

Bank of America Equity Research HEADS UP!

May 17, 2006

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Infrastructure & Systems Management Software

- ✔ Yesterday, we held some client meetings with Olliance Group, a leading Silicon Valley management consulting firm that focuses on helping clients capitalize on the strategic and technological benefits of open-source software. Olliance has completed more than 60 open-source engagements and their client list includes many of the largest hardware and software companies, as well as a number of open-source-focused start-ups and large enterprises.
- ✔ In general, Olliance continues to see a ground swell of interest around open-source products from enterprise buyers and, in their view, most enterprises are much more comfortable with the idea of using an open-source product today as compared to 12 months ago. As a result, the focus of the buyer has turned to how best to utilize open source and how to best manage some of the risks associated with an open-source strategy.
- ✔ From an adoption standpoint, infrastructure components such as the operating system, web servers, middleware, and databases remain the most fertile markets for open-source adoption, but there is progress being made in certain application segments such as business intelligence and CRM.
- ✔ Olliance sees Red Hat (RHAT, \$29.15, Neutral, Target Price: \$28.00) remaining the runaway leader in Linux and continuing to benefit from the secular growth of Linux in the server operating system market. The integration of JBoss' sales and development teams as well as the potential for pricing pressure on renewals were some of the risks that were noted.
- ✔ Novell' s (NOVL, \$7.99, Buy, Target Price: \$10.00) ability to execute and market SuSE effectively remains the primary challenge for its open-source strategy, from Olliance' s perspective. We would concur with this view and, as a result, believe that change at the management level would potentially be viewed as a positive for the stock and the company' s prospects in the open-source market.
- ✔ Bottom line, it appears that open source is continuing to make progress in many areas within the infrastructure software universe and, while the impact on many of the commercial software vendors will be modest in the near term, we believe that more infrastructure software companies are going to have to start thinking about ways to adjust their business models in order to account for the potential risk from open source. While we believe open source is a somewhat frustrating trend for investors, given that there is only one pure-play investment vehicle (Red Hat) and just a couple of indirect plays (Novell, Concurrent Computer, among others), it remains a trend that we believe investors should continue to pay attention to, as we believe it will continue to become more disruptive to the traditional software model going forward, especially as more open-source projects gain credibility within the enterprise and mid-market.

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