PeopleSoft customers to Oracle products. He also indicated he had little or no use for PeopleSoft's technical expertise. At that time we argued that while Ellison was right about the inevitability of the forces of market consolidation, he was all wrong in the way he set about to do it. Now, it appears, Ellison has decided that it is a smart move to keep PeopleSoft's technological DNA in the larger IT ecosystem gene pool, instead of wiping its adaptations to the business environment completely off the map in a zealous drive to manipulate the market. Such a decision will allow both Oracle and PeopleSoft customers the ability to transition new products into the market in a more fluid and less jarring fashion. For these reasons, we suspect that in the end, Oracle has finally chosen to do the right thing and may actually pull this off.

Symantec and Veritas to Merge

By Rob Kidd

Symantec, vendor of Norton antivirus, security, and maintenance software, has announced that it will merge with Veritas, provider of backup, storage, and archiving software. The deal is an all-stock transaction valued at \$13.5 billion and would create the fourth largest global software company with revenues in the neighborhood of \$5 billion. Under the agreement, approved by both companies' boards, Veritas shareholders will receive 1.1242 shares of Symantec stock for each Veritas share they own. When completed, Symantec shareholders will own about 60% of the combined company, and Veritas shareholders will own about 40%. The deal is expected close in Q2 2005. Veritas employs some 6,700 people worldwide, with 2003 annual revenues of \$1.75 billion. Symantec has 6,000 employees, with 2003 annual revenues of \$1.87 billion.

Symantec's CEO stated earlier in 2004 that he would like to see the company's revenue grow to the \$5 billion range during the next few years. To achieve this goal Symantec has to develop business beyond its traditional base

and the company's answer is to expand more broadly into the enterprise software space. With this in mind, the company recently embarked on a strategy to integrate security and risk management into a concept the company calls information integrity. Accompanying the strategy the company embarked on a spate of synergistic acquisitions. Since the second half of 2003, Symantec has acquired Brightmail, ONTechnology, SafeWeb, and @stake; companies that bring strengths in fighting spam, making large corporate networks operate smoothly, and add security audit and risk management expertise. Veritas is also no stranger to acquisitions. Through a series of acquisitions in the recent past, Veritas has transformed itself from a storage software company into a provider of end-to-end storage software and services.

We believe this is a good move for both Symantec and Veritas as it positions Symantec as one of the key providers of information integrity products along with infrastructure solutions to back up its new positioning. Veritas had very little to offer the low end in terms of backup, storage management and archive; Ghost and PowerQuest products fill this gap. Further, both companies can now leverage sales into each other's installed customer base. Competitors including EMC, HDS, IBM, CA, McAfee, and TrendMicro may find this merger more than a minor irritation. Increasingly, enterprise IT is looking for consolidation and simplification as represented by the Symantec information integrity offering and with this consolidation and repositioning storage software and risk management solutions are moving closer. This may create customer confusion initially due to the different nature of the products that Symantec and Veritas sell; however, it is unlikely that customers will see any short-term differences. Nevertheless, we believe that in the long run security and data-protection solutions will increasingly become complementary parts of data-center protection environments as enterprise IT continues looking for consolidation and management simplification. The Symantec-Veritas merger may be the first in a step of industry consolidations that will address these enterprise issues at a strategic company and product level.

New Thin Clients from Sun and the Thinning of the Ranks

By Clay Ryder

Sun has introduced the Sun Ray 170, a new thin-client desktop and the next-generation Sun Ray Server Software 3.0. Collectively, this allows Sun Ray technology, which was formerly limited to Ethernets, to work over DSL, cable, or other broadband connections. Sun Ray Server Software 3.0 targets enterprise, government, and technical customers who are seeking a secure, low-administration desktop environment for access to their Solaris or Linux (SuSE, Red Hat) based environments. The new release runs on both Solaris and Linux, has reduced past bandwidth requirements by more than half, and is backwards-compatible with all Sun Ray clients. In addition, the new software has expanded peripheral support with administrator-configurable peripheral access control for enhanced security as well as support for the PC/SC smart card framework supporting advanced smart card middleware applications that can enable multi-factor authentication through PKCS#11, S/MIME digital signature message signing, and encryption. The Sun Ray 170 provides 56% higher resolution and 36% more viewing area than its predecessor. The Sun Ray 170 is priced at \$1,049 and Sun Ray Server Software 3.0 is priced at \$99 per seat. Both are available immediately from all Sun sales channels. Separately, it has been reported that Network Computing Devices (NCD) will cease all operations by year-end. This comes after its attempt earlier this year to improve its cost structure by consolidating its European operations. An early pioneer with X Window Terminals, and later Windows-based terminals, NCD was both a hardware and software vendor in what became known as the thin client marketplace. In headier days, NCD shared product development with IBM and Intel and was an important OEM supplier of X Window software.

In days long gone by, prior to the Internet, DSL, or Larry Ellison's NC PR machinations, there was a marketplace with large bulky devices that epitomized what was to become known as thin clients. They were then known as X Terminals. In the ensuing IT boom of the mid and late 1990s, some noted that the notion of a thin-client terminal bereft of any encumbering processing, storage, or removable disk drives could be a way for IT to reduce the maintenance and operational costs of desktop clients while also enhancing the security (read IT's iron-fisted control) of the desktop user environment. Since then many players have jumped onto and off the thin-client bandwagon leaving only a few relevant players remaining including Sun, Wyse, NCD, and to a certain extent

Citrix. It now appears that the reality of a post-Internet boom IT marketplace has left NCD, once a stalwart, tidying up what is left of its operations and getting ready to turn out the lights.

Unlike NCD, Sun — despite its blood letting during the early 2000s — is in no danger of going out of business anytime soon. However, the company has clearly taken the dominant position in the thin-client opportunity, continuing to push thin ideals along with updating its thin-client desktops. While there are market niches where thin clients make a great deal of sense (fixed-function terminals, highly secured network access points, POS systems, etc.), broad-based general-purpose deployments of said desktops has never developed. With this in mind, does Sun know something that others do not? Or is this a clever corporate initiative to subsidize the reduction of Sun's cost structure? We tend to think the latter. Sun has made it very public that it is reducing the number of offices permanently assigned to employees, and encouraging substantial portions of its workforce to telecommute or otherwise work remotely. In this environment, the Sun Ray through its Java Card support has an interesting advantage over other desktops in that users can access their workspaces by simply inserting a card and entering a password from anywhere on the network. This has worked well where desktops were connected to local high-speed networks, but did not adequately address truly remote workers. Now workers can access their workspace over standard broadband connections at their homes or anywhere there is a broadband-connected Sun Ray. For a company such as Sun looking to offload its office space requirement onto its employees this paints an interesting cost-saving potential. While it's easy to be cynical and see this only benefiting Sun, the reality is that remote workers for travel agencies, insurance brokers, or even technical/customer support desks could benefit from such technology. But despite these opportunities, we continue to find it difficult to believe that Sun Rays or any thin-client desktop will displace the ubiquitous PC in the workspace, and especially at home. So while we applaud Sun's creativity and tenacity, and say goodbye to an old friend, we are reminded of the staying power of grass-roots, ground-up technology deployments such as the PC, and the impediments inherent in top-down technology deployments as typified by thin clients.

EU Gets Data Retentive

By Joyce Tompsett Becknell

The European Council of Ministers of Justice and Home Affairs has discussed telecommunications data retention several times this year, including recently in early December. The original proposal the Council was considering had been submitted by the British earlier this year and would have required service providers to store data from users for a minimum of one year and possibly indefinitely. Having raised a flurry of controversy, the original proposal has been discarded and the search for another approach has begun. For now, the EU has no definitive data retention policy.

The proposed laws lined up several opposing positions for no apparent reason. They lined up the desires of law enforcement agencies versus the defenders of human rights and privacy, and the desire to capture data against the reality of what exactly that entails. The proposed laws did nothing to clarify what data can and should be collected. Left unanswered are the questions of whether all data should be collected, or only that data collected for business purposes. According to the European Court of Human Rights rulings, interception of telecommunications data must fulfill three criteria: a legal basis, the need for that legal basis in a democratic society, and conformity with a legitimate and listed aim. The original proposal apparently did not meet any of these criteria. The EU is hesitant to rely on mass collection of data traffic as the primary way to combat crime or protect national security. It is also fortunate that the proposed laws failed as the EU seems to have failed to appreciate the technical implications of what they were considering. In an open letter to Parliament, Dutch service providers explained that a broadband provider with 100,000 customers transports 5.5TB a day. They claim that distilling traffic data from this would be technically impossible. And so the year ends with the cry of "back to the drawing board!"

There are useful lessons for corporate decision-makers in the EU's dilemma. As commercial and regulatory rules evolve, the impetus grows to collect and store more data. This extends beyond the concept of simple data backup and retrieval to archiving and preserving data in a particular context from a particular point in

time for a specified period of time. The issues for corporate IT departments are similar to those of the Dutch service providers. Companies must decide what type of data they collect, for what reasons and to what end. Leaving aside the legal issues (for which a whole new field of lawyers has surfaced), there are significant technical issues to grapple with. Take a fifty-year data storage requirement for example. There is no storage medium that is guaranteed to last for fifty years. There is no application that guarantees it can read fifty-year-old data or that a given application will even exist in fifty years. There is no service guaranteed to provide data migration to new versions of applications and media. The best the vendors have been able to come up with thus far is a relatively stable place to store data for the near future, and some form of assurance that the data being looked at is in fact the untampered-with original. Storage media, business practices, and the implications for data center operations have not been established with the kind of retention periods that the lawyers have in mind. Vendors and customers should be working cautiously to create solutions for very specific environments with well defined requirements, currently limited to selected industries such as finance or health care. Companies in other sectors where the pressure of law has not yet come to bear should use this time to look at their basic business continuance practices with an eye to how they might deal with the complete gamut of data retention issues when the legal screw inevitably turns on their industry.