# Market Roundup

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## Redmond Jumps into Security Pool

*By Jim Balderston*

Microsoft has begun internal beta testing of anti-spyware technology based on the products it acquired when it bought Giant Software, an anti-spyware vendor, in December. Microsoft plans to run its in-house beta test for a number of weeks and then begin an external beta test within the next month. According to published reports, Microsoft has maintained much of the Giant product feature set, including RealTime Detection, AutoUpdater, Spyware Scan, and the SpyNet Community network. Microsoft plans to bundle its anti-spyware offering with its own antivirus product this year. In an unrelated news item, former spam king Sanford Wallace has agreed to stop using spyware and adware to push products that claim to solve the very problems they cause. Wallace indicated he would refrain from continuing to use such software to entice users to purchase his products, which many experts allege do not remove spyware or adware from users' computers.

One has to wonder if Microsoft is going to be able to pull off this belated effort to enter the PC security market in any meaningful way. The company is widely perceived (rightly or wrongly) for developing and selling software that allows a host of different types of malicious code to infect and damage computers, be they viruses, spyware, adware, or other intrusions that can impact the user experience. With that history in place, can the company really make a plausible case for producing useful security software? Does it really make sense for Microsoft to attempt to do so, in the face of entrenched security brands like Symantec, McAfee, CA, and others?

While the obstacles to a successful entry the antivirus and anti-adware market seem high (and higher still because of Microsoft's lateness to the antivirus market) the risks of doing nothing may be higher still. As the company continues to implement its automatic update software distribution model, it must have garnered reports of problems associated with attempting to install patches or Service Packs on infected machines. In some cases, we are aware of computers that not only rejected the new software wholesale, but had to be entirely reformatted before re-installing operating systems and applications. If adware and spyware cause such negative reactions on a market-wide basis, it would certainly be in Microsoft's best interests to tackle the problem aggressively with the advantage of having its most private code base at its disposal in attempts to debug the conflicts found in Service Pack deployments. We suspect that Microsoft will begin its assault on the antivirus and anti-spyware market with extremely aggressive pricing that will allow it to pick up some initial market share from market incumbents like McAfee and Symantec. After that, we believe, the company's success in this venture will boil down to execution, something in which McAfee and Symantec have sizable head starts.

## Mac to the Masses?

*By Jim Balderston*

Apple Computer — holding its MacWorld Convention this week — is reportedly going to offer new desktop computers for less than $500, excluding a monitor. According to numerous news reports, the sub-$500 desktop would come with 256MB of RAM, a 1.25GHz PowerPC G4 processor, and a hard drive with storage capacity between 40GB and 80GB. Apple has not confirmed the availability of such a system as of press time but has not formally denied its existence. The decision to offer such a low-price system has sparked no small amount of

commentary concerning how such an offering will impact the desktop computer market, as this is the first time Apple has offered products at price points competitive with PC pricing. Final confirmation of the sub-$500 product will come at this week's MacWorld convention.

It is clearly striking that Apple Computer — and Steve Jobs, no less — would actually bow to market pricing pressure and offer a functional desktop at prices comparable to PCs with similar computing configurations. Such a thing has been completely unheard of throughout Apple's history, as the company has always argued that its superior (to Windows) technology commands a higher price. A small, but extraordinarily loyal, customer base has kept Apple not only afloat but a multi-billion dollar company despite its microscopic presence on the desktop.

So what does this new offering — assuming it is real — portend? Will thousands — or perhaps millions —- of  PC users tired of being bombarded with viruses, malware, adware, and spyware exploiting the Windows operating environment make the religious — or secular — conversion to the Mac OS? Will Jobs and Apple open a whole new market opportunity and at the bare minimum at least hold off the company's eroding desktop share (or perhaps, in a golden moment, reverse it a bit)? Well, we're not so sure that such a conversion will take place. In fact, we would not be in the least bit surprised if most or even nearly all of the sales of these sub-$500 Apple boxes end up going to existing Apple computing aficionados and acolytes, many who have been making do with increasingly rickety Macs that can no longer claim currency in the present IT climate. Another source of interest may well be those seeking an inexpensive box on which to run a Linux environment, something the Power chip-based Mac is highly qualified to do. While both of these potential markets have somewhat intriguing future growth possibilities, in our mind we are not convinced that a sub-$500 Mac box is going to move the market significantly. If we are wrong on this prediction, so be it; we look forward to Apple driving a greater percentage of desktop ownership. If we are, however, correct in this prediction, we will be the first to tell you so.

## EMC Buys SMARTS

*By Rob Kidd*

EMC has announced the acquisition of privately held SMARTS, a vendor of event automation and realtime network systems management, for approximately $260 million in cash. SMARTS fiscal 2004 revenues are projected to be approximately $60 million. EMC intends to maintain a SMARTS-knowledgeable sales force and the SMARTS White Plains, NY engineering facility with SMARTS becoming part of EMC's software group. According to the company, SMARTS's InCharge product is used by enterprises and service providers to increase availability and performance of mission-critical, revenue-generating business services, while reducing operational costs. The acquisition is expected to be completed in the first quarter of 2005.

Enterprises have an on-going concern about network management, monitoring, alerting, and fault identification and correction. This can be said as well for mission-critical enterprise servers and applications. As enterprises intensify their focus on ILM and storage management, fault detection and correction is an increasingly important strategic component. With the acquisition of SMARTS, EMC is positioning its products to address these issues while strategically positioning the company for the future. Over time, SMARTS will enable EMC storage management software to intelligently correlate, determine root cause problems, and present action plans for critical-problem solutions across storage networks, networks, servers, and applications. The uninterrupted flow and movement of information is fundamental to enterprise success; storage network health, well-being, and information management are critical components in any comprehensive ILM enterprise strategy, and EMC continues to show itself as a proponent of enterprise ILM. SMARTS and enterprise customers benefit from the acquisition as well, as EMC has the resources required to refine SMARTS technology to accommodate future storage and network and perhaps even system management capabilities. As the convergence of data and storage networks continues, SMARTS extensible technology will likely enable EMC to take advanced management and realtime analysis capabilities developed for the data network and apply them across heterogeneous storage networks.

The acquisition of SMARTS is part of the very enjoyable show EMC has been producing, allowing us to watch it morph from a hardware storage company into a dynamic "systems vendor" of sorts. With SMARTS and other

software acquisitions, such as Legato, Documentum, and VMware, EMC is turning the systems vendor rules upside down by approaching the enterprise system from the perspective of the information assets that it manages as opposed to the hardware it runs on. We may not know whether this type of vendor is a system vendor, but it is clear is the company aspires to become much more than it has traditionally been. For now, enterprises large and small seem satisfied to watch the show and reap the benefits in their data centers.

## Cisco Buys Protego, Beefing Up Its Defending Networks Initiative

*By Rob Kidd*

Cisco has announced that it will acquire privately held Protego Software, provider of security monitoring and threat management appliances, for $65 million in cash, in a deal that is expected to close by the end of January. Protego was founded in 2002 and has thirty-eight employees. The company offers a family of appliances for threat management, monitoring, and mitigation for enterprises seeking effective use of network and security devices through the combination of security event monitoring, network intelligence, context correlation, vector analysis, anomaly detection, hotspot identification, and automated mitigation capabilities. Protego's products extend Cisco's Self-Defending Network initiative that seeks to build security into the network, providing customers with end-to-end, multi-layered, and integrated security. Protego is currently a member of the Cisco partner program and the companies have already been jointly selling security products. The Protego team will be integrated into Cisco's Security Technology Group.

Until recently, the state of enterprise security has been underfunded. For many it remains so, with various security layers/components being cobbled together from vendor point products and in-house developed solutions. The new reality is that enterprise IT is experiencing explosive growth of system vulnerabilities and the risks of not complying with regulatory requirements, such as Sarbanes-Oxley, HIPAA, and the Gramm-Leach-Bliley Act that require IT operations to be able to access vulnerabilities and respond to threats and attacks in a timely manner. In light of this, companies increasingly are seeking single-source, unified, and comprehensive security solutions. Companies want the relative simplicity, completeness, and limited point accountability for failure that such solutions offer. We do not see this trend changing in the near future.

In response, we see networking and other enterprise vendors aggressively stepping up to the plate to address the evolving enterprise drive for integrated intrusion prevention systems and comprehensive layered security protection. For example, both Cisco and 3Com have made and are making strategic security acquisitions to provide the integrated solutions that enterprises seek. In addition to Protego, Cisco has recently acquired Perfigo, which secures remote desktop, laptop, mobile, and wireless endpoints; and Jahi Networks, with network management appliances that link various network devices to provide single-system management. 3Com recently acquired TrippingPoint, the security appliance vendor that provides VoIP and converged network intrusion prevention technology. This consolidation is a natural evolution of the marketplace that we believe benefits both enterprises and their vendors. For the small point security product companies, there is an exit strategy beyond the sluggish IPO market. Perhaps more importantly, these companies' technologies are put in the hands of those major industry players that are in the best position to get them placed in enterprises so that they can benefit from these security innovations. Overall, we believe this kind of consolidation is positive for the industry and something that we naturally expect to continue into the future.