

Network and Systems Management News

Welcome to the inaugural edition of Udata Capital's quarterly newsletter covering the Network and Systems Management sector. The goal of the newsletter is to provide executives with a variety of market, strategic and financial data relevant to managing their businesses. In addition, each quarter we will focus on a particular topic in our Issue Spotlight section. Our first spotlight column focuses on several of the macro trends affecting the NSM industry. Future articles will explore these and other trends in greater detail and examine the dynamics of various sub-sectors of the NSM space.

We hope you find this information useful, and welcome your comments and suggestions on how we can improve the quality of the content and presentation.

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ISSUE SPOTLIGHT: Market Trends in NSM

In an effort to increase the ROI of their IT systems many large enterprises have begun to view their IT departments as service providers to the enterprise "client," requiring them to deliver specified service levels at pre-determined prices. The current economic environment will only reinforce the focus on ROI as CIOs are forced to justify spending in the face of revenue pressure and cost cutting.

Unfortunately for CIOs, budget pressures are coming at a time of expanding IT management requirements driven by increasing IT system complexity. Factors generating this complexity include the introduction of e-business initiatives, multiplying mission-critical applications, rapid increases in the amount of managed data, and new types of server platforms and client devices. IT administrators are now being asked to manage more systems, applications, and devices across an expanding network domain that connects the enterprise with customers, suppliers and partners.

Unlike many other IT sectors, the NSM industry is reasonably well positioned to weather the economic storm. But the NSM vendors that emerge the strongest will be those with one eye on the immediate environment and the other on longer-term market trends, so that they are prepared to exploit an upturn in demand. Below we discuss three such trends.

Mainframe versus Distributed Systems: As distributed systems continue to eat away at the mainframe market, it's tempting to think the process will continue until the market consists of a small island of mainframe customers in a sea of distributed servers. MetaGroup has suggested that the breakpoint for the mainframe market is at 800 MIPS.

While we don't dispute that there may continue to be a bright line of demarcation separating mainframes and distributed servers for certain applications, the large and important market for reliable, scalable, and distributed e-business systems will be hotly contested, and mainframe systems should not be dismissed. After all, many of the benefits of mainframes, such as reliability and highly scalable transaction processing capabilities, are even more important to the success of e-business than they are to traditional mainframe applications. The weakness of mainframe systems for e-business is not necessarily their costs on a per transaction basis, but the fact that they were not traditionally designed to operate in a highly distributed environment. So more likely than a relentless erosion of the mainframe island is a gradual elimination of the distinctions between the two architectures, as many features that were once the sole province of mainframe systems get incorporated into servers designed for distributed architectures, and mainframe platforms become more network friendly.

One can already see evidence of this in the product strategy of IBM. Its commitment to Linux could give the open source operating system the momentum it needs to take on Sun's dominance of the Unix market. All of IBM's platforms are available with the Linux OS, and the success of Linux could offer real benefits to IBM, which suggests their interest is more than short-term marketing. First, Linux could help alleviate IBM's problems stemming from its variety of operating systems, allowing customers to easily migrate their applications between IBM hardware platforms as their needs require. Second, the success of Linux indirectly undercuts the need for Java (and therefore the success of Sun) since application developers could begin to write directly for Linux if it gains significant market share.

Continued on Page 9

INDEX RECAP

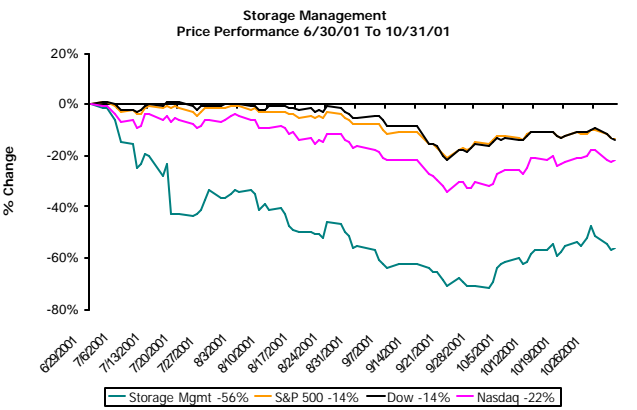
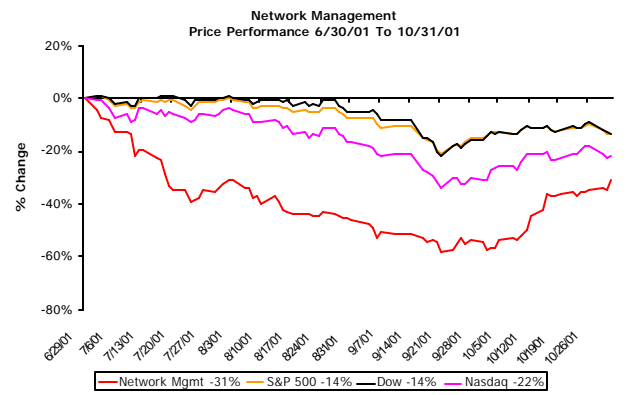
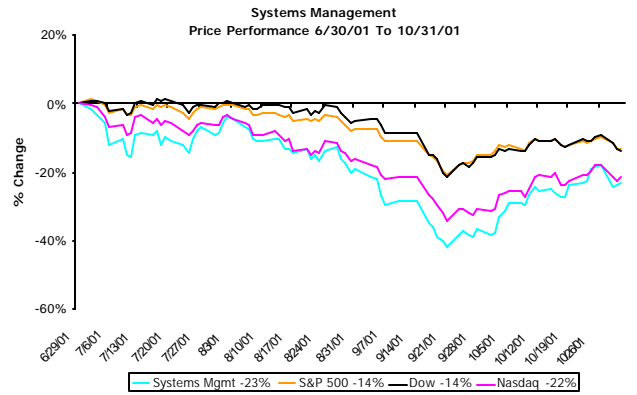
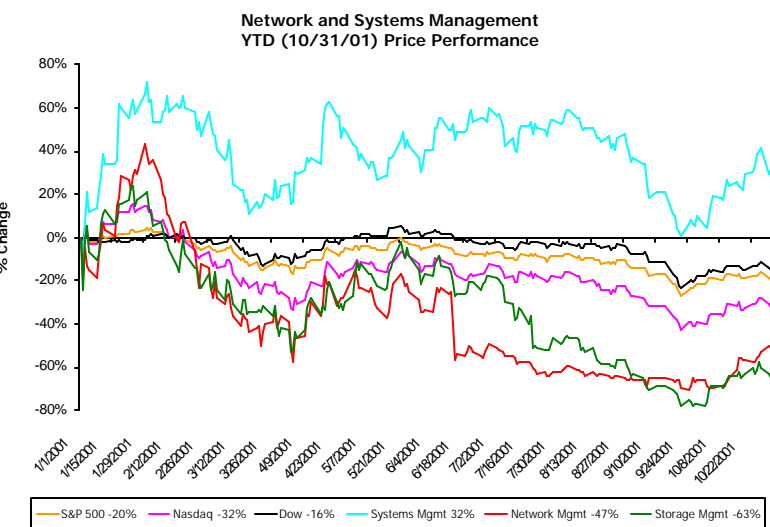
Each of the three NSM sub-sectors has posted a significant decline since the beginning of Q3. Systems Management has fared the best, declining 23% Q3 to date, followed by Network Management with a 31% decline and Storage Management with a 56% decline.

MERQ and QSFT, both of which reported sequential quarterly revenue declines in CQ3, led the Systems Management vendors lower. Their 60% declines were muted in our market cap weighted index by better performing larger names, such as Computer Associates, which registered a 14% decline.

In the Network Management sub-sector, a 63% increase by CCRD driven by good Q3 results and Q4 outlook was negated by a 67% decline in MUSE. Two of the three companies in our Storage Management sub-sector, VRTS and LGTO, experienced sharp price declines. On a positive note, all three sub-sectors are up substantially off their lows of the quarter.

During the quarter certain trends were prevalent across most vendors in the sector. Lower license revenue in general and fewer large deals in particular led to flat or declining revenue. In some cases this was partially offset by services revenue and strong cost controls. Looking forward, a number of firms hope to see the benefits of a strong mainframe cycle over the next several quarters. But guidance was overall quite conservative, with many vendors guiding analysts to the low end of previous estimates, further lowering previous guidance, or declining to give guidance based on a lack of visibility.

Nevertheless, we feel that absent further external shocks (e.g., domestic terrorist attacks) to dampen consumer confidence, the fundamentals are in place for an economic recovery by the middle of 2002. The Fed has been easing monetary policy since January 2001, President Bush is expected to sign a \$50-100 billion fiscal stimulus package before the end of the year, and producers and consumers are benefiting from lower energy prices. Businesses that have sized their operations for the current economic climate should be the beneficiaries of operating leverage and accelerating earnings when demand picks up. At that point business investment should also accelerate, with strong demand for NSM products and services.

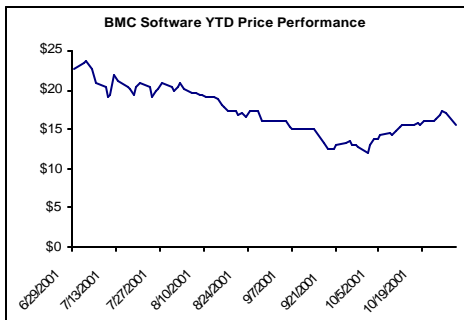


	% Change YTD (10/31/01)	% Change 6/30/01 - 10/31/01
Systems Management		
BMC Software	7.6%	-33.1%
Computer Associates	58.6%	-14.1%
Compuware	64.5%	-24.9%
Mercury Interactive	-73.6%	-60.2%
NetIQ	-67.8%	-10.0%
Precise Software	-22.8%	-37.8%
Quest Software	-47.3%	-60.8%
Network Management		
Concord Communications	67.4%	62.8%
Micromuse	-84.7%	-67.0%
Netscout Systems	-47.7%	-10.4%
Storage Management		
Legato Systems	12.8%	-47.4%
OTG Software	-64.2%	-13.7%
Veritas Software	-67.6%	-57.3%

EARNINGS REPORTS

BMC Software

Earnings Release: October 25, 2001
 First Call Estimate: \$0.03
 Actual: \$0.03



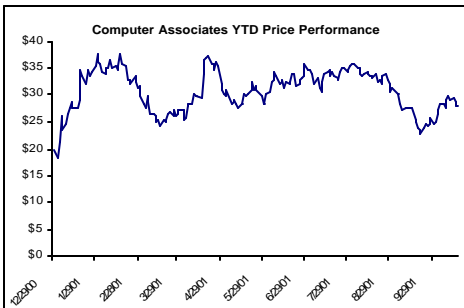
Revenues declined 9% Y/Y to \$293.8 million, marked by a 24% decline in license revenue Y/Y that was offset by 9% growth in maintenance and 7% growth in professional services. License revenue is now below 50% of total. As with other vendors, average deal size was down with far fewer \$1 million plus deals. But BMC also reported a record number of transactions, indicating that customers are looking for a quick ROI purchase. Lower expenses blunted some of the impact of the revenue shortfall. Total expenses were \$302.7 million, flat Y/Y but down 9% from the previous quarter. BMC's balance sheet remains strong with nearly \$1 billion in cash.

Recent News:

- 10/23/01: BMC announces that PATROL for UNIX now supports Linux
- 10/15/01: BMC introduces Patrol DBXray, enabling remote management of Oracle databases
- 10/3/01: BMC introduces enterprise management product for Siebel 7
- 9/5/01: SuSE Linux and BMC announce a partnership to deliver advanced management software for the Linux platform
- 7/16/01: BMC introduces an international version of its Internet management solution, PATROL for Internet Services, for Asian markets

Computer Associates

Earnings Release: October 18, 2001
 First Call Estimate: \$0.52
 Actual: \$0.61



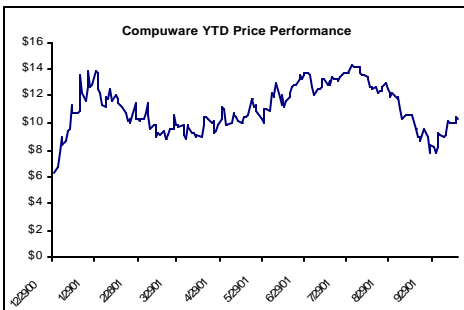
CA reported revenue of \$1.4 billion, essentially flat over the prior quarter. Products for distributed systems continue to do well, but the recent IBM report of strong MIPS growth could indicate future strength in the mainframe market. International sales continue to represent about 36% of total revenue. Strong cost controls reduced SG&A 16% Y/Y (primarily due to a 14% reduction in headcount). As a result EPS came in significantly ahead of consensus. The company's backlog increased to \$2.5 billion from \$2.2 billion in the June quarter.

Recent News:

- 10/2/01: CA releases 3.0 of Unicenter Management for Microsoft Exchange
- 9/11/01: CA's Unicenter Service Desk delivers automated, anytime/anywhere support with web and wireless access
- 7/9/01: Unicenter announces support for Oracle9i Application Server, providing comprehensive ebusiness management solutions for Oracle database and Web infrastructures
- 7/9/01: CA introduces infrastructure management solution for the Blackberry Enterprise Server

Compuware

Earnings Release: October 18, 2001
 First Call Estimate: \$0.10
 Actual: \$0.10



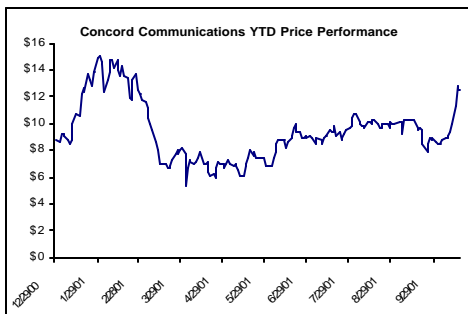
Compuware posted results in line with its preannouncement two weeks ago. Revenues for the quarter were \$424.0 million, down 5% Q/Q and 13% Y/Y. A decrease in new software licenses for mainframe products was the principle cause of the Q/Q decline. Geographically, revenue was flat in North America while international revenue fell 12% Q/Q. Operating margin declined 3% sequentially to 8% impacted principally by lower gross margins. Compuware should see some benefit from the positive mainframe cycle in the next six to nine months.

Recent News:

- 10/1/01: Compuware introduces PointForward 3.0, a remote testing and management product that provides a single view of enterprise applications; announces support for Siebel 7
- 9/4/01: Compuware joins Cisco's AVVID Partner Program, engineering EcoSCOPE for use in managing e-business voice and video applications of Cisco customers

Concord Communications

Earnings Release: October 15, 2001
 First Call Estimate: (\$0.11)
 Actual: (\$0.09)



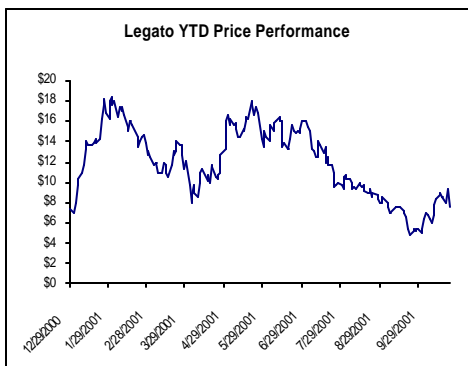
Revenue was in line with expectations at \$21.8 million, up 1% over the previous quarter but down almost 7% Y/Y. With revenues tilted slightly to the enterprise market, Concord has less exposure than many network management firms to the weak service provider sector. Operating loss improved to \$3.2 million from \$4.2 million the previous quarter. The company's balance sheet also strengthened as a result of lower accounts receivable. The company guided analysts to Q4 results of \$23.5 million in revenues, operating expenses of \$20.0 million and breakeven to slightly positive EPS.

Recent News:

- 9/24/01: Concord announces the availability of eHealth 5.0
- 9/10/01: Concord enters HP OpenView Portfolio Partner Program

Legato Systems

Earnings Release: October 23, 2001
 First Call Estimate: (\$0.08)
 Actual: (\$0.08)



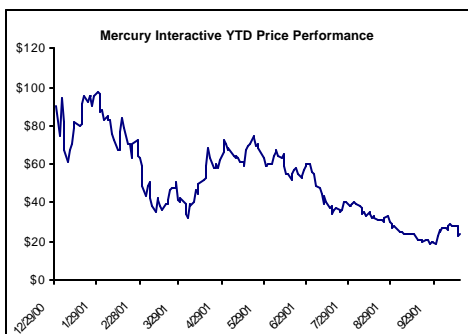
Revenues for the quarter were \$57.0 million, up 5.2% Y/Y but down 8.8% Q/Q. License revenue declined 19% sequentially to \$32.7 million. Demand was particularly soft in Europe and Asia. The company expects to see a pick-up in orders for disaster recovery software in the fourth quarter. Operating expenses rose 7% sequentially resulting in an operating loss of \$13.8 million. Management expects sequential revenue growth of 5-10% for the fourth quarter, and 13-18% for full year 2002.

Recent News:

- 9/25/01: Legato releases Networker Recovery Manager 1.0 for Windows NT
- 9/11/01: Legato and Maxtor announce agreement to jointly develop solutions based on Legato software and MaxAttach storage servers
- 8/28/01: Sun to sell Legato Networker 6.1 under brand name of Solstice Backup 6.1 under continuing OEM arrangement
- 8/27/01: Legato introduces AlphaStor media management solution for open systems data centers
- 7/16/01: Legato announces Mirroring Extension 2000, a high-speed mirroring engine for Microsoft Cluster Services
- 7/9/01: Legato extends Lotus support to Linux with Networker Module v2.1 for Lotus

Mercury Interactive

Earnings Release: October 16, 2001
 First Call Estimate: \$0.11
 Actual: \$0.11



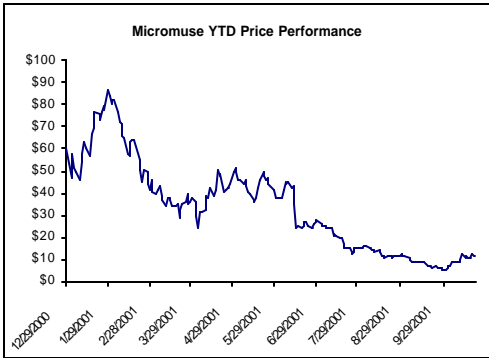
MERQ preannounced a shortfall several weeks ago. Revenues for the quarter were \$84.0 million, down 13% Q/Q but up 6% Y/Y. License revenue declined to 61% of total, down 8% Q/Q and 6% Y/Y. Gross margin slipped slightly both Q/Q and Y/Y due to a decline in higher margin license revenue. Operating margin was 13%. Average deal size held steady in the \$60-65 thousand range, but the company closed no deals over \$1 million in the quarter, versus four in the previous quarter. Management also lowered guidance for the fourth quarter to \$0.11-\$0.13 EPS on revenue of \$84-90 million.

Recent News:

- 10/23/01: Mercury Interactive and BEA Systems announce an expanded strategic relationship, under which Mercury has optimized its testing solutions for BEA WebLogic
- 10/11/01: Marimba and Mercury announce an alliance to integrate Marimba's products for change management and Mercury's application performance management products
- 9/11/01: Freshwater Software and Mercury Interactive integrate resources to deliver enhanced web monitoring and application performance in SiteScope 6.0
- 8/23/01: Mercury Interactive announces it will provide load testing and performance management solutions for Oracle9i application server

Micromuse

Earnings Release: October 24, 2001
 First Call Estimate: \$0.04
 Actual: \$0.04



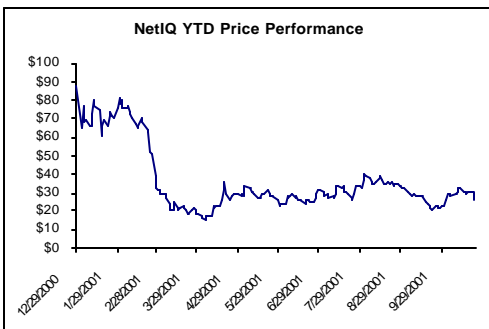
Micromuse reported FQ4 revenue of \$40.0 million, declining 37% Q/Q and down 3% Y/Y, in-line with the company's preannouncement of \$40-\$41m. The company has been increasingly focusing on the enterprise sector and added 22 of its 75 new customers in that space, bringing the enterprise/service provider mix to 26%/74% from 16%/84% in the previous quarter. Despite the significant revenue decline, tight control of operating expenses allowed the company to post an operating profit of \$2.6 million. Management guided analysts to \$39-41 million in revenue in the December quarter with EPS of \$0.03-\$0.04.

Recent News:

- 10/24/01: Micromuse names Mike Luetkemeyer as Senior Vice President and Chief Financial Officer
- 8/7/01: Micromuse Joins Juniper Networks IP OSS Alliance
- 7/18/01: Micromuse names Katrinka McCallum Executive Vice President & Chief Operating Officer

NetIQ

Earnings Release: October 22, 2001
 First Call Estimate: \$0.15
 Actual: \$0.17



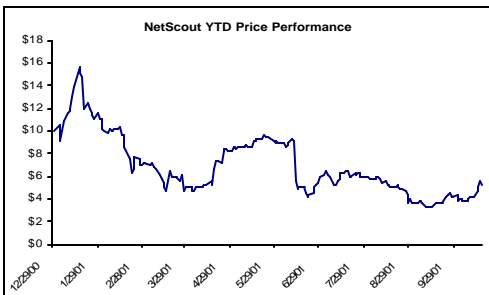
NetIQ reported September quarter revenue of \$60.7 million, up 27% Y/Y and in-line with analyst estimates, although the company signed fewer large deals compared to the previous quarter. Operating margin for the quarter was 17% and benefited from \$5 million in license revenue under the Microsoft agreement. When combined with strong cost controls the company beat the consensus EPS estimates by \$0.02. NetIQ's balance sheet also improved with cash and equivalents increasing to \$491 million. Management declined to give any guidance for the second half of its fiscal year (ending June 02).

Recent News:

- 10/15/01: NetIQ introduces WebTrends Firewall Reporting Center
- 10/1/01: NetIQ announces WebTrends VRM for Siebel eBusiness Applications 2.0 will support Siebel 7
- 10/1/01: NetIQ announces a technology partnership agreement to integrate Sybari's Antigen (an anti-virus, content-management, and e-mail security solution) for Microsoft Exchange with NetIQ's performance and availability solutions
- 8/6/01: NetIQ releases version 4.0 of its Enterprise Reporting Server
- 7/2/01: NetIQ releases comprehensive security management portal

NetScout Systems

Earnings Release: October 18, 2001
 First Call Estimate: (\$0.03)
 Actual: \$0.01



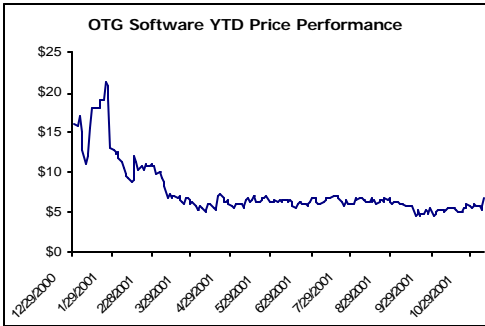
NetScout reported revenue of \$19.7 million, a 9% sequential increase. Gross margin also expanded by 4% sequentially to 75%. Management maintained its outlook over the short term and expects sequential revenue increases of 7-10% over the long term. The company began the transition of Cisco channel customers to direct or reseller relationships. Cisco channel revenue decreased to 40% of total from 52%. The company also reported more than 40 new accounts and an increase in direct sales to 35% of revenue.

Recent News:

- 10/10/01: NetScout announces nGenius Real-Time Monitor 1.3
- 9/24/01: NetScout introduces Real-Time Probe for Monitoring High-Speed Packet Over SONET Networks
- 7/9/01: NetScout introduces Multiport Gigabit Ethernet Probe

OTG Software

Earnings Release: October 24, 2001
 First Call Estimate: \$0.00
 Actual: (\$0.01)



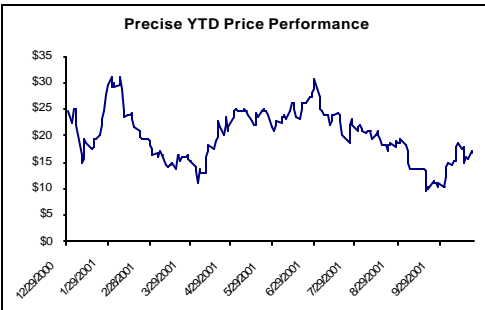
OTG's revenue grew 4% Q/Q and 15% Y/Y to \$16.6 million. Similar to other companies, OTG suffered a slight impact from the 9/11 tragedies, but added 600 customers across several verticals including manufacturing, education, services, and technology. Gross margins shrank modestly to 78% versus 82% in the prior quarter and 86% a year ago. Operating expenses were held flat at \$14.6 million, resulting in an operating loss of \$1.7 million. Management reiterated its guidance of revenue growth of 5-8% in the 4th quarter, and 25-35% for full year 2002.

Recent News:

- 10/1/01: OTG introduces a new storage management and access software product for databases - DiskXtender Database Edition (DXDB)
- 9/17/01: OTG announces a stock repurchase of up to one million shares
- 9/11/01: Maxtor and OTG announce agreement to create Storage Virtualization Solutions
- 8/28/01: OTG adds support for Exchange 2000 to EmailXtender

Precise Software Solutions

Earnings Release: October 23, 2001
 First Call Estimate: (\$0.01)
 Actual: \$0.00



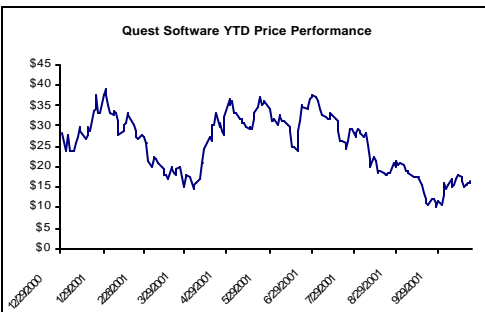
Precise reported \$14.3 million in revenue (including \$400k from WQuinn acquisition), representing Y/Y and Q/Q revenue growth of 88% and 13%, respectively. Channel sales accounted for 43% of revenue compared with 25% last quarter. Gross margins were flat Q/Q at 94%. Precise also achieved operating profitability for the first time since it went public in June 2000. The company projects Q4 revenues in the range of \$16.2-16.7 million (+15% Q/Q) with EPS of \$0.01. For full year 2002, management guided analysts to revenue of \$85-\$89 million (+55%) with an EPS range of \$0.17-\$0.20.

Recent News:

- 10/9/01: Precise announces support for Siebel 7
- 10/1/01: EMC licenses Precise's technology for incorporation into CLARiiON storage system
- 8/28/01: Precise launches support for BEA Tuxedo with Precise/Savvy; announces support for PeopleSoft 8
- 8/21/01: Precise introduces application performance tuning solution for HP Surestore disk array system
- 8/13/01: Precise launches Precise/Indepth for IBM Websphere
- 7/9/01: Precise introduces Precise/Indepth for DB2

Quest Software

Earnings Release: October 24, 2001
 First Call Estimate: \$0.01
 Actual: \$0.02



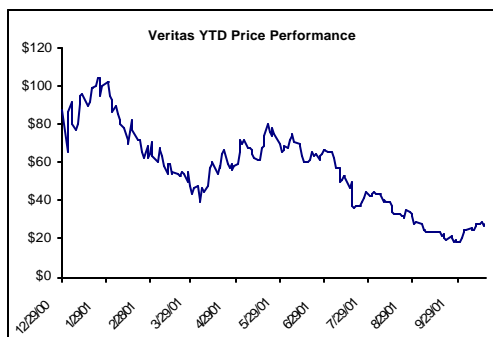
Quest reported revenues of \$56.3 million, down 16% sequentially and up 10% Y/Y. License revenue of \$37.6 million was down 24% sequentially. Growth was impacted primarily by a shortfall of large deals. The shift in revenue mix toward services resulted in gross margin decline of 2% to 90%. Operating expenses declined 4% Q/Q to \$50.7 million while headcount grew by 41. Operating income came in at \$0.01 million. Management anticipates Q4 revenue slightly higher than Q3 followed by a recovery in 2002, with revenue growth of 14%-18% for the year.

Recent News:

- 10/8/01: Quest introduces StorageXpert, extending application performance measurement to storage devices
- 9/4/01: Quest introduces Benchmark Factory 3.0 for load testing and capacity planning
- 8/28/01: Quest announces Vista Plus support for PeopleSoft 8
- 7/23/01: Quest releases Spotlight on Active Directory

Veritas Software

Earnings Release: October 16, 2001
 First Call Estimate: \$0.11
 Actual: \$0.12



Revenue came in at \$340.2 million, with license revenues down 18% Q/Q due to smaller deal size, while service revenue increased 4%. The revenue shift toward services resulted in a 2% decline in gross margins. While operating expenses declined in absolute terms, margins fell from 20% from last quarter's 29% due to lower revenue. Management guided analysts to Q4 expectations of \$356.0 million in revenue and \$0.13 EPS. On a positive note, management expects continued pricing stability and reported increased demand in the SME market after the 9/11 attacks, primarily for backup products.

Recent News:

- 10/1/01: Veritas introduces two new storage virtualization products for DB2 databases: Database Edition and Database Edition/HA
- 9/24/01: Veritas introduces FlashSnap and Volume Replicator products for multi-platform environments
- 9/10/01: Veritas announces storage virtualization solution Database Edition 3.0 for Oracle
- 7/30/01: Veritas releases NetBackup Storage Migrator for Windows 2000 and NetBackup Storage Migrator for Exchange

VALUATIONS

(in millions, except per share data)

Company Name	Operating Performance						Operating Margins					
	LTM Revs	LTM EBITA	LTM Net Inc	MRQ Revs	MRQ EBITA	MRQ Net Inc	LTM Gross Margin	LTM EBITA Margin	LTM Net Inc Margin	MRQ Gross Margin	MRQ EBITA Margin	MRQ Net Inc Margin
BMC SOFTWARE	\$1,566.7	\$130.0	\$136.6	\$293.8	(\$8.9)	\$6.9	NA	8.3%	8.7%	NA	-3.0%	2.3%
COMPUTER ASSOCIATES	\$5,727.0	\$2,321.0	\$1,153.0	\$1,442.0	\$631.0	\$359.0	NA	40.5%	20.1%	NA	43.8%	24.9%
COMPUWARE	\$1,880.6	\$217.8	\$143.4	\$424.0	\$37.0	\$37.4	45.1%	11.6%	7.6%	43.3%	8.7%	8.8%
CONCORD COMM	\$89.9	(\$12.3)	(\$9.9)	\$21.8	(\$3.2)	(\$2.3)	80.2%	-13.7%	-11.0%	81.2%	-14.7%	-10.7%
LEGATO SYSTEMS	\$239.0	(\$33.1)	(\$24.4)	\$57.0	(\$13.8)	(\$7.8)	77.4%	-13.8%	-10.2%	76.6%	-24.2%	-13.6%
MERCURY INTERACTIVE	\$368.2	\$69.0	\$67.9	\$84.0	\$10.8	\$9.8	85.5%	18.7%	18.4%	84.3%	12.9%	11.7%
MICROMUSE	\$212.5	\$35.2	\$30.1	\$40.0	\$2.6	\$2.9	84.3%	16.5%	14.1%	83.1%	6.4%	7.4%
NETIQ	\$197.1	\$30.4	\$31.7	\$60.7	\$10.1	\$9.6	91.4%	15.4%	16.1%	89.6%	16.6%	15.8%
NETSCOUT SYSTEMS	\$91.9	\$4.5	\$1.7	\$19.7	(\$0.3)	\$0.3	72.8%	4.9%	1.9%	73.6%	-1.4%	1.4%
OTG SOFTWARE	\$53.0	(\$2.8)	\$0.1	\$16.6	(\$1.7)	(\$0.8)	80.1%	-5.3%	0.2%	77.2%	-10.3%	-4.8%
PRECISE SOFTWARE SOL	\$48.2	(\$2.0)	\$5.2	\$14.3	\$0.1	\$0.1	93.4%	-4.2%	10.7%	94.2%	0.5%	0.5%
QUEST SOFTWARE	\$242.4	\$22.9	\$19.4	\$56.3	\$0.1	\$1.7	91.4%	9.4%	8.0%	90.1%	0.2%	2.9%
VERITAS SOFTWARE	\$1,487.8	\$420.0	\$301.9	\$340.2	\$68.4	\$50.5	84.8%	28.2%	20.3%	87.7%	20.1%	14.8%

High	93.4%	40.5%	20.3%	94.2%	43.8%	24.9%
Mean	80.6%	9.0%	8.1%	80.1%	4.3%	4.7%
Median	84.3%	9.4%	8.7%	83.1%	0.5%	2.9%
Low	45.1%	-13.8%	-11.0%	43.3%	-24.2%	-13.6%

Company Name	Valuation				Valuation Multiples								
	Equity Value	Cash & Equivalents	Debt	Enterprise Value	LTM Revs	CY01 Revs	CY02 Revs	Enterprise Value to			LTM P/E	CY01 P/E	CY02 P/E
								LTM EBITA	CY01 EBITA	CY02 EBITA			
BMC SOFTWARE	\$3,851.4	\$988.9	\$0.0	\$2,862.5	1.8x	2.1x	NA	22.0x	34.9x	NA	19.7x	36.9x	33.7x
COMPUTER ASSOCIATES	\$16,789.7	\$543.0	\$3,946.0	\$20,192.7	3.5x	3.5x	NA	8.7x	8.6x	NA	14.3x	12.6x	11.6x
COMPUWARE	\$3,915.7	\$220.2	\$0.0	\$3,695.5	2.0x	2.0x	2.0x	17.0x	17.9x	14.7x	26.2x	20.3x	18.4x
CONCORD COMM	\$236.5	\$68.4	\$0.0	\$168.1	1.9x	1.9x	1.7x	NM	NM	NM	40.9x	NM	100.0x
LEGATO SYSTEMS	\$884.9	\$153.3	\$0.0	\$731.6	3.1x	3.0x	2.7x	NM	NM	NM	NM	NM	NM
MERCURY INTERACTIVE	\$2,727.3	\$423.2	\$500.0	\$2,804.1	7.6x	7.9x	7.4x	40.6x	51.7x	48.2x	39.5x	49.9x	44.6x
MICROMUSE	\$1,037.4	\$154.7	\$0.0	\$882.7	4.2x	4.3x	4.6x	25.1x	30.6x	27.1x	33.7x	39.0x	44.3x
NETIQ	\$1,718.7	\$490.6	\$0.0	\$1,228.1	6.2x	5.6x	4.0x	40.5x	39.2x	NA	47.0x	48.1x	34.8x
NETSCOUT SYSTEMS	\$167.4	\$59.8	\$0.0	\$107.5	1.2x	NA	NA	24.0x	NA	NA	107.2x	277.0x	19.8x
OTG SOFTWARE	\$245.1	\$93.1	\$17.2	\$169.2	3.2x	2.7x	2.1x	NM	NM	45.7x	2521.9x	NM	56.4x
PRECISE SOFTWARE SOL	\$606.2	\$81.2	\$0.2	\$525.2	10.9x	9.6x	6.2x	NM	NM	83.2x	75.2x	NM	113.0x
QUEST SOFTWARE	\$1,737.1	\$75.6	\$0.0	\$1,661.5	6.9x	6.8x	5.9x	72.6x	94.9x	43.5x	87.9x	109.0x	58.0x
VERITAS SOFTWARE	\$15,462.9	\$1,321.6	\$440.4	\$14,581.8	9.8x	9.9x	9.2x	34.7x	39.0x	38.9x	49.8x	54.5x	55.3x

High	10.9x	9.9x	9.2x	72.6x	51.7x	48.2x	49.8x	54.5x	58.0x
Mean	4.8x	4.9x	4.6x	31.7x	31.7x	34.5x	33.9x	37.3x	35.6x
Median	3.5x	3.9x	4.3x	25.1x	34.9x	38.9x	36.6x	39.0x	34.8x
Low	1.2x	1.9x	1.7x	8.7x	8.6x	14.7x	14.3x	12.6x	11.6x

[1] Enterprise Value equals Equity Market Value, plus Debt less Cash and Cash Equivalents
 [2] EBITA excludes all one time and non-recurring charges
 [3] Outliers, as represented by a box, are excluded from the calculations
 [4] LTM = Last 12 Months; MRQ = Most Recent Quarter; NM = Not Meaningful; NA = Not Available

M&A ACTIVITY

Date Announced	Seller	Buyer	Deal Value	Multiple of Rev	Multiple of EBITA	Notes
05-Sep-01	SANavigator	McData	\$29.8	11.4x	NM	SANavigator's storage resource management software provides a vendor and platform independent SAN management solution offering planning, discovery, configuration and monitoring functionality. The acquisition strengthens McData's ability to provide leading edge management functionality in multi-vendor environments. McData expects to incur a one-time charge of \$7.5 million in Q3 for the write-off of in-process R&D, as well as \$2.5-\$3.0 million in other one time charges (primarily in Q3). Ongoing amortization of intangibles is expected to result in a \$0.01 per share charge in Q4 and \$0.02 per share in 2002.
05-Sep-01	WQuinn Associates	Precise Software	\$35.0	2.4x	14.0x	W. Quinn extends Precise's product line into storage resource monitoring and performance management solutions for Windows platforms. Additional benefits of the deal are W. Quinn's 3000+ customers and a strategic relationship with Microsoft, under which W. Quinn's technology is embedded into Microsoft's Server Appliance Kit. Precise expects the deal to be immediately accretive and raised its revenue target for Q3 to \$14.1 million with an operating loss of \$0.1 million.
05-Sep-01	RevealNet	Quest Software	NA	NA	NA	RevealNet's Knowledge Base products complement Quest's extensive line of Oracle and DB2 tools for DBAs. A Microsoft SQL product is also under development. Financials terms and impact of the deal were not disclosed.
09-Aug-01	Trinagy	Hewlett-Packard	NA	NA	NA	Trinagy is a supplier of network performance management products and complements HP's Openview e-services management products. Trinagy's Trend product enables performance analysis of network, system and applications resources to support troubleshooting, resource optimization and planning, and service level agreements with customized reporting. The Company targets both enterprise and service provider customers.
26-Jul-01	Scalable Software	NEON Systems	\$18.9	NA	NA	Scalable's Survey product line is a suite of client effectiveness management tools that measure actual time computer users spend on applications, allowing enterprises to better measure and manage IT expenses and ROI. The deal represents a significant product line extension from Neon core S/390 business. Financial impact of the deal was not disclosed.
25-Jul-01	StorageApps	Hewlett-Packard	\$350.0	11.7x	NA	StorageApps is a provider of storage virtualization solutions. The acquisition adds virtualization to HP's Federated Storage Area Management strategy. Virtualization technology enables more efficient use of storage devices by reducing physical limitations on storage organization, enabling users to add capacity and move data among heterogeneous devices. Financial impact of the deal was not disclosed.

NA: Not Available

NM: Not Meaningful

**2001 Top Financial Advisors
Announced Technology* Deals Year-to-Date**

Financial Advisors	Rank	Number of Deals
Credit Suisse First Boston	1	53
Morgan Stanley	2	30
Goldman Sachs & Co	3	26
Udata Capital, Inc.	4	19
JP Morgan	4	19
Lehman Brothers	6	18

*Source: Thomson Financial. Rankings based on announced deals Jan – Sep. '01.
Deal Value \$0-\$500 million. Technology including software, consulting, IT services.

Issue Spotlight: Market Trends in NSM
Continued from page 1

Finally, the open source nature of Linux implies that it requires significant vendor support in the form of services, which plays directly into IBM's services group.

Moreover, IBM is increasingly incorporating mainframe functionality into systems designed for distributed environments. For example, the addition of mainframe style partitions running in combination with Linux allows customers to replace multiple lower-end servers with a zSeries mainframe, with the added benefit of lower administration costs. A lasting commitment by IBM to Linux, and the blurring of the distinction between mainframes and other servers could provide new opportunities for NSM vendors, particularly those with a historical mainframe focus.

Point Solutions versus Frameworks: IT system complexity has created an opportunity for new market entrants to provide best of breed point solutions. The success of point solution vendors over broader but more complex (read: expensive) frameworks has been accentuated by the difficult economic environment, as point solutions are more likely to demonstrate the quick ROI demanded under budget constraints.

But an expanding world of point solutions creates a complexity of its own, as administrators must manage and synthesize feedback from multiple sources to derive a meaningful view of what's happening in the network and its systems. The acknowledged benefit of point solutions, better functionality, will be less compelling as the challenge of managing multiple solutions increases. So longer term, market dynamics will require a more integrated view of system and network performance. This suggests that point solution vendors need to develop a strategy that allows their products to be easily integrated into multiple third party frameworks or develop a framework that ties their point solutions together.

Convergence: The emergence of the distributed enterprise has undercut the IT administrator's ability to efficiently determine the specific causes of performance problems. Is the slow service caused by the processor load, poor database performance, firewall encryption or transport congestion? To isolate performance problems IT managers need to understand not just individual systems, but the performance of applications across the network from the perspective of the end-user. This requirement is blurring the distinction between systems management and network management. Similarly, the storage management market has traditionally operated separate from network and systems management. But as distributed storage architectures become more common and as needs grow for real time access to stored data, effective storage management will require integrated access to the types of information supplied by systems management and network management products. Several vendors, such as CA and BMC, already compete in each of the three sectors.

Higher relative valuations put the systems management vendors in a good position to expand their product lines into network management and storage management. The exposure of the network management vendors to the moribund telecom sector has significantly affected their recent performance, despite long-term growth rate projections similar to the other sectors. And with the IPO window effectively closed, there is an attractive opportunity to acquire strong technology from private firms that lack liquidity alternatives.

We expect to see increasing M&A activity in response to these and other trends, particularly as capital spending begins to rebound. If you would like to discuss your strategic positioning and how M&A can help you achieve your business objectives, please call us at Updata Capital.



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