Q2 2004

SOFTWARE EQUITY REPORT

A COMPREHENSIVE ANALYSIS OF SOFTWARE INDUSTRY
MERGERS & ACQUISITIONS

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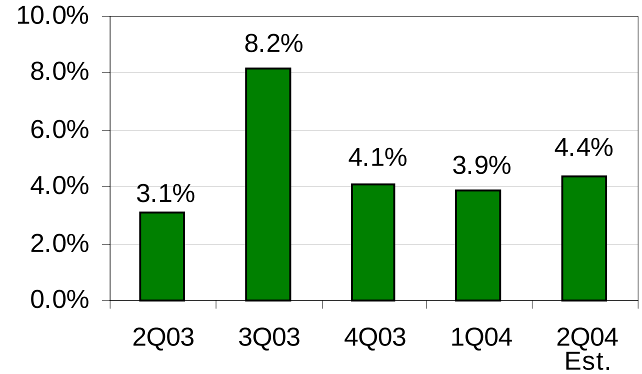
ECONOMY

The U.S. economy showed continued strength in the second quarter, but not all signs were positive. Gross Domestic Product (GDP), a key economic indicator and broadest measure of economic activity, is projected to grow at a healthy annualized rate of 4.4% in 2Q04. First quarter GDP, however, was revised downward by 0.5% to 3.9% due to weaker exports and a decline in business spending (Figure 1). According to a midyear survey of 55 forecasters by The Wall Street Journal, economists are moderately bullish on the economy's prospects, projecting 4.4% growth in 3Q04 and 4.2% in 4Q04. Personal consumption, exports, equipment and software expenditures, inventory investment and federal government spending are likely to be the key drivers. Industrial sector growth is expected to outweigh consumer-related growth.

The Conference Board's index of leading economic indicators, which gauges the economy's likely performance over the next three to six months, also forecasts a robust economy and continued expansion. The index, which grew 0.1% in April and 0.5% in May, has advanced 13 of the past 14 months. May results reflected an increase in eight of the 10 indicators used to derive the index, with consumer confidence and stock prices the only exceptions. The Board's index of coincident indicators, a gauge of current economic activity, rose 0.3% in May and an equivalent amount in April. The index tracks payrolls, incomes, sales and production. After dropping in May, consumer confidence took a surprising leap in June, reaching the highest level since mid-2002, as consumers became more confident in a sustained economic recovery.

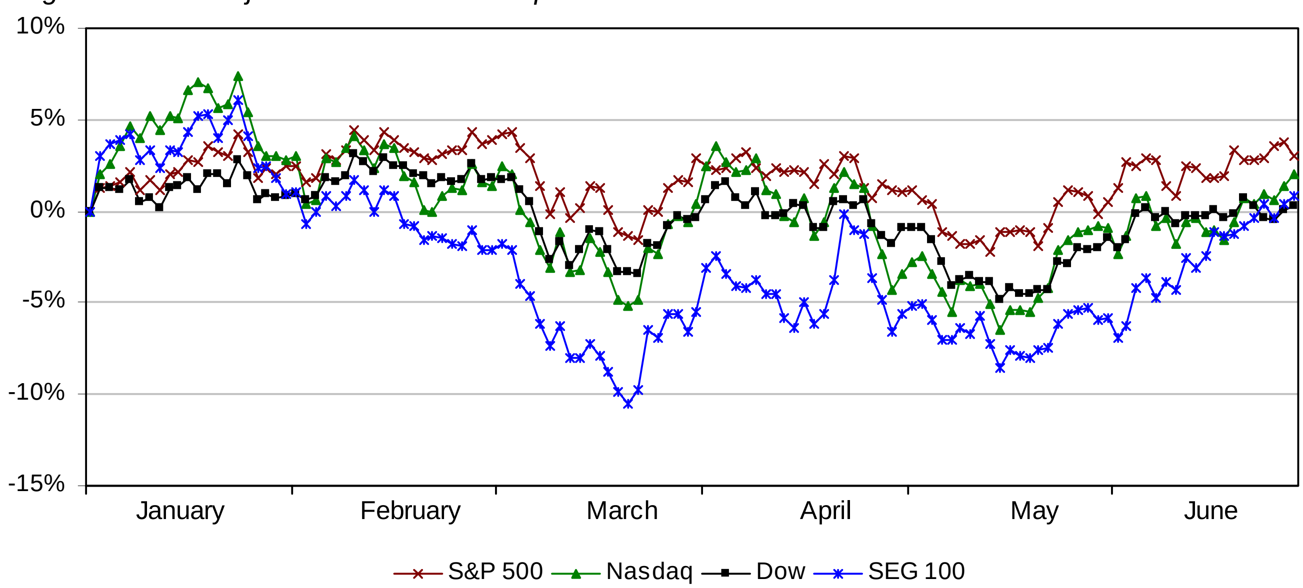
Figure 1: U.S. Gross Domestic Product



Source: Commerce Department

Despite this positive news, rising interest rates, skyrocketing oil prices and fuel costs, the war in Iraq and looming U.S. Presidential elections cast their shadow on the economy and set a sober tone on Wall Street. The Federal Reserve, to no one's surprise, raised the federal funds rate 25 basis points to 1.25% to check inflation and keep the economy from overheating. The funds rate had been at 1% since early 2003 – its lowest level since 1958 – as the Fed fought to stimulate an economy battered by a plunging stock market, a recession, terrorist attacks and war. Most economists expect a series of fund rate increases in the coming months, likely reaching 2% by the end of 2004 and 3% by mid- 2005, according to the Bond Market Association's economic advisory committee. High by today's standards, but a far cry from the 6.5%

Figure 2: 2004 Major Market Indices Compared with the SEG-100



the Federal Reserve instituted in 2001 to slow an "irrationally exuberant" economy.

Although the economy has continued to expand, generating 1.2 million new jobs this year, June's unemployment numbers generated renewed concerns about the health of the labor force. Employers added 112,000 new payroll jobs, considerably fewer than the 250,000 that economists forecasted. Unemployment remained unchanged at 5.6% for the third month. Still, June's increase was the 10th consecutive monthly improvement.

PUBLIC MARKETS

The combination of continuing economic growth, corporate profits, mixed employment signals, interest rate uncertainty, high oil prices and geopolitical instability was almost more than Wall Street could handle. U.S. Markets ended a volatile first half on a slightly positive note, with the Dow, Nasdaq and S&P 500 up 0.3%, 2.1% and 3.0%, respectively. For the quarter, these same indices were up 0.1%, 1.6% and 0.6%, respectively. Market Caps of the SEG-100, our index of public software companies, lagged for most of the second quarter, but improved in June to close up 7.3% over the first quarter and 0.8% relative to the beginning of the year (Figure 2). Other key 2Q04 measures for the SEG-100, including comparisons with the prior quarter, are enumerated in Figure 3.

On a trailing-twelve-month revenue (TTM) basis, after factoring in 1Q04 (the latest reported quarter as of this writing), overall financial performance of the SEG-100 improved, in large part due to new license revenue. Median TTM revenue increased 3% in 2Q04 compared to 1Q04, while TTM earnings increased 14.6% over the same period (Figures 4 and 5).

Figure 3: SEG-100 Key Statistics

SEG - 100						
	Median			Average		
Measure	1Q04	2Q04	% Change	1Q04	2Q04	% Change
EV/Revenue	3.0x	2.2x	-25.3%	3.8x	3.3x	-12.1%
EV/EBITDA	22.4x	21.1x	-5.8%	28.3x	26.5x	-6.5%
EV/Earnings	34.3x	29.9x	-12.7%	40.9x	35.4x	-13.3%
Current Ratio	2.1	2.2	6.2%	2.7	2.6	-3.3%
Gross Profit Margin	69.8%	68.2%	-2.3%	67.6%	66.0%	-2.4%
EBITDA Margin	11.7%	13.5%	15.4%	14.5%	15.1%	4.1%
Net Income Margin	7.7%	8.8%	14.3%	10.3%	10.9%	5.8%

Enterprise Value (EV): A measure of what the market believes a company's ongoing operations are worth (Market Cap + Debt - Cash).
Current Ratio: Measured as current assets divided by current liabilities (An indication of a company's liquidity).

Figure 4: SEG-100 TTM Revenue Growth Over the Prior Quarter

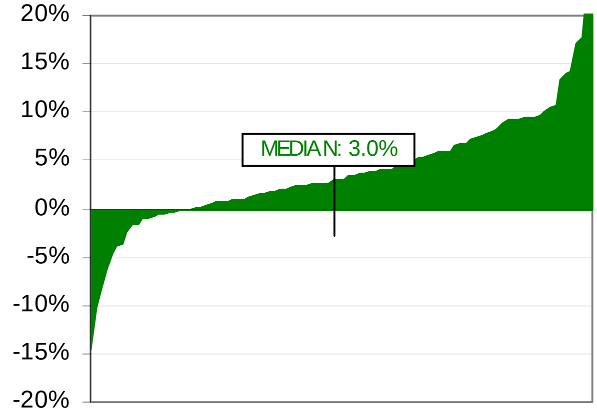
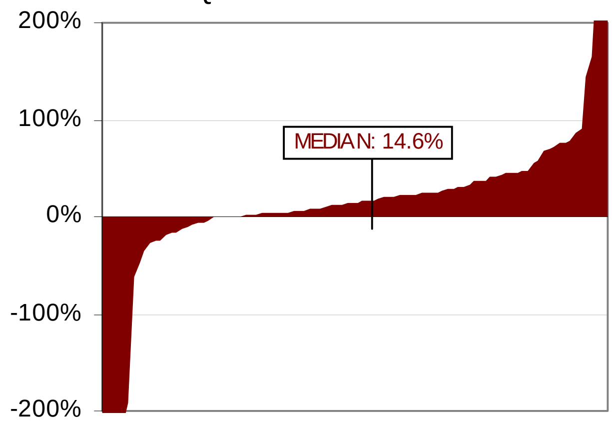


Figure 5: SEG-100 TTM Earnings Growth Over the Prior Quarter



The growth in both revenue and earnings typified companies in every software category. On a TTM basis, revenue growth was strongest in storage management (+7.7%) and business intelligence (+7.3%) with customer relationship management (+0.1%) and CAD/CAE (+0.9%) lagging far behind. Enterprise system management providers increased TTM earnings 57.8%, leading all categories, while business intelligence realized the most modest increase (+0.7%) (Figure 6).

Early reports of 2Q04 revenue by a dozen leading vendors, however, cast a shadow on an otherwise sunny picture. Veritas projected 2Q04 revenue in the $475 to $485 million range (vs. an expected $480 - $505 million) and Sybase estimated 2Q04 revenue would come in at $188

Figure 6: SEG-100 Categories

SEG - 100				
Category	Median (EV/Rev.)	High - Low (EV/Rev.)	TTM Revenue Growth	TTM Earnings Growth
Software Industry	2.2x	2.9x-2.1x	3.0%	14.6%
Business Intelligence	2.3x	3.2x-2.0x	7.3%	0.7%
CAD/CAE	2.6x	2.8x-2.4x	0.9%	14.8%
Customer Relationship Mgt.	1.7x	2.2x-1.4x	0.1%	36.3%
Developer Tools	3.3x	3.7x-2.9x	3.5%	14.0%
Document/Content Mgt.	2.0x	2.3x-1.5x	4.6%	14.4%
Enterprise Software	5.1x	5.7x-4.8x	2.5%	5.1%
Enterprise System Mgt.	2.7x	3.7x-2.2x	1.6%	57.8%
Enterprise Resource Planning	2.1x	2.3x-1.8x	3.4%	9.4%
Internet Tools	3.7x	4.2x-3.3x	3.6%	7.6%
Middleware	2.1x	3.1x-1.9x	2.4%	9.6%
Operating System	3.8x	5.4x-3.1x	3.9%	15.9%
Supply Chain Mgt.	1.9x	2.3x-1.5x	4.3%	44.2%
Security	3.3x	3.6x-3.0x	2.8%	19.8%
Storage Mgt.	5.2x	5.8x-4.8x	7.7%	8.3%
Financial	3.0x	3.3x-2.9x	3.7%	5.9%
HealthCare	1.9x	2.1x-1.7x	2.5%	20.0%
Manufacturing	1.4x	1.8x-1.2x	3.4%	12.6%

Earnings and revenue growth compares TTM to prior quarter TTM

– $192 million (vs. $199 million consensus). Even bigger shortfalls were signaled by Siebel, which estimated its 2Q04 revenue would be $301 million rather than $353 million, as well as BMC ($318 - $ 328 million vs. $345 - $355 million expected) and Compuware ($286 million vs. $313 million). Conversely, SAP reported software sales rose 15% (to $614 million) in the quarter, exceeding analysts' expectations. Cognos and Lawson, which closed their most recent quarters on May 31 also exceeded Wall Street's expectations.

We do not see the revenue shortfall of some as cause for alarm, or as a portent for the remaining two quarters. First, many companies met or exceeded expectations. Second, 1Q04 was an extraordinary quarter which compelled some to set the bar for the following quarter unrealistically high. Though investors were disappointed, it's important to note 7 of the 11 companies which were hammered for missing their 2Q04 estimates expect to report revenue equal or greater than in 1Q04. Further, 2Q04's revenue hiccup was a function of IT spending patterns, rather than IT budget cuts. Recent surveys continue to indicate IT spending will increase in the coming months (see below). And finally, 2Q04 likely reflects the recent imposition of more stringent revenue recognition policies by many of these vendors.

The markets had fewer concerns about the very largest software vendors (Figure 7). Companies with TTM revenue in excess of $1 billion posted a median 3.7x EV/Revenue ratio compared to a median 2.0x ratio for software companies with revenues less than $1 billion. Investors also remained focused on earnings. The median valuation of SEG 100 companies posting profits in 2Q04 was 3.1x, but only 1.9x for those reporting losses (Figure 8).

IT spending, a precursor of future software industry financial performance, continued to rebound in 2Q04 and appears poised for further gains in the months ahead. CIO Magazine's Tech Poll, which surveys CIOs in a broad cross section of industries, projected an 8.2% increase in IT budgets in the coming 12 months. According to the survey, much of the spending will be focused on security software,

Figure 7: SEG-100 Valuations by Company Size

	Revenue greater than $1 billion				Revenue less than $1 billion				Revenue between $200 million and $1 billion				Revenue less than $200 million				Revenue greater than zero			
	EV/Revenue		EV/EBITDA		EV/Revenue		EV/EBITDA		EV/Revenue		EV/EBITDA		EV/Revenue		EV/EBITDA		EV/Revenue		EV/EBITDA	
	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04
Upper Limit	4.9x	4.3x	26.9x	27.8x	4.2x	3.9x	34.1x	31.5x	3.3x	3.1x	36.6x	32.5x	5.4x	5.1x	34.5x	34.9x	4.3x	3.9x	31.2x	29.4x
Average	4.4x	3.9x	24.0x	24.2x	3.6x	3.2x	30.1x	27.5x	3.0x	2.7x	31.2x	27.4x	4.3x	3.7x	28.0x	27.7x	3.8x	3.3x	28.3x	26.5x
Lower Limit	3.9x	3.4x	21.2x	20.6x	3.1x	2.5x	26.1x	23.6x	2.6x	2.3x	25.8x	22.4x	3.2x	2.3x	21.5x	20.5x	3.4x	2.8x	25.3x	23.6x
Median	4.5x	3.7x	23.6x	23.3x	2.5x	2.0x	21.4x	20.3x	2.5x	2.0x	22.7x	20.0x	2.8x	2.0x	20.0x	32.4x	3.0x	2.2x	22.4x	21.1x

Figure 8: Valuations for SEG-100 Companies with Earnings Greater than Zero

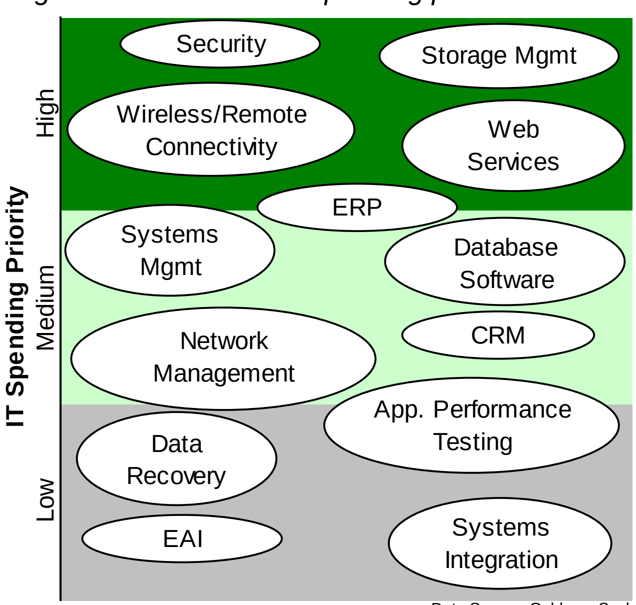
	Revenue greater than $1 billion				Revenue less than $1 billion				Revenue between $200 million and $1 billion				Revenue less than $200 million				Revenue greater than zero			
	EV/Revenue		EV/EBITDA		EV/Revenue		EV/EBITDA		EV/Revenue		EV/EBITDA		EV/Revenue		EV/EBITDA		EV/Revenue		EV/EBITDA	
	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04	1Q04	2Q04
Upper Limit	5.4x	4.5x	24.6x	23.6x	4.7x	4.8x	33.7x	31.4x	3.7x	3.4x	37.8x	32.0x	7.2x	8.8x	30.2x	36.6x	4.8x	4.6x	30.5x	28.3x
Average	4.8x	4.0x	21.8x	20.7x	4.0x	3.8x	29.6x	27.1x	3.2x	2.9x	32.1x	26.8x	5.1x	5.6x	24.9x	27.8x	4.2x	3.8x	27.4x	25.2x
Lower Limit	4.1x	3.5x	19.1x	17.9x	3.2x	2.7x	25.5x	22.8x	2.8x	2.4x	26.3x	21.5x	3.1x	2.3x	19.5x	19.0x	3.5x	3.1x	24.3x	22.0x
Median	5.0x	3.7x	20.7x	19.6x	2.9x	2.4x	21.1x	20.0x	2.9x	2.1x	22.7x	19.7x	3.8x	3.3x	19.2x	22.4x	3.3x	3.1x	20.7x	20.0x

computer hardware, storage management systems, data networking, telecom equipment, eBusiness applications and infrastructure software. Security software, computer hardware and storage systems represent the strongest growth areas with 58%, 56% and 53% of respondents indicating increased budget allocations.

Equally encouraging was Goldman Sachs' May IT spending survey, which indicated 55% of CIOs expect tech capital spending to increase in 2004 by 2.4%, up significantly from the 0.9% projection of December 2003. While less optimistic than CIO Magazine's Tech Poll, the survey projects steady growth in IT spending for both software and hardware. Longer-term, CIOs are anticipating a 5.6% increase. Security, storage management and remote connectivity remain top priorities (Figure 9).

The IPO market, spurred by Google, saw more activity than anytime in the past 4 years. A total of 127 companies filed for initial public offerings in 2Q04, up sharply from the 85 registration statements filed in 1Q04. 2Q04 saw 3 software companies begin trading (Salesforce.com, Blackboard, Motive) as well as 12 new software IPO filings. The trend is a welcome improvement over 1Q04 which had 7 filings and no software companies that began trading. Salesforce.com, a customer relationship management software provider, was the story of the quarter closing its first day of trading up 56% from its offering price despite the company's earnings restatement.

Figure 9: CIO Software Spending priorities



Data Source: Goldman Sachs

MERGERS & ACQUISITIONS: THE TRENDS

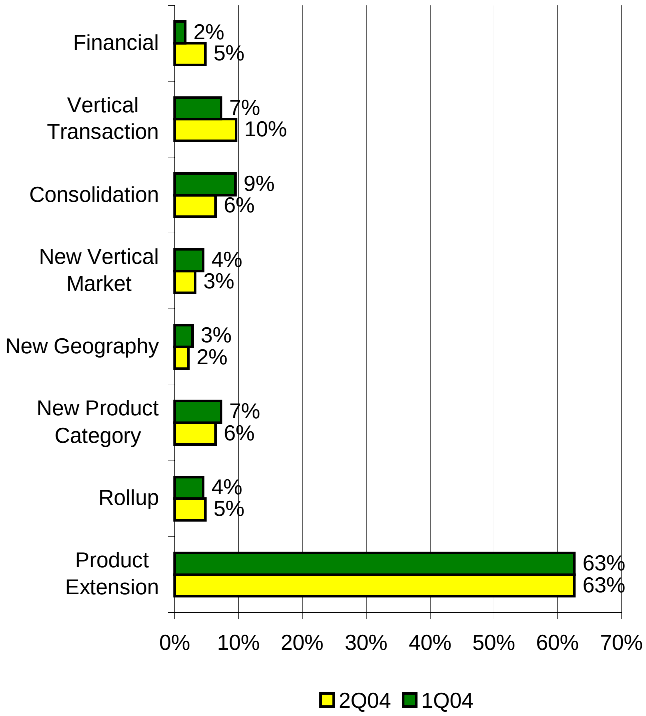
Half-way through the year, three overriding trends in software mergers and acquisitions are discernable:

1. *Logical, incremental acquisitions*. Buyers today are laser focused, more so than ever before. Virtually every public software company, and every venture-backed software company pursuing growth through acquisitions, has a well-defined acquisition strategy and is sticking to it. "Over the transom" deals are few and far between. Potential sellers able to articulate a compelling value proposition to a prospective acquirer will find it falls on deaf ears, unless the buyer has already had the same thought. Conversely, buyers are increasingly frustrated at the inability to find viable candidates that wholly satisfy their acquisition parameters.

What, precisely, are these acquisition parameters? Are there certain themes buyers today share in common? Indeed. Approximately 2 out of 3 (63%) of the 187 software transactions we analyzed in 2Q04 were deemed "Product Extensions", meaning the buyer sought an almost perfect strategic fit with its current offering and target market (Figure 10). In virtually every case, the acquired company offered highly synergistic products and compatible, incremental, value-added technology. Examples include Symantec's acquisition of high flying anti-spam software developer Brightmail; BMC's purchase of Marimba, a leader in change and configuration management; and workforce management provider WorkStream's acquisition of Kadiri, a compensation management software company. Interestingly, these Product Extension acquisitions comprised precisely the same percentage of all transactions in 2Q04 as they did in 1Q04, with most buyers simply refusing to venture far from home.

Only one in ten buyers proved more adventurous in 2Q04, with just a handful of buyers willing to acquire their way into a new vertical market (3%), new geography (2%), or a new software product category (6%). Examples include Cyberguard's acquisition of German security solutions provider Webwasher; Compuware's acquisition of IT governance software developer Changepoint; and Fair Isaac's acquisition if UK-based banking software provider London Bridge. The current dearth of new market/new category deals

Figure 10: Software Mergers & Acquisitions Deal Drivers



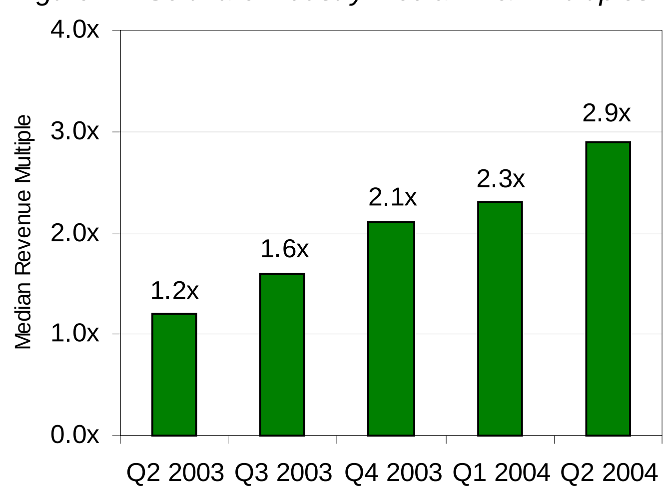
represents a significant retrenchment in buyer thinking. In 4Q03, these new market / new category buyers comprised almost 20% of all acquisitions.

2. *Heightened activity.* The number of software transactions has increased quarter-over-quarter for the past nine months and the software M&A market is gaining momentum. Software company buyers, buoyed by increased IT spending, solid revenue growth and improved profitability, are once again acquisition minded. We reaffirm our January forecast of a 10% year-over-year increase in transactions for 2004, but the number could go considerably higher. Gating factors include concerns about the economy enumerated earlier and the current refusal of most buyers to acquire outside their comfort zone. Consider, also, there are simply fewer buyers today than four years ago as a result of continuing industry consolidation, the demise of many Bubble Era public software companies and far fewer software IPOs. For the first time in a long time, demand has outstripped supply, but only for companies with technologies, products and markets deemed highly strategic by acquirers.

3. *For the chosen, high valuations.* When buyers do fall in love, however, money is no object. The median software company M&A valuation (based on equity purchase price), reached 2.9 times trailing-twelve-months (TTM) revenue in 2Q04, more than double the median M&A valuation one year ago, and a noteworthy improvement over 1Q04's 2.3x (Figure 11). In a move reminiscent of the Bubble Era, Symantec acquired Brightmail, which had filed an initial public offering registration statement, for an amount roughly equivalent to (some believe greater than) the anticipated IPO net proceeds. Though few transactions could match the 14.2x multiple Symantec paid for Brightmail, Mercury Interactive came close in acquiring Appilog for $49 million, which we estimate represents a 12x multiple. Other transactions apparently deemed truly strategic by the buyer included Compuware's acquisition of Changepoint (5x); BMC's acquisition of Marimba (4.6x); and SteelCloud's acquisition of V-One (4x).

There were fewer industry consolidation plays in 2Q04 than the previous quarter, but that may change shortly. The Oracle vs. Justice Department trial in San Francisco is providing a unique opportunity to observe the world's largest software providers as they formulate backroom strategy. Each seeks to increase the control it exercises over enterprise customers by aggressively expanding its platform to broadly encompass both applications and infrastructure. Microsoft, fearful that rival IBM would acquire SAP if Oracle was successful in taking over Peoplesoft, a key IBM's business partner, is apparently considering a possible run at Peoplesoft itself, after giving some thought to acquiring SAP. Undaunted by the backlash from its Peoplesoft takeover attempt, Oracle also appears interested in such "potential targets" as BEA Systems, Business Objects, Siebel and Lawson. In response, IBM has expressed interest in gaining

Figure 11: Software Industry Median M&A Multiples



more control over the software sector, either by direct investment in the likes of Peoplesoft or through outright acquisitions. It's beginning to sound like a Tom Clancy novel.

Industry consolidation is practically a law of nature. However our somewhat contrarian view is that consolidation among the industry's largest players will not occur on the scale many predict. The largest enterprise, government and institutional customers, still smarting from huge ERP and CRM investments which did not yield the anticipated ROI, will vigorously resist being dominated by a few players that control both applications and infrastructure. Other negating factors include clashing egos, reluctant Boards, relatively high current valuations, the prospect of massive layoffs and a historically poor track record for industry mega-mergers.

Always interesting is the ebb and flow of M&A activity among different software product categories. There was a flurry of activity in enterprise resource planning. Customer relationship management software companies were also popular targets, accounting for 9% of all 2Q04 software M&A activity (Figure 12). Business technology optimization (a subcategory of enterprise system management) was a "must have" for many of the leading tools and infrastructure players, with 5 deals this quarter. IBM bought BMC competitor Candle Corp. for an estimated $475 million prompting BMC to respond by acquiring Marimba, not a month later, for $186 million. Business process management (a/k/a business activity monitoring or business performance measurement), is also attracting attention from buyout firms and business intelligence software providers. We counted 2 deals in this space during the quarter (Onyx/Visuale and Tibco/Staffware).

Expectedly, security software remains one of the most active acquisition arenas. An array of security software vendors were targeted and acquired in 2Q04, including Brightmail/Symantec, Webwasher/Cyberguard, V-One/SteelCloud, Magnifire/F5 Networks and Trio Security/Symbol Technologies.

MERGERS AND ACQUISITIONS: THE NUMBERS

U.S. merger and acquisition activity in the second quarter of 2004 showed improvement over the equivalent quarter a year ago, and exit valuations continued to ramp. Domestic M&A activity in 2Q04 across all industry sectors totaled 2,517 deals aggregating $153 billion (Figure 13). Relative to 2Q03, the number of deals increased by 18%, while total dollars spent increased 39% over the same period. At the current run rate, 9,980 deals aggregating $769 billion will close in 2004.

Figure 12: Software Mergers & Acquisitions by Category

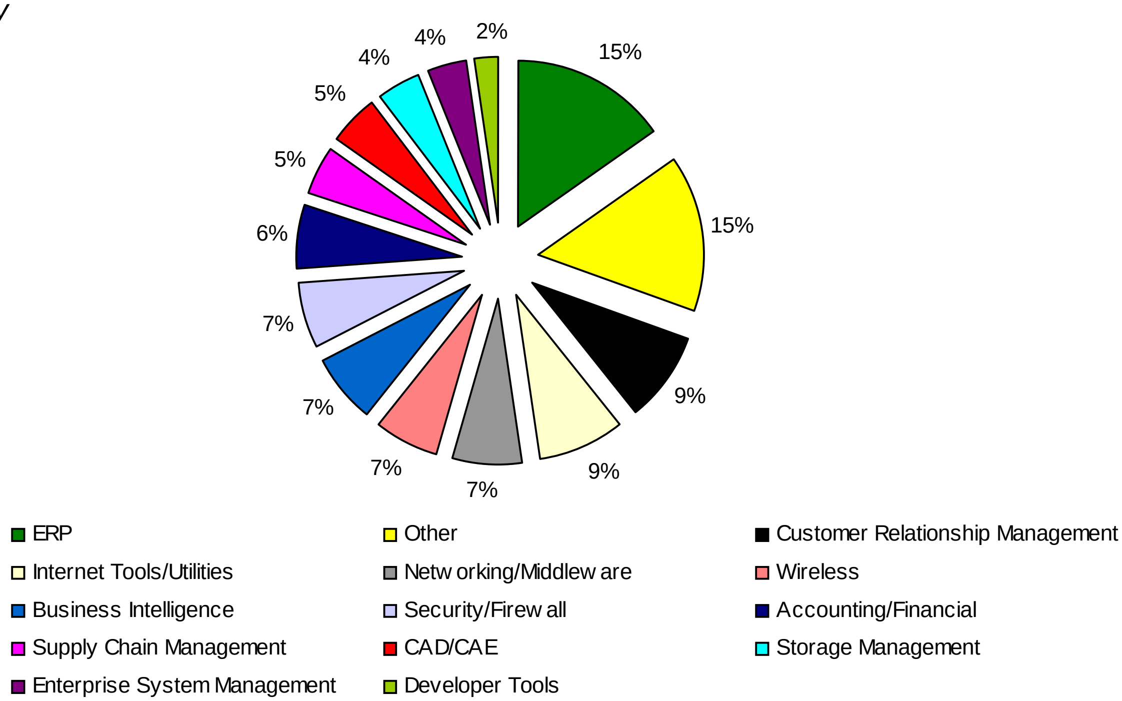


Figure 13: U.S. Merger & Acquisition Activity

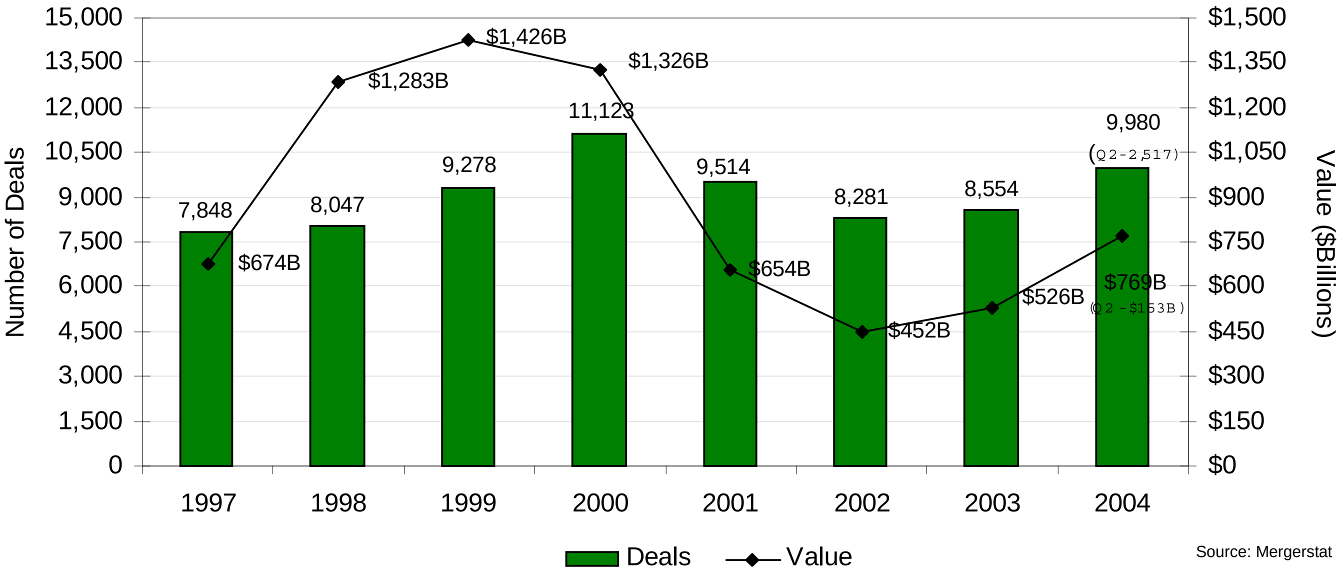
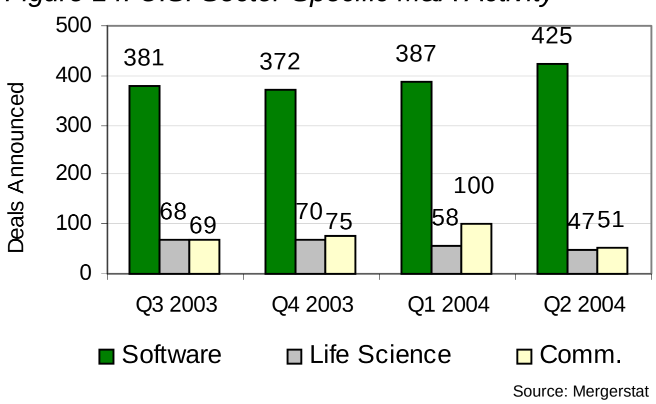


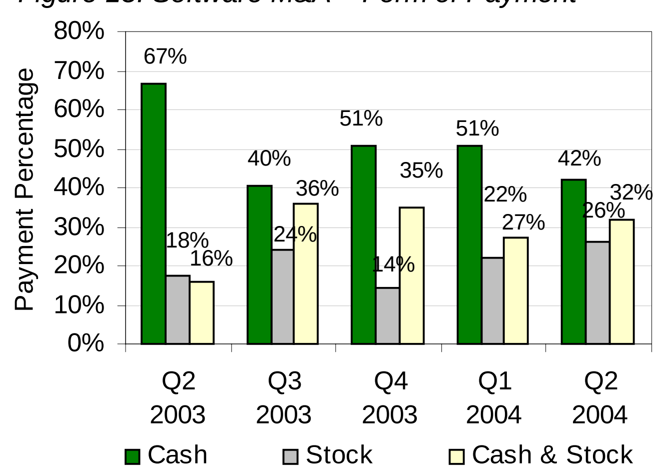
Figure 14: U.S. Sector-Specific M&A Activity



Software continued to lead all other industries with 425 transactions, representing approximately 17% of all U.S. M&A activity this quarter (Figure 14). Acquirers spent $8 billion on software businesses in 2Q04, seemingly a precipitous decline in M&A dollar volume when compared to the $15.4 billion recorded in 2Q03. But with no mega-deals (> $1 billion) in 2Q04 and 3 mega-deals in 2Q03 totaling $12.7 billion, it's clear substantially more dollars are being spread across a significantly greater number of transactions. Median software company exit valuations have now increased quarter-over-quarter for six consecutive quarters. The median software company M&A valuation (based on equity purchase price), reached 2.9 times trailing-twelve-months (TTM) revenue in 2Q04, more than double the median M&A valuation of one year ago, and a noteworthy improvement over 1Q04's 2.3x (Figure 11).

With stock prices giving up little of their 2003 gains, stock continued to be a popular form of deal currency. Public companies appeared eager to use their higher priced stock to finance acquisitions, and sellers saw sufficient upside to gamble. As a result, stock comprised all or part of the deal consideration in 58% of 2Q04 transactions, as contrasted with 33% of buyers who took stock in 2Q03. Stock-only deals comprised 26% of 2Q04 transactions, compared to 22% in 1Q04 and 18% in 2Q03 (Figure 15).

Figure 15: Software M&A – Form of Payment



MERGERS AND ACQUISITIONS: MOST ACTIVE BUYERS

Multi-transaction buyers proliferated in the first quarter, but decreased in the second quarter of 2004. Some of the quarter's most active buyers:

autobytel.com
- iDriveonline
- Stoneage

C-COR.net
- Alopa Networks
- Stargus

IBSG International
- newGov
- RedHand

IBM
- Candle
- Schlumberger (Business Unit)

Mentor Graphics
- 0-In Design Automation
- Atair GmbH

Procera Networks
- EZ2
- Ezyte

Sybase
- Dejima
- XcelleNet

Workstream
- Kadiri
- PeopleView (HCM Tools division)

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We invite your feedback. For questions or comments about our reports, please contact David Legacki, dlegacki@softwareequity.com.

MERGERS AND ACQUISITIONS: SELECT 2004 SOFTWARE M&A TRANSACTIONS

Buyer	Seller	Price	Revenue	Mult.	Currency
BMC Software (NYSE: BMC)	Marimba (Nasdaq: MRBA)	$185,900,000[EV]	$40,880,000	4.6x	Cash
Category: Systems Management Software					

SEG's Insight:
BMC Software enhances its Business Service Management (BSM) solutions by acquiring Marimba, a developer of change and configuration management software. The deal, in which BMC paid a hefty 70% premium, is BMC's third in four months. Marimba, together with Magic Solutions, will be integrated into the Remedy product line (acquired from Peregrine in a bankruptcy sale). BMC wants to enhance its BSM offering in response to a growing customer demand for IT management solutions that are aligned with enterprise business goals (the same as Mercury Interactive's Business Technology Optimization strategy noted below). Two of Marimba's rivals, ON Technology and Novadigm, were bought by Symantec and Hewlett-Packard respectively, while IBM bought BMC competitor Candle Corp. While Marimba stock has lost 80% of its value since 2000, news of the deal sent Marimba up more than 60%, its highest price in almost 4 years.

Buyer	Seller	Price	Revenue	Mult.	Currency
Compuware (NASDAQ: CPWR)	Changepoint	$100,000,000	$20,000,000	5.0x	Cash
Category: IT Governance Software					

SEG's Insight:
Compuware, provider of systems software products for application development and maintenance, acquires Changepoint, a developer of IT governance software to quantify and measure the business value of IT investments. The deal comes at a good time for both parties. Compuware's revenue declined 20.4% in 2003, with new license revenue accounting for less than 20% of total sales, while Changepoint's revenue was flat in 2003. Proving patience can be a virtue, the $100 million all cash purchase price dwarfs the $45 million Changepoint hoped to raise when it filed for an IPO in March 2000, but quickly rescinded in April 2000. This is Compuware's second acquisition in 2004, and likely not its last with $367 million in cash on its balance sheet and a need for other sources of revenue in a competitive market.

Buyer	Seller	Price	Revenue	Mult.	Currency
CyberGuard (NASDAQ: CGFW)	Webwasher AG	$40,000,000	$7,700,000	5.2x	Cash, Stock
Category: Security Software					

SEG's Insight:
Cyberguard, a firewall and VPN vendor, continues to expand into international markets, this time by acquiring Webwasher, a German security solutions provider. Webwasher, a technology spin-off of Siemens AG, holds 40% of the Web filtering market in Central Europe and was recently named the fastest-growing provider of Web filtering solutions by IDC. Webwasher more than doubled its revenues from 2003 to 2002 and hopes for more of the same, in light of an earnout package worth an extra $10 million in stock. Cyberguard has also seen impressive growth with a 48% year-over-year revenue increase and record sales of $13 million in 1Q04. In 2003, Cyberguard acquired an Australian Linux security and firewall provider (SnapGear) and a network hardware security solution from NetOctave.

Buyer	Seller	Price	Revenue	Mult.	Currency
Fair, Isaac and Company (NYSE: FIC)	London Bridge (LSE: LNB)	$259,249,268[EV]	$69,019,808	3.8x	Cash
					Category: Financial Services Software

SEG's Insight:
Fair Isaac, developer of credit scoring systems and statistics-based predictive tools for the consumer credit industry, acquires London Bridge Software, a UK based provider of banking, credit management, and mortgage lending management software. Fair Isaac paid a 54% premium for a company which saw revenue decrease 6.3% in its last fiscal year, although cost cutting measures helped improve EBITDA from a $94 million loss in 2002 to almost a $1 million gain in 2003. With license revenue declining year-over-year since 2002, maintenance and e-commerce services have comprised a growing percentage of London Bridge's revenue. For investors, the purchase price is quite a let down from London Bridge's peak valuation in March 2000 of $3.8 billion. London Bridge shares increased 52% on news of the deal.

Buyer	Seller	Price	Revenue	Mult.	Currency
Internet Commerce Corporation (NASDAQ: ICCA)	Electronic Commerce Systems	$2,500,000	$1,700,000	1.5x	Stock
					Category: EDI Software

SEG's Insight:
Internet Commerce Corporation (ICC), provider of an internet based value-added network for XML and EDI file transfers, acquires Electronic Commerce Systems (ECS), developer of EDI software and internet-based application services. ICC, a small player seeking a foothold in the EDI market, valued ECS' presence in retail. ICC is hoping to boost revenue, which decreased 15% over its last fiscal year, by acquiring such blue chip ECS customers as Wall-Mart. ICC's low cost internet approach to EDI has caused competitors to refuse data exchanges with EDI systems. In 2000, ICC shares traded at $90; today its shares trade at $1.17.

Buyer	Seller	Price	Revenue	Mult.	Currency
Mercury Interactive (NYSE: MERQ)	Appilog	$49,000,000	$4,000,000 (Estimate)	12.3x	Cash
					Category: Systems Management Software

SEG's Insight:
With its fourth acquisition in twelve months, Mercury Interactive continues to move beyond applications and testing into business technology optimization (BTO) by acquiring Appilog, a provider of automated application matching software to manage dependencies between enterprise applications and supporting infrastructure. Appilog, together with Kintana (acquired by Mercury in 2003 for $267.5 million) will establish Mercury as a leading provider in BTO, a market that is projected to grow from $3.3 billion in 2004 to $6 billion in 2007. Appilog raised $13 million in two rounds since its founding in 2000 (Poalim Ventures, Delta Ventures, Cedar Fund, Genesis Partners).

Buyer	Seller	Price	Revenue	Mult.	Currency
Pitney Bowes (NYSE: PBI)	Group 1 Software (Nasdaq: GSOF)	$263,410,000[EV]	$109,970,000	2.4x	Cash
					Category: Customer Relationship Management

SEG's Insight:
Pitney Bowes, a vendor of mailroom equipment and mailing solutions, grows its document management business by acquiring Group 1 Software, a developer of direct mail, direct marketing and customer communications software. The purchase price, a 40% premium over Group 1's closing stock price before the deal was announced, is the largest of Pitney Bowes 35 acquisitions (totaling $1.3 billion) since 2001. As a result, Standard & Poor's Rating Services has placed Pitney Bowes on "Credit watch with negative implications", citing concerns about the company's leverage profile, in large part due to its acquisition strategy. Group 1 has been struggling, with revenue decreasing 4.2% and earnings decreasing 50.3% in its last fiscal year. Investors responded favorably to the deal, driving Group 1's closing share price up 38% from its previous close.

Buyer	Seller	Price	Revenue	Mult.	Currency
Platinum Equity Holdings	CompuCom Systems (NASDAQ: CMPC)	$141,176,000[EV]	$1,420,000,000	0.1x	Cash
					Category: Computer and IT Services

SEG's Insight:
Technology buyout firm Platinum Equity, adds to its portfolio of operating companies by picking up computer and IT consulting firm CompuCom Systems. Safeguard Scientifics, a buyout firm that owns 58% of CompuCom and has invested $67 million in the company since 1984, stands to make $128 million on the deal. The purchase price, a discount of 5% over CompuCom's pre-announcement closing price but a multiple of EBITDA in line with the current market, did not sit well with investors, who drove CompuCom's share price down 7% on the news. Platinum plans to take the company private and operate it as a standalone company.

Buyer	Seller	Price	Revenue	Mult.	Currency
Siebel Systems (Nasdaq: SEBL)	Eontec Limited	$70,000,000	$15,000,000	4.7x	Cash
					Category: Banking Software

<u>SEG's Insight:</u>
Siebel Systems acquires Ireland-based Eontec, a provider of multichannel retail banking solutions, its nineteenth acquisition since 1997 and third since last fall. Siebel has targeted banking as a key vertical for its CRM offering, but needed a multichannel solution to compete effectively in the sector. For Eontec, the acquisition comes none too soon, after struggling to penetrate the U.S. market and cutting its workforce by half since 2001. In addition to $70 million cash payment at closing, the deal includes a possible $60 million earnout, a veritable pot of gold at the end of the rainbow. Since its founding in 1994, Eontec has received at least $35 million in VC financing from Warburg Pincus, ICC Venture Capital, and other investors.

Buyer	Seller	Price	Revenue	Mult.	Currency
SteelCloud (Nasdaq: SCLD)	V-One (Pink Sheets: VNEC)	$16,000,000	$4,000,000	4.0x	Stock
					Category: Network Security Software

SEG's Insight:
Network security solution provider SteelCloud acquires V-One, a developer of SSL VPN security software in an all stock transaction. V-One, which claims to have spent $65 million in research and development, has failed to significantly grow revenue or reach profitability during the past 5 years. With only $28 thousand in cash remaining on its balance sheet, V-One had little choice but to sell. SteelCloud has had problems of its own in this highly competitive space, with revenue declining 42% over the last two quarters. The network security market is dominated by Cisco with growing competition from Juniper, which is capitalizing on its recent acquisition of NetScreen.

Buyer	Seller	Price	Revenue	Mult.	Currency
Sybase (NYSE: SY)	XcelleNet	$95,200,000	$30,000,000	3.2x	Cash
					Category: Mobile Middleware

SEG's Insight:
Sybase accelerates its push into mobile middleware with the purchase of mobile and remote device management provider XcelleNet. Sybase revenue slid from $964 million in 2000 to $778 million in 2003 after losing a chunk of its database business to Microsoft SQL Server. It's a big multiple, and a big bet for Sybase, which may use 17% of its total cash assets to aggressively grow a business unit (iAnywhere) that contributed 11% of total revenue last year. The seller, Francisco Partners, bought XcellNet in 2000 from Sterling Commerce for $50 million, a few years after Sterling acquired it for $200 million.

Buyer	Seller	Price	Revenue	Mult.	Currency
Symantec (Nasdaq: SYMC)	Brightmail	$370,000,000	$26,000,000	14.2x	Cash
					Category: Anti-Spam Software

SEG's Insight:
Brightmail, a high flying anti-spam provider, opts for a $370 million purchase by Symantec in lieu of a planned IPO, and receives a valuation reminiscent of days gone by. Despite significant revenue growth in the past four years, Brightmail posted its first profit ($1.2 million) in fiscal year ending January '04, with revenue jumping from $12 million to $26 million. Symantec has had a financial interest in Brightmail since 2000, when it led a fourth-round ($35 million) of equity investment, paying $18 million for an 11% stake (giving Brightmail a $160 million post-money valuation). Brightmail receives 85% of its revenue from only 5% of its customer base, with Microsoft alone accounting for more than 10% of total revenue. Microsoft is now expected to build its own anti-spam software, as well as an antivirus offering that will compete with Symantec.

Buyer	Seller	Price	Revenue	Mult.	Currency
Systems Union Group (London AIM: SUG)	Lasata	$18,500,000	$10,800,000	1.7x	Cash, Stock
					Category: Business Intelligence

SEG's Insight:

Systems Union Group (SUG), a UK based provider of BI, financial and business management software, acquires Lasata, an Australian developer of data analytic and business intelligence software capable of handling multiple formats and disparate applications. Lasata, which has OEM'd its software to SUG for several years, will be integrated into the business intelligence division, formed in 2003 following SUG's acquisition of MIS (based in Germany). SUG's Business Intelligence division contributes some 32% of its revenue. Lasata's 75,000 users in 158 countries may provide much needed cross-sell opportunities for SUG, which saw new license revenue decline for the past 2 years to 29% of total.

Buyer	Seller	Price	Revenue	Mult.	Currency
TIBCO Software (NASDAQ: TIBX)	Staffware (London: STW)	$217,000,000	$75,000,000	2.9x	Cash, Stock
					Category: Logistics Software

SEG's Insight:

Tibco Software, provider of business integration software, acquires Staffware, a UK-based provider of business process management software used by banks for loan approvals and mortgage applications. The purchase price represents a 40% premium over Staffware's closing price preceding announcement of the deal, prompting investors to drive Staffware's share price up 36% the next day. Tibco, which saw revenue decrease 3.4% last year, was attracted by Staffware's growth and 20% EBITDA. Equally attractive was Staffware's strength in banking and insurance, and established presence in Europe and Asia Pacific.

Buyer	Seller	Price	Revenue	Mult.	Currency
Trinity Ventures	SciQuest (Nasdaq: SQST)	$12,170,000[EV]	$6,630,000	1.8x	Stock, Cash
					Category: Supply Chain & Logistics Software

SEG's Insight:

Trinity Ventures, a Menlo Park based venture capital firm, acquires SciQuest, a provider of procurement software for the life sciences and education markets. SciQuest reported a net loss of $16.6 million on revenue of $6.6 million in 2003, compared with a stunning loss of $70.8 million on revenue of $6.5 million in 2002. SciQuest shares traded as high as $90 shortly after the company went public in 1999, but plummeted to 65 cents in May 2003 before it instituted a 7.5-for-1 reverse split, pushing the stock price to $4.87 post-split. The purchase price represents a 55% premium over SciQuest's closing price before announcement, which surged 47% on news of the deal.

Buyer	Seller	Price	Revenue	Mult.	Currency
WebMD (NASDAQ: HLTH)	Dakota Imaging	$40,000,000	$17,500,000	2.3x	Cash, Stock
Category: Healthcare Management Software					

SEG's Insight:
In its fourth acquisition in less then a year, WebMD bolsters its transaction services department (WebMD Envoy) by acquiring Dakota Imaging, provider of automated healthcare claims processing technology and services. Dakota has grown its revenue an estimated 18.2% YOY and posted an EBITDA of $2.8 million in 2003. Dakota hopes for more of the same, since the deal includes a potential $25 million earnout. With $846 million in cash, plus the recent placement of $100 million worth of convertible debt with a CalPERS-backed fund, look for more acquisitions in the near future by WebMD.

Buyer	Seller	Price	Revenue	Mult.	Currency
WorkStream (NASDAQ: WSTM)	Kadiri	$12,500,000	$6,400,000	2.0x	Stock
Category: Enterprise Compensation Management Software					

SEG's Insight:
WorkStream, a provider of hosted Enterprise Workforce Management software, acquires venture capital backed Kadiri, a developer of Enterprise Compensation Mangement software. WorkStream, with less than $4.4 million in the bank and $17 million in revenue, convinced Kadiri shareholders to take $12.5 million in WorkStream stock and potentially $2.7 million more in earnout. In April, WorkSteam acquired PeopleView, an OTC traded workforce management software provider. The Enterprise Compensation Management space has been unusually active, with Callidus (NASDAQ: CALD) going public in November 2003, and Advanced Information Management being acquired by Authoria in May, 2004.

EV: Enterprise value

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