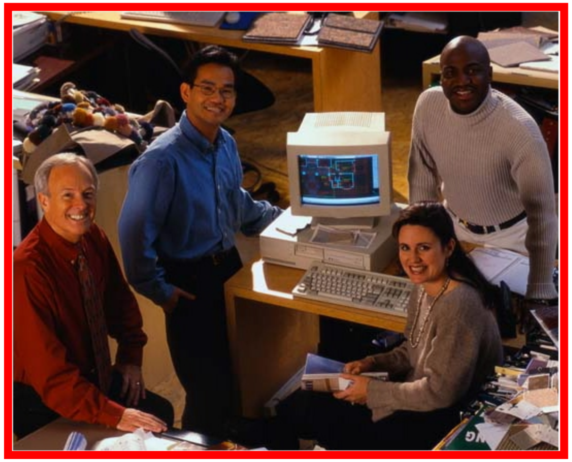
A Candid Look at the SMB Market



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IntelliClear Company Profile – Bringing Together IT Industry Experience and Market Research Expertise.

- IntelliClear was founded with the *vision* of bringing together successful IT industry experience, with market research expertise, to create a company that can "apply" market intelligence to create real-world solutions

- IntelliClear provides primary market research services (focus groups, surveys, conjoint, one-on-one interviews, etc.), along with data synthesis and other business consulting services.

- IntelliClear's founder, *Eric Shuster*, is a 24 year IT industry veteran with experience in manufacturing, product development, MIS, marketing, sales, international operations, and market research.

- Managing Director, Dr. *Alex Kalamarides*, is a former McKinsey consultant and Compaq executive focusing on strategy, business planning, finance, data synthesis, international research, and program implementation.

- Since its inception, IntelliClear has successfully completed a number of significant *research projects* with some of the IT industry's leading companies.

This Presentation Demonstrates What Can be Done with FREE Data. Imagine the Possibilities with Other Data.

- IntelliClear is NOT a syndicated market intelligence firm that collects and distributes data onto charts in hopes of the reader drawing relevant conclusions.

- IntelliClear is a market research and business consulting firm that specializes in data synthesis and application in order to bring new perspectives and *specific insights* to existing and proprietary data.

- This presentation is made up ENTIRELY of SMB data from the PUBLIC DOMAIN (press releases, magazine articles, white papers, internet articles, etc.). As such, IntelliClear can distribute this presentation without any royalty charges or licensing fees.

- The data utilized has been objectively selected across a number of different sources, each one chosen for its relevance to the particular subject matter.

- SMB definition: SMBs are generally defined as companies with 1-999 employees; however, that definition is expanded by some of the sources to be those with less than $500 million in revenue. Where possible, small businesses have been separated to bring clarity to the data and results.

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Global SMB: *A Huge Market That Spends a Lot of Money on IT*

- **Current projections place the size of the global SMB market at 80 million SMBs.**
- **SMBs, for the purposes of this presentation, exclude home based business and only include IT addressable businesses with one or more employees.**
- **IntelliClear believes the number of global SMBs to be substantially overstated by as much as 20 to 25%.**
- **This lower projection is based upon examining the number of employees, GDP, and other relevant factors.**
- **By 2006, global SMB IT and Telecom spending is projected to hit $1 trillion.**

Number of SMBs Worldwide by Region, 2003 & 2008 (in thousands)

	2003	2008
Japan	1,682	1,818
Asia-Pacific (excluding Japan)	27,655	32,846
Eastern Europe, ME, & Africa	14,188	16,053
Western Europe	13,480	14,101
Latin America	11,773	12,633
North America	8,684	9,551
Total	**77,462**	**87,002**

Source: AMI-Partners, July 2004

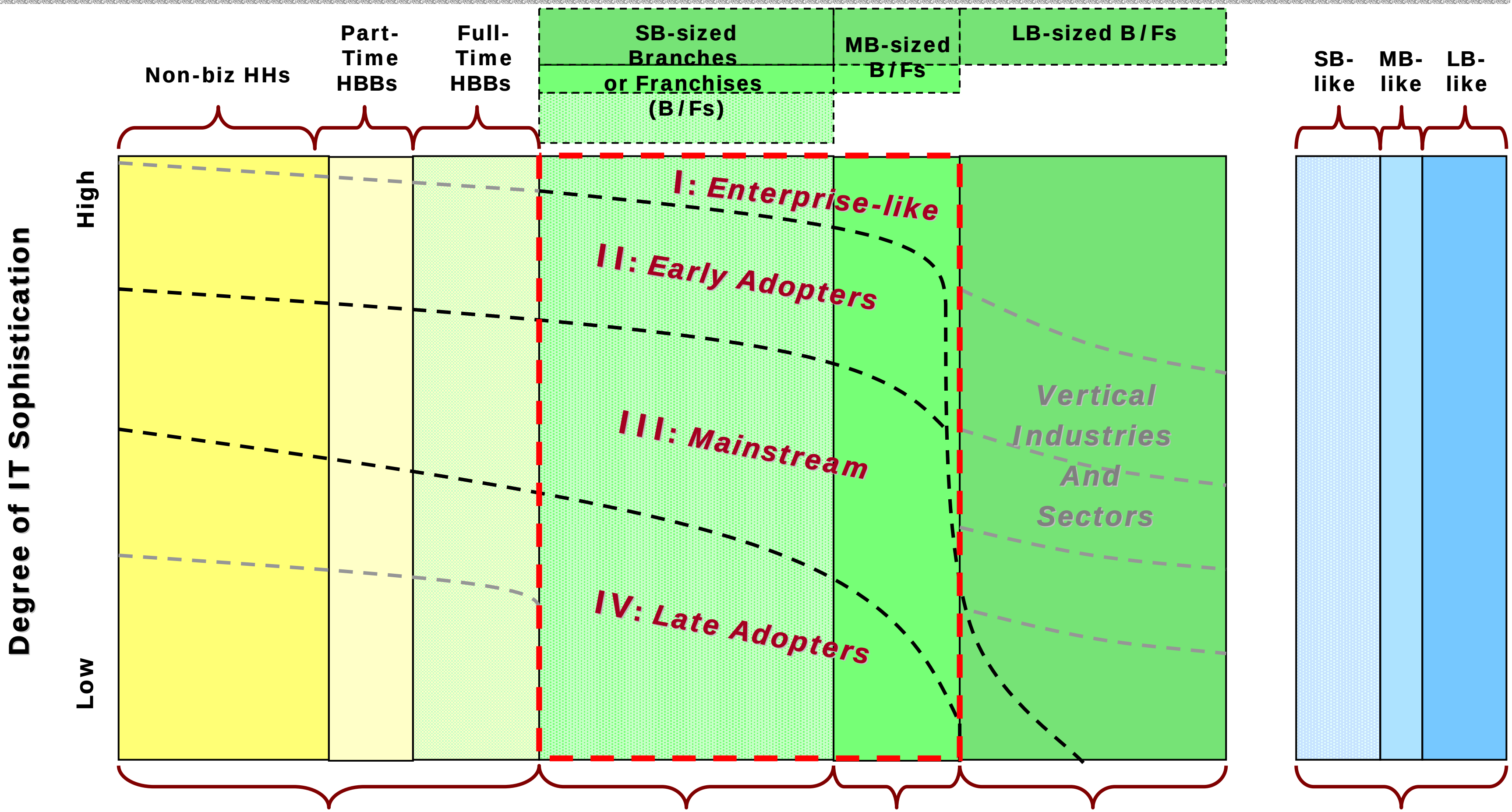
SMB IT & Telecomm Spending Worldwide by Region, 2003 & 2008 (in billions)

	2003	2008
Japan	$54.88	$72.23
Asia-Pacific (excluding Japan)	$170.43	$288.32
Eastern Europe, ME, & Africa	$45.46	$79.13
Western Europe	$228.53	$286.86
Latin America	$67.72	$98.99
North America	$243.01	$323.17
Total	**$810.03**	**$1,148.70**

Source: AMI-Partners, August 2004

Demographic Map for IT Usage: *Example (USA)*

Four segments define the SMB universe: an Enterprise-like segment is complemented by three segments at different positions on the IT adoption and usage axis, each with unique characteristics and implications for marketing.



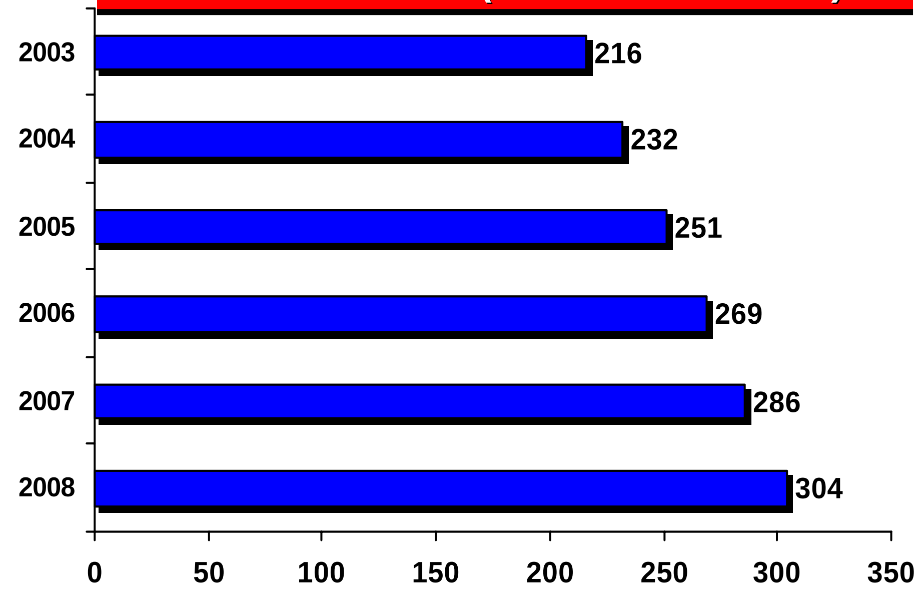
Market:	Households (HHs)	SBs (1-99, non HBB)	MBs	LBs (1000+)	Non-business (Government, Non-Profit, etc.)
# of Customers (PC-owning Entities, 2004):	• 73 million - 59 mln. non-biz - 8.5 mln. Part-HBB - 5.5 mln. Full-HBB	• 5.7 million *Note: excludes 2.0 mln. SB-sized B/Fs*	• 98,000 *Note: excludes 72,000 MB-sized B/Fs*	• 8,600	
# of Actively Used PCs (Million, 2004):	• 153 - 133 “consumer” - 20 HBB-related	• 46	• 19	• 46	

HBB: Home-Based Business

PC Installed Base: *251 Million PCs, But Still Room for More*

- **The worldwide SMB installed base of PCs in 2005 is projected to be 251 million.**
- **PC penetration among US SMBs is approaching its natural saturation point (94%), as many SMBs are in vertical industries that may not require PCs.**
- **However, in emerging countries PC penetration is far lower, signaling a vast opportunity that can be realized as these emerging economies grow and their receptiveness towards IT increases.**

Installed Base of Personal Computers at SMBs Worldwide (in millions of units)



Comparison: Global PC Penetration in 2005

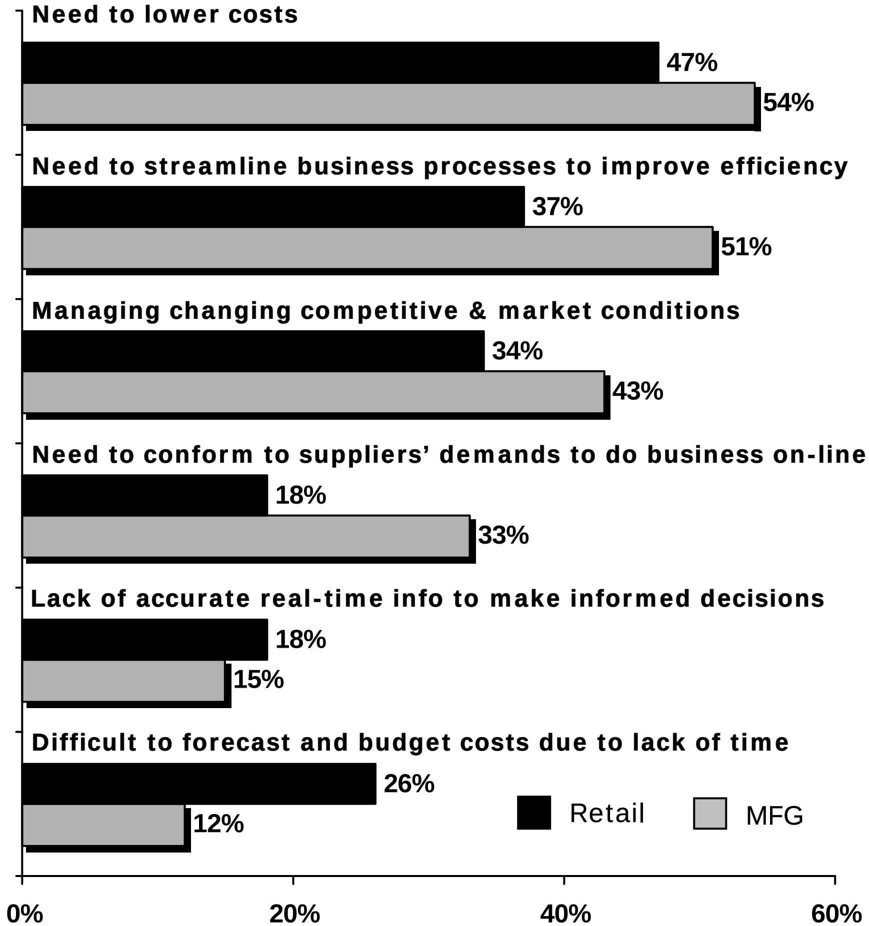
US:	94%
Russia:	58%
China:	46%
India:	34%

Sources: ***AMI-Partners, July 2004***

US SMB Executives: *A Weary Crowd in Need of IT Solutions*

- **MFG (Manufacturing) and Retail make up a large portion of US SMBs. As such, their challenges will be reflective of other vertical industries in the SMB space.**
- **There are a variety of challenges identified across a wide range of business related issues.**
- **There is an opportunity for IT solutions to help SMB executives address each of the major challenges.**
- **These challenges should be reflected in technology vendor messaging so as to how they SMBs can benefit from investing in IT.**

Major Business Related Challenges by US SMBs in MFG & Retail Industries



Source: *Yankee Group, March 2004; n=600 SMBs with Internet Access*

US SMB IT Executives: *A Frustrated Crowd in Need of Help*

- The top barriers identified by US SMB CIOs reflect confusion and frustration, along with a corresponding desire for direction and a clear set of performance metrics.
- The top priorities identified by US CIOs reflect a focus that is less on the technical side of IT, and more on the business side of IT and how IT can benefit the business.
- Vendors need to be in a position to help SMB IT decision makers with IT strategy and application, while proposing solutions that meet the budget and business requirements.

Top Five Barriers to Their Effectiveness According to US SMB CIOs, 2004

1. Inadequate budgets
2. Unrealistic or unknown expectations from the business
3. Shortage of time for strategic thinking/planning
4. Risk and uncertainty due to volatile economic conditions
5. Lack of alignment between business goals and IT efforts

Source: *CIO Magazine, December 2004; n=544*

Top Five Management Priorities to US SMB CIOs, 2004

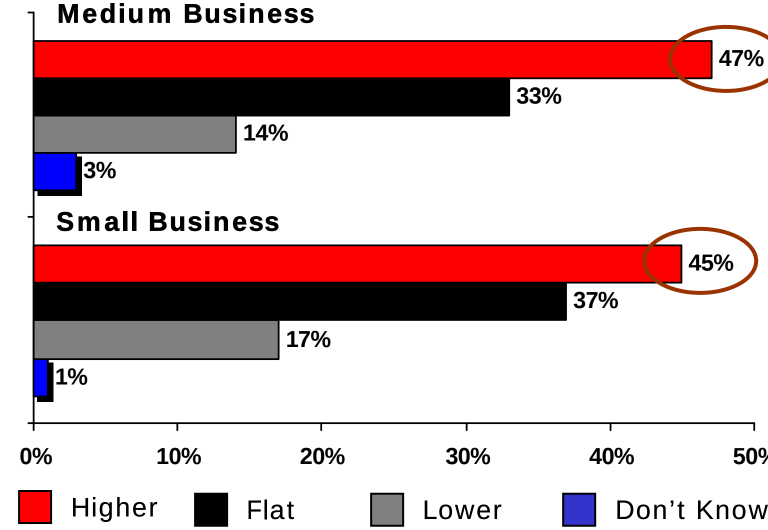
1. Aligning IT and Business Goals
2. Increasing business efficiency through IT-enabled process improvement
3. Creating competitive advantage through IT
4. Improving internal user satisfaction
5. Ensuring privacy of customer and employee data

Source: *CIO Magazine, December 2004; n=544*

SMB IT Budgets: *On a Growth Trajectory*

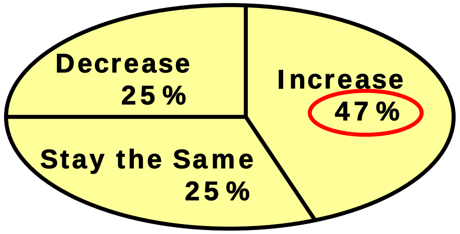
- **Nearly 50% of small and medium business in North America increased their IT budgets from 2003 to 2004. Notice Forrester and Gartner are both in agreement.**
- **2005 SMB spending appears to be headed for growth of 7-8 percent.**
- **US Large Enterprise market IT spending is expected to grow in 2005 at a smaller rate (5.4%). SMB spending growth is getting a strong boost from enterprise software spending.**

Change in IT Budget Among SMBs in North America, 2003 vs. 2004 (Forrester)



Source: ***Forrester Research, March 2004; n=1002 IT and business-decision makers of NA SMBs***

Change in IT Budget Among SMBs in North America, 2003 vs. 2004 (Gartner)

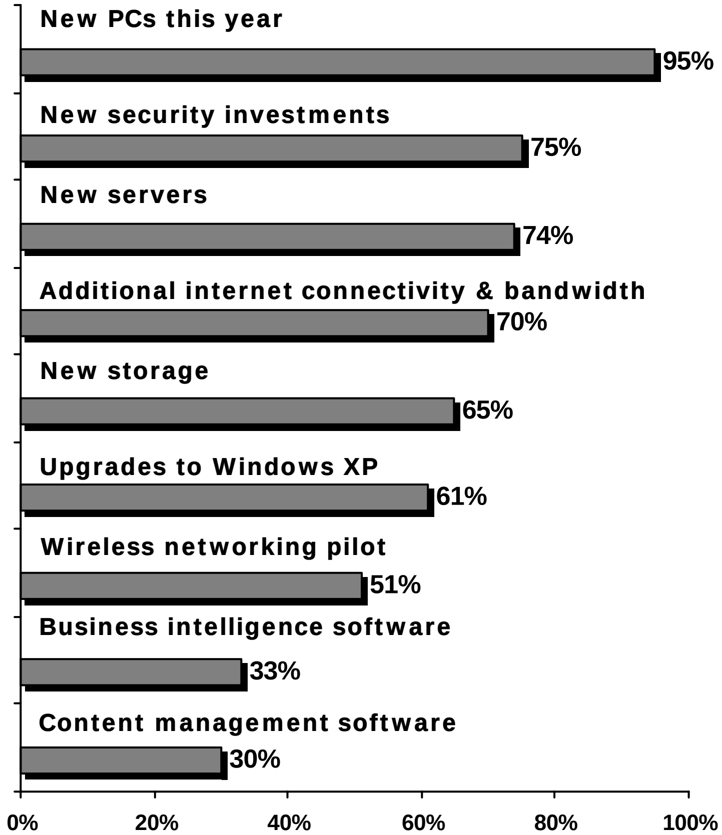


Source: ***Gartner, June 2004***

IT Spending Plans: *Plans Reflect a Strong Enterprise SW Influence*

- At a more tactical level, PCs are still a key spending priority, with security, servers, and connectivity following.
- Software plans are driving a number of spending plans including storage, servers, and other software components.
- Wireless networking is getting a lot of attention, despite security concerns.
- As SMBs make more sophisticated IT investments they are faced with a lack of process and systems integration expertise.
- Ipsos-Reid reported in June of 2004 that small and medium IT and business executive decision makers in Canada (among other things) were challenged with a lack of process and systems integration, lack of application development expertise.

IT Spending Plans During the Next 12 Months According to SMBs in NA

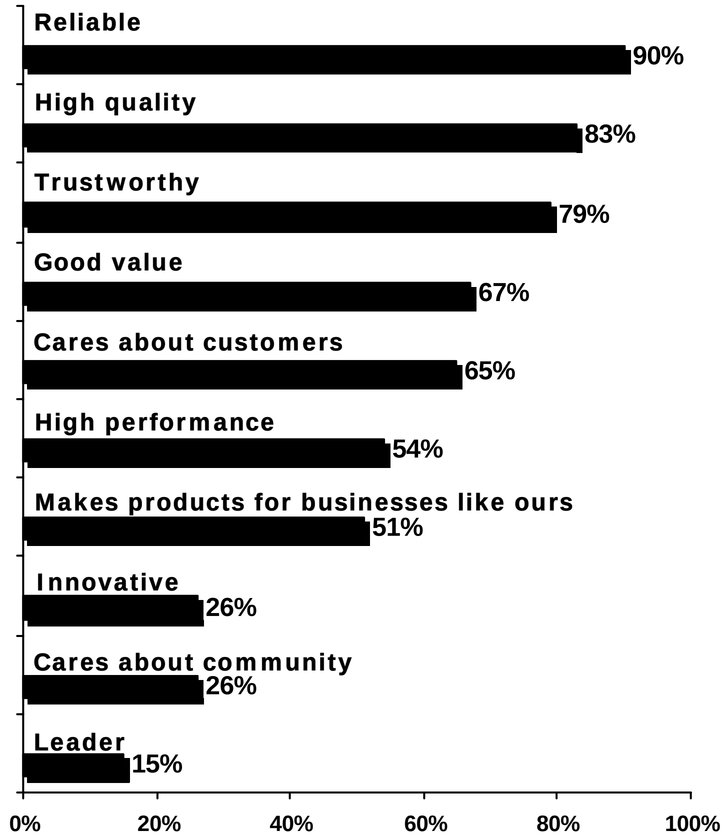


Source: *Forrester Research, April 2004*

Making Decisions: *Careful Selection With Little Delegation*

- Getting IT equipment that's reliable from quality vendors is top of mind.
- Trustworthiness and caring about the customer scored high, likely pointing to SMBs having been burned in the past.
- There is growing dissatisfaction with S&S from large vendors who have outsourced support and moved towards a more hands-off approach.
- Those making the IT decisions in SMBs varies by size, but generally decision making authority is centered around the CEO at IT/MIS (Yankee Group, Feb. 2004).
- Oddly enough, the size of "don't know" was large, pointing to the fact that there are still opportunities inside of SMBs for improvement in IT strategy and vision.

Factors That US SMBs Rate as "Very Important" When Choosing New Technology and/or Technology Providers



Source: *International Data Corporation (IDC), May 2004*

Channels – *Direct From Manufacturer Begins to Dominate*

- Among NA SMBs, direct from MFG is now dominating the channel landscape for all product categories, with the VAR channel a distant second.
- Such a preference has created strong "heart share" for Dell, even among those who prefer to purchase from other channels.
- VAR channels are increasingly turning to white box as a way to maintain customer loyalty and secure aftermarket services.
- Retail still finds favor among small businesses as a quick acquisition and "touch it" channel.
- Outside of the US the VAR channel is stronger, with direct from MFG making headway in all regions.

PC Vendors Preferred by SMBs in North America

	Those buying direct	Those who prefer other channels	Overall
Dell	86%	72%	79%
HP/Compaq	37%	42%	40%
IBM	29%	30%	30%
Gateway	15%	17%	16%
Toshiba	12%	13%	12%
Generic	9%	16%	12%

Source: *Forrester Research, April 2004; n=951*

Sources From Which SMBs in North America Are Likely to Purchase Their Hardware

	Server HW	Storage HW	Networking HW	PC
Direct from MFG	45%	40%	36%	49%
VAR	18%	19%	21%	15%
Mail Order	6%	9%	12%	15%
Retail	6%	7%	9%	11%

Source: *Forrester Research, April 2004; n=684*

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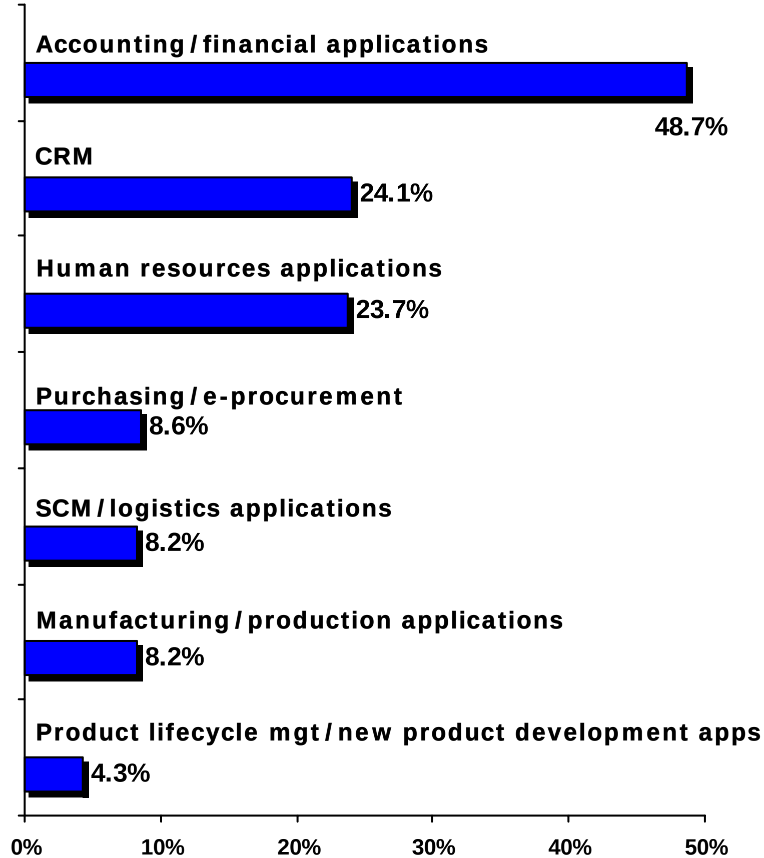
Enterprise Software In Use: *SMBs Becoming Like Large Enterprises*

- **Current SMB enterprise SW usage is showing a three pronged deployment:**
  - *Infrastructure components in financial and HR (components of ERP);*
  - *Customer focused apps in CRM and SFA*
  - *Emerging applications for logistics and manufacturing.*
- **Additional attention is being paid by medium businesses on a customer focused IT infrastructure to include warehousing of customer information, sales force automation, and marketing automation software (Forrester, April 2004).**
- **Compliance issues are reducing the use of in-house solutions like spreadsheets.**

US SMBs Deployment of Enterprise Software By application



Source: *Aberdeen Group, August 2004; n=232 <$500 million SMBs*

Enterprise SW Titles: *ISVs for Technology Vendors to Work With:*

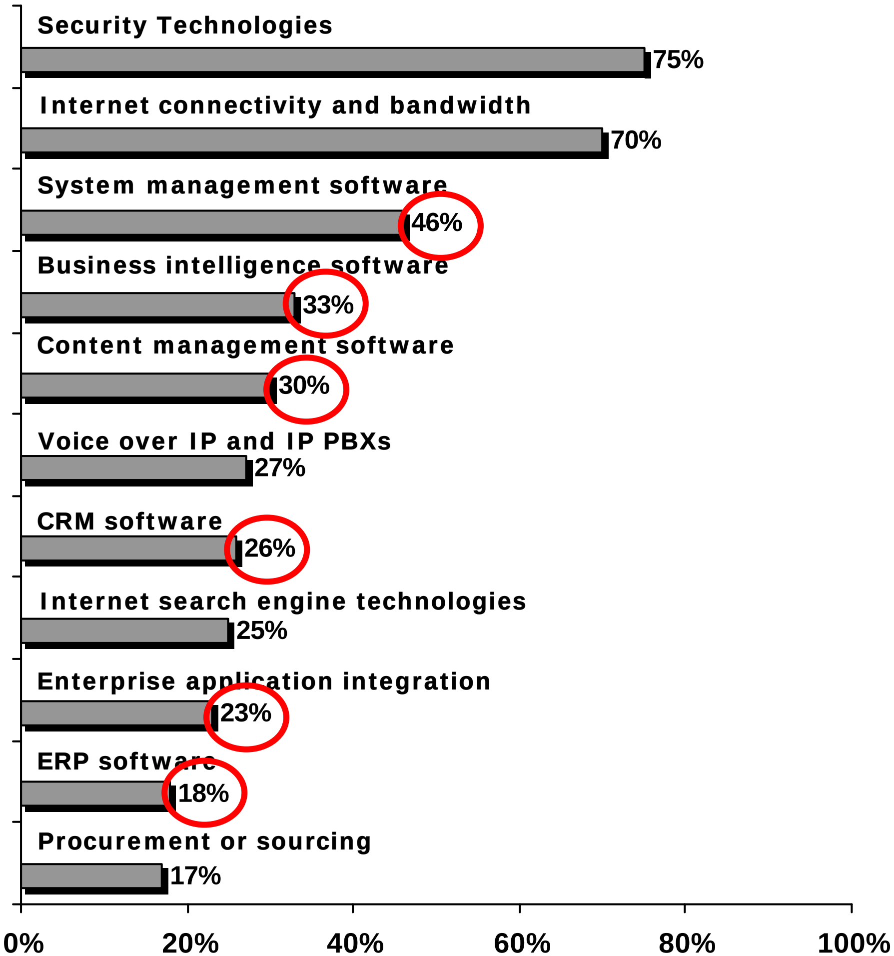
This data (from Aberdeen Group, August 2004, n=232 SMBs) is for SMBs with less than $500 million and is definitely more for mid-market companies than for small businesses.

	Financial / Accounting	CRM	SRM	SCM	Human Resources	MFG / Prod. Applications
Microsoft	21%	29%	16%	8%	16%	21%
Oracle	16%		8%	12%	7%	7%
SAP	11%	3%	20%	12%	10%	10%
Sage / ACCPAC	10%			4%		
Ramco e.Apps	9%					
Custom / Proprietary	6%		12%	18%	12%	
Epicor	5%	6%				3%
Intuit Quickbooks	4%					
SSA / Baan	3%		4%	14%	4%	10%
PeopleSoft / JDE	2%	7%		4%	18%	
Salesforce.com		13%				
Siebel		9%				
Compiere		1%				
Ariba			12%			
Apptricity			4%	4%		
Singular			4%			
Mapics						3%
Other		9%	20%	19%		13%
None or NA		6%				17%
In-House		10%				17%
Educeit.com				4%		
Sage / Sales Logix		7%				

Future SW Plans: *Moving Towards an Integrated Enterprise*

- **Besides the mainstream applications of CRM and ERP, SMBs are planning to adopt system management software (OpenView), Business Intelligence SW, and content management software.**
- **The aggressive plans show a maturing SMB space adopting a more complex SW infrastructure.**
- **A rampantly growing mobile sector within SMB is driving the need for mobile-specific applications such as wireless email, PIM, content for employees, sales force and service applications, and IM (Forrester, April 2004).**
- **The ASP model is gaining momentum and is expected to grow in penetration as enterprise SW usage grows.**

IT Technologies Being Purchased in the Next 12 Months by NA SMBs

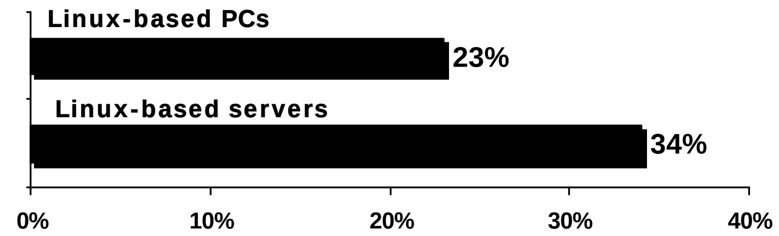


Source: *Forrester Research, April 2004; n=1,000*

Linux: *Strong Growth, But Still a Small Fish in a Big Ocean*

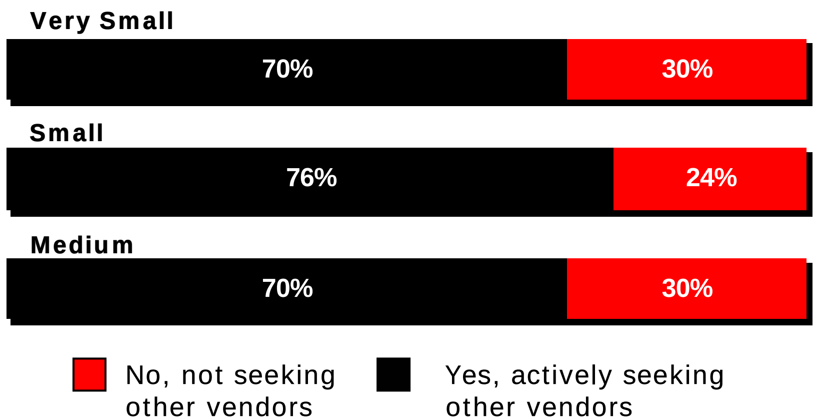
- **Linux is seeing growth due to SMBs desiring a more favorable set of economics.**
- **Nearly 3 out of 4 SMBs actively seek different vendors to “reduce their dependence on Microsoft”**
- **However, Linux is still a small proportion of desktop operating systems compared to Microsoft. 15% of SMBs plan to replace 25% or more of their desktops with Linux in the next five years (Forrester, Sept 2004)**
- **IT-savvy IT departments are more likely to use Linux – otherwise the no-risk solution is thought to be Microsoft.**
- **TCO for Linux vs. Windows is projected to be unfavorable for mid-market companies according to Yankee Group (April 2004).**

Growth in Linux PC and Server Unit Shipments to SMBs Worldwide (as CAGR)



Source: *AMI-Partners, January 2005*

US SMBs That Actively Seek Different Vendors to Avoid Being Overly Reliant on Products and Services Offered by Microsoft

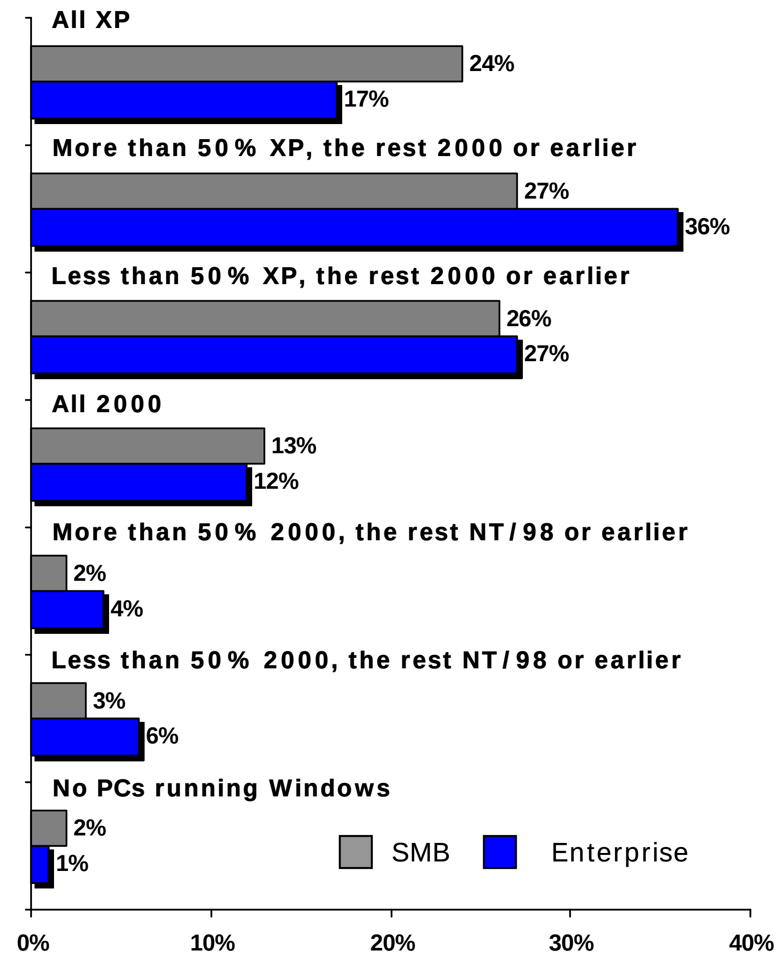


Source: *Yankee Group, February 2004*

Windows XP: *Rapid Deployment of the New Armor for PCs*

- **SMBs are deploying XP quicker than any other Microsoft operating system in history.**
- **XP's enhanced security, in a more stable platform, is the key driver of this strong ramp to installation.**
- **XP's "wireless-friendly platform" is another reason SMB's are moving towards XP.**
- **SMB's are keeping pace with large enterprises in rolling out XP.**

Type of Operating Systems Companies in North America are Running on Windows-Based PCs



Source: *Forrester Research, September 2004*

SW Brands In SMB: *Recent SMB Announcements*

- **SAP:**
  - *SAP announced that it planned to double SMB customers in the next 12 months*
  - *SAP announced new vertical industry solutions for SMB MFGs*
- **Oracle:**
  - *Oracle targeting SMBs with Application Server Lite*
  - *Oracle targeting Microsoft SB server: Standard Edition of Oracle Application Server positioned squarely against Microsoft's SB Server and focused on small & midsize enterprises.*
- **Analysts / Trade Associations:**
  - *Gartner released a statement that it believed the CRM software market will grow downstream into the SMB segment faster than in the large business segment. SMB was expected to grow to $966 million in 2007. "The SMB market is now being catered to"*
  - *According to AMR - the CRM market was flat in 2002, grew 4 percent in 2003, and will grow 6 percent in 2004. One of the main drivers is the small and medium-sized (SMB) segment, the "hottest area of recent growth."*
  - *Forrester report finds that 26 percent of SMBs will purchase CRM software during the next year. This number is in addition to the 50 percent of medium-size businesses that have developed, or are developing, a centralized data warehouse.*
  - *Supply Chain heating up: Half of all new SMBs fail after four years. According to Small Business Administration and U.S. Census Bureau estimates, there are 300,627 SMBs involved in manufacturing, 732,718 in retail, and 342,772 in wholesale operations. The bulk of these companies aren't prepared to link their businesses to an increasingly automated supply chain. Some have begun to recognize the challenge and are taking the first steps to address it.*
- **Other:**
  - *Sybase offering a free database for Linux, targeting SMB users*
  - *Siebel plans to engineer its recovery by attacking the SMB market with its on-demand CRM offering amid stagnant demand among corporate IT departments.*
  - *SAP, PeopleSoft, and Microsoft introduced new SMB-targeted ERP products.*

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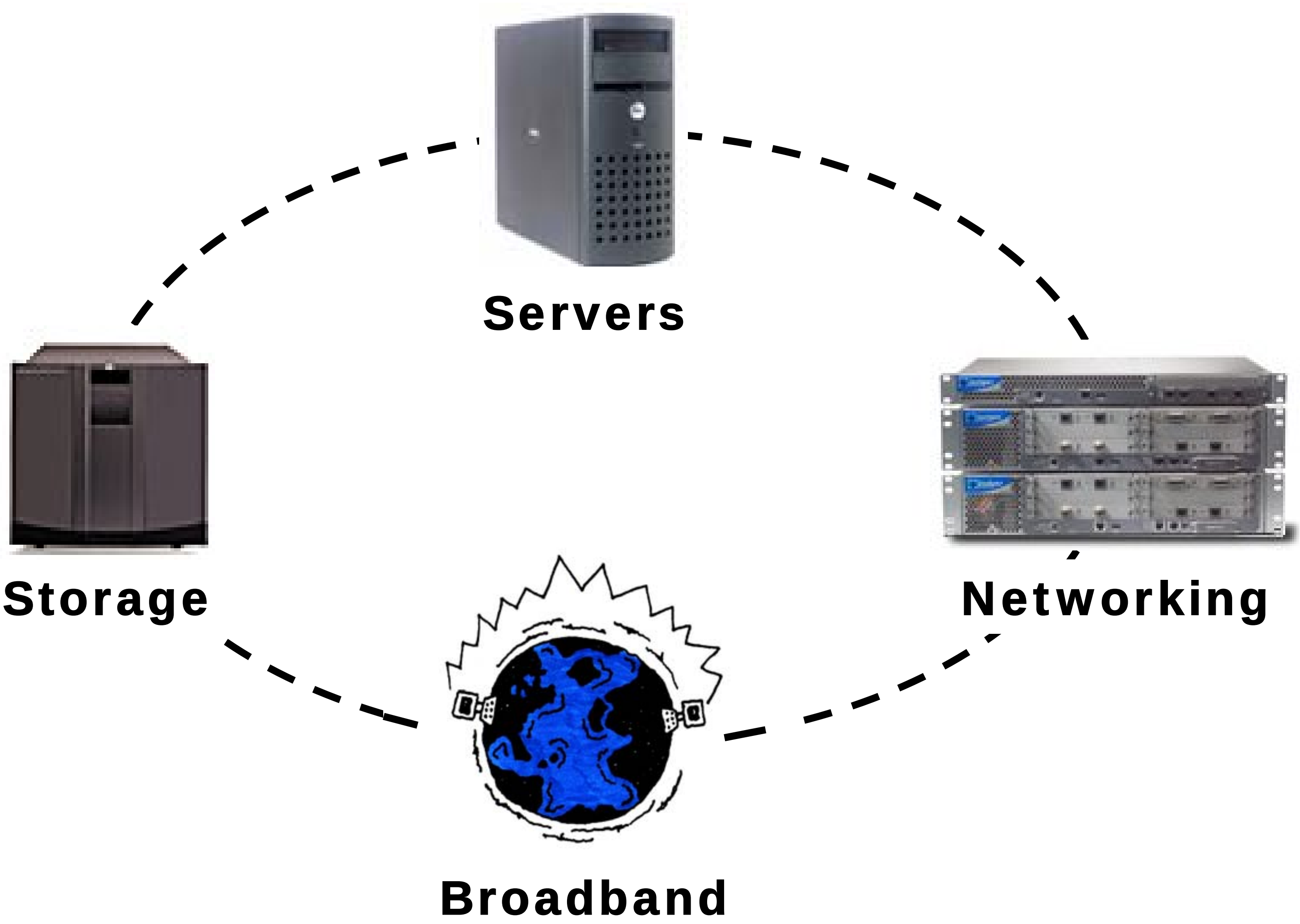
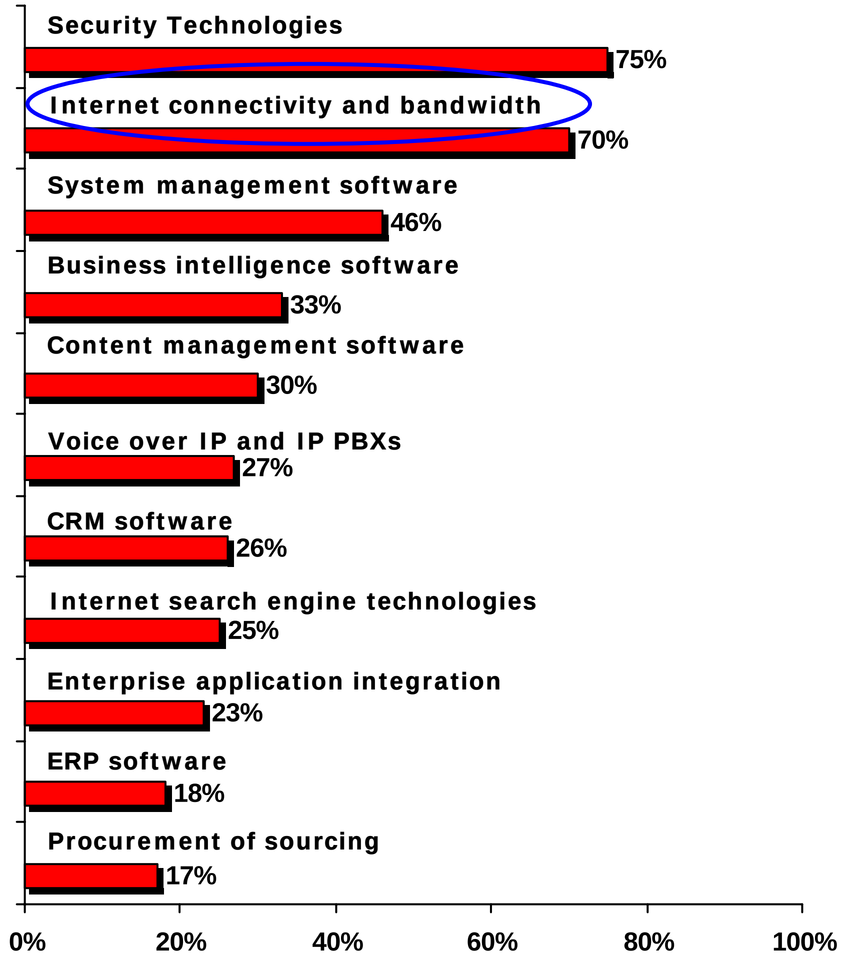
SMB Infrastructure – *The Environment to Handle the Action*



Wired Networking – *Keeping Traffic Moving Quickly and Reliably:*

- Networking investments are in part being driven by the requirement for updated infrastructure to address broadband and security issues (100 Mbps to 1,000 Mbps Ethernet).
- Other drivers include increased storage implementations (including imaging), remote access, and increased use of the Internet for business process automation.
- Shared internet access is of key interest to SB's, along with moving to wireless.
- 43% of small businesses increased networking budgets in 2004, as compared to 33% for large enterprises.

IT Technologies Being Purchased in the Next 12 Months by SMBs in NA

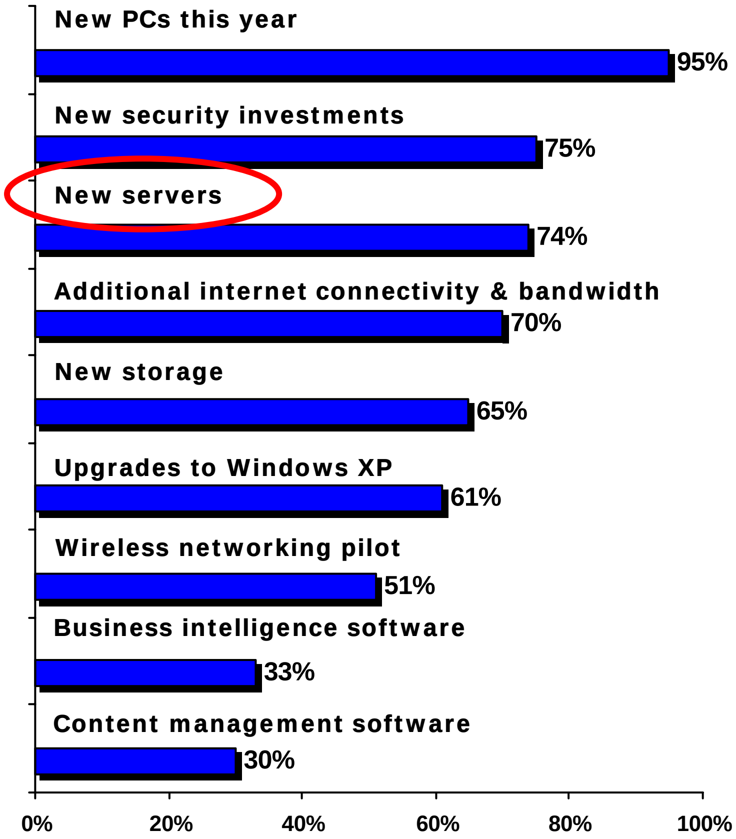


Source: *Forrester Research, April 2004, n=1,000*

Servers – *Going From Storage Centers to Application Centers*

- **Application and database servers are becoming more common among SMBs.**
- **However, servers have become de-mystified among SMBs, giving consideration to NAS and integrated security appliances.**
- **Linux-based servers make up 6% of servers among SMBs worldwide (AMI, 1/2005)**
- **48% of SMBs in North America increased their server budget from 2003 to 2004, as compared to only 33% of large enterprises.**
- **74% of SMBs in NA plan to purchase new servers in 2005, with Finance and insurance, manufacturing, and business services with the most robust server purchasing plans.**
- **IBM entered the low price server market in 2004 to compete with Dell and HP.**

IT Spending Plans During the Next 12 Months According to SMBs in NA

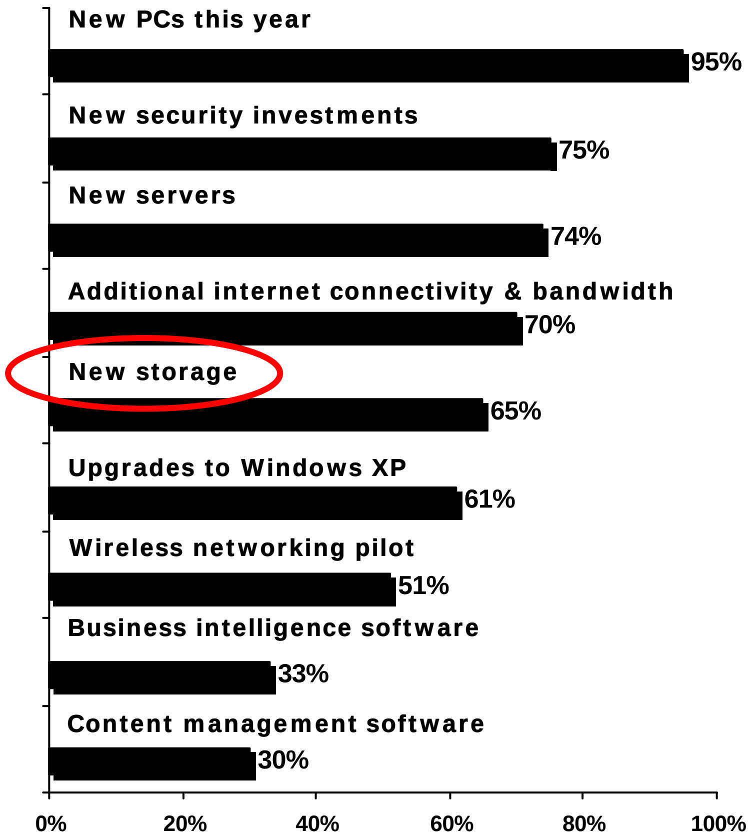


Source: *Forrester Research, April 2004*

Storage – *Coming of Age among SMBs*

- Adoption of applications and compliance issues are the key drivers of demand for storage (healthcare is a key vertical).
- SBs are recognizing the importance of back-up, but are not necessarily comfortable with just accepting tape as a back-up solution.
- Disk-to-disk is beginning to be of interest among SMBs.
- EMC's acquisitions and relationship with Dell have moved it more firmly into the SMB space.
- Dell recently introduced low-priced SANs and NAS appliances.
- 65% of North American SMBs are planning storage purchases in 2005.

IT Spending Plans During the Next 12 Months According to SMBs in NA

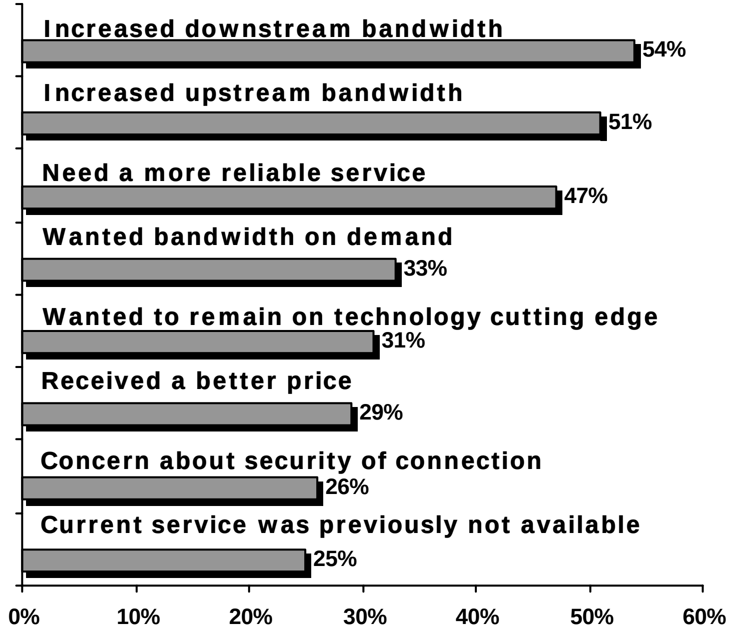


Source: *Forrester Research, April 2004*

Broadband – *Creating a New Network Among SMBs.*

- **Broadband penetration varies widely from region to region, with US SMBs just over 50%, while EMEA is higher due to ISDN.**
- **Increased Internet performance (upstream and downstream) and reliability over dial-up are the key drivers of broadband.**
- **Broadband type is directly proportional to the size of the business, as coverage and bandwidth requirements differ significantly.**
- **Broadband is experiencing robust growth outside of the US with penetration tripling among SMBs in the UK and Australia over a 24-month period from 2002 to 2004.**
- **IDC projects that nearly 24% of small businesses in the Asia-Pacific region will have broadband by 2007.**

Reasons that US SMBs Subscribe to Broadband



Source: *Yankee Group, September 2004; n=600*

Type of Broadband Internet Connection Used

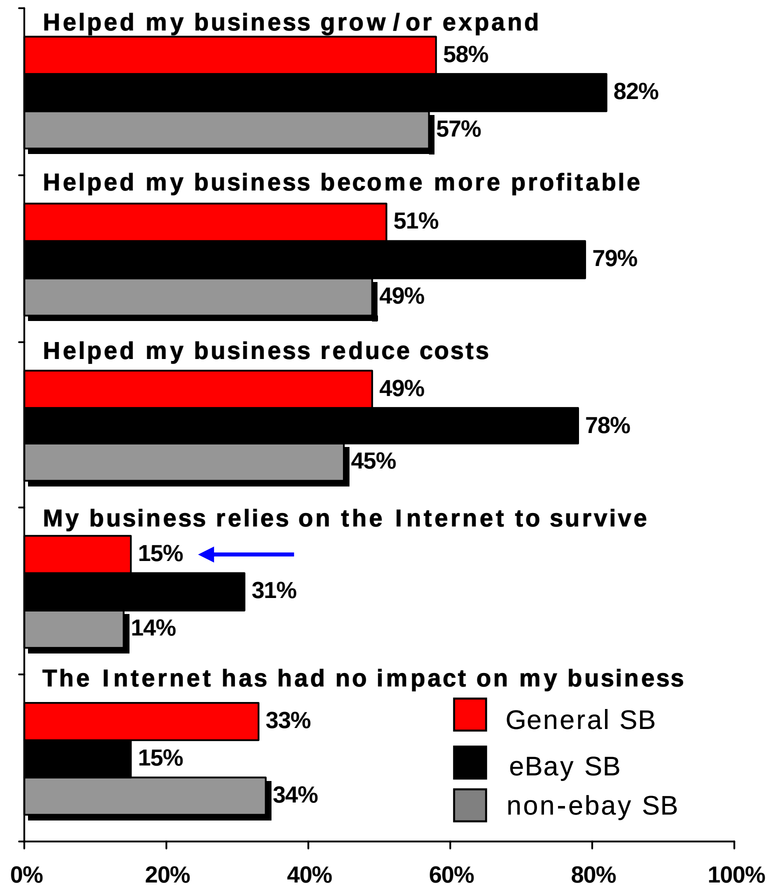
	2-19 employees	20-99 employees	100-499 employees
T1 (any form)	9%	27%	39%
Cable modem	36%	25%	25%
DSL	47%	36%	21%
Other	8%	12%	15%

Source: *Yankee Group, September 2004; n=600 SMBs that use BB*

Web Usage – *Broadband Opens the Door to New Opportunities*

- A large majority of SBs in the US believe the Internet has helped, and will continue to help, their business grow and enhance profitability.
- Business process automation is continuing as stable broadband access opens the door to new uses of the Internet. This is especially true among medium businesses.
- US small businesses use the Internet primarily for information acquisition, followed by purchasing and marketing.
- Despite a greater dependence on the Internet, only 15% of US small businesses feel the Internet is critical to their business.

US Small Businesses' Attitudes Toward the Internet



Source: *ACNeilsen, March 2004; n=168 general SBs, 211 eBay SBs, and 138 non-eBay SBs.*

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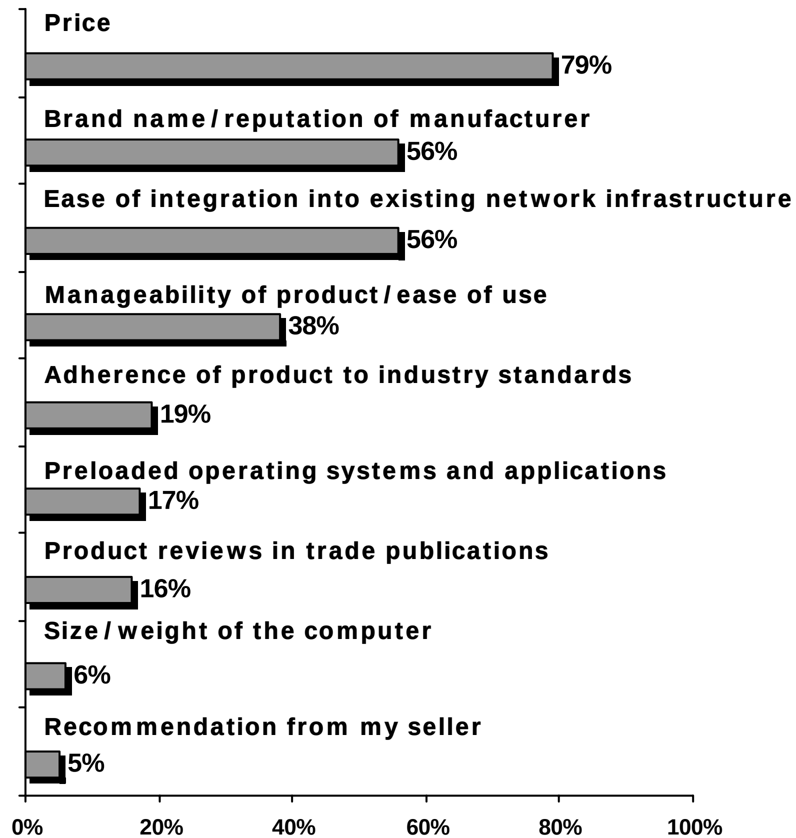
Desktop PCs – *A Staple Tool of Productivity for All SMBs*

- **95% of US SMBs plan to purchase PCs in 2005. Price, brand, and ease of integration will be the key purchasing factors, with manageability and ease of use highlighted.**
- **Projected increases in PC spending point to a healthy PC market in the next 12 months. Reasons for the increase center around the continued replacement of Y2K units, the proliferation of XP (for security), and the lure of lower pricing.**
- **Brand is important to SMBs in the US, with Dell dominating the market. This is especially true in a market that desires to purchase direct. The heart share of Dell gives HP and others cause for concern.**
- **Thin client is not on the SMB radar yet.**

Factors for Purchasing a Desktop PC According to SMBs in the US



Source: *Yankee Group, July 2004*

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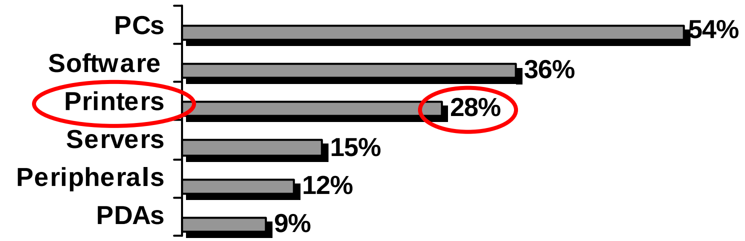
Printers – *Transition to Color Moving Center-Stage Among SBs*

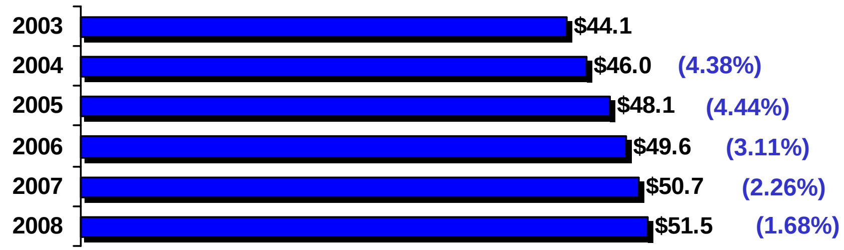
- More than 1-in-4 SBs are planning to replace or add on to their printers in the coming 6 months – a remarkably high rate, given that the average SB has ~2.5 printers only
- This printer-related activity in the SB market is not fully visible in terms of the broader $ growth rate of the worldwide printer market
- However, closer inspection reveals that the tepid printer market $ growth "masks" a much higher growth in color laser printers
  - *The transition to color laser (printers and MFPs) is the key driver in the printer-related purchasing activity by SBs*
- Declining printer prices, which slow the total $ market growth, are still not matched by price declines in printing supplies and consumables – especially color inks and cartridges. Those will continue to absorb the lion's share of SB printing-related spending

Leading Technology Purchases Planned by US Small Businesses over the Next 6 Months



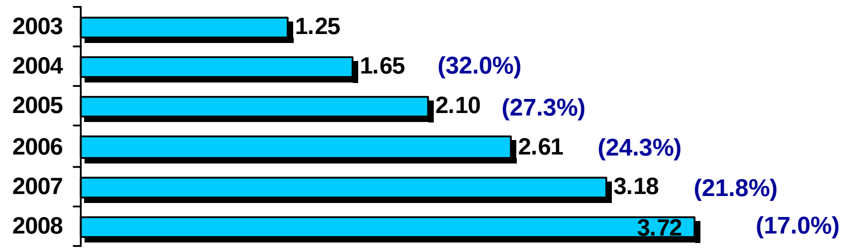
Source: *American Express, October 2004; n=733*

Worldwide Printer and MFP Spending, 2003-08 (in $ billion, and as a % increase vs. prior year)



Source: *IDC, November 2004*

Worldwide Shipments of Color Laser Printers, 2003-08 (in million; % increase vs. prior year)



Source: *Lyra Research, July 2004*

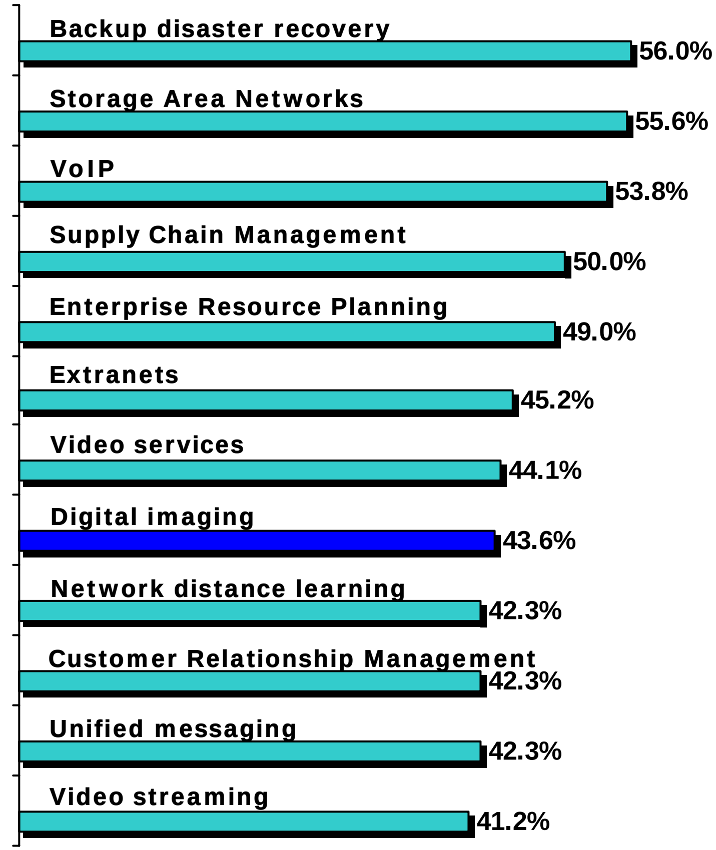
Digital Imaging – *Spreading Wide and Fast Across Verticals*

- Digital imaging is a key factor underlying the current drive by US businesses – including SMBs – towards color printing

- Growth in digital imaging applications is, in part, the result of increased adoption of relatively inexpensive, increased-megapixel imaging technologies by core image-intensive verticals (real estate, architects, etc.), as well as industries in which imaging had not been a central concern until recently (e.g., certain types of manufacturing)

- A key driver of growth is the compliance-induced digitization of records in specific industries, such as healthcare (HIPAA rules), insurance, finance, and diverse types of professional services

Networked Applications that Will See Increased Use by US Enterprises in 2005



Source: *Yankee Group, November 2004*
N=444 communications technology executives

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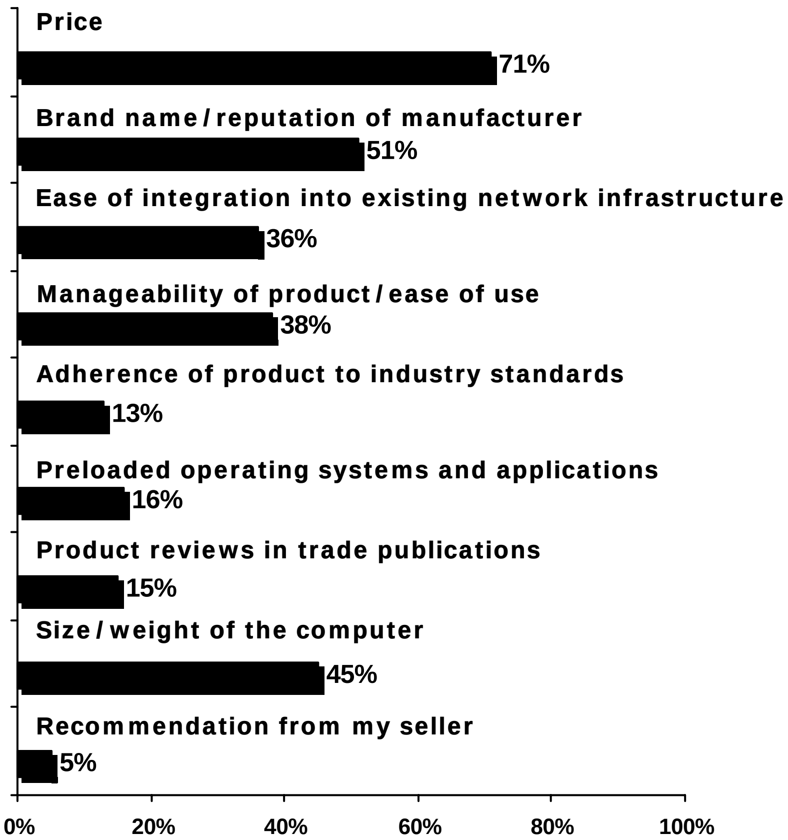
Laptop PCs – *Desktop Replacement Theme Takes Hold*

- Laptop penetration is projected to be 77% (some type of laptop in the business).
- Price, vendor reputation, and laptop size are the key buying criteria. Dell is nearly 2X that of HP in SMB market share in the US.
- Being away from the office to work is a common theme among US SMBs. Yankee Group reports that over 50% of SBs have "mobile workers", and 25% have personnel they consider as frequent travelers.
- Falling prices for devices including laptops, tablet PCs, printers, and even power supplies mean that working on the go is increasingly within the reach of even small businesses. Improvements to both Wi-Fi and high-speed wireless networks mean that a connection is always nearby.

Factors for Purchasing a Laptop PC According to SMBs in the US

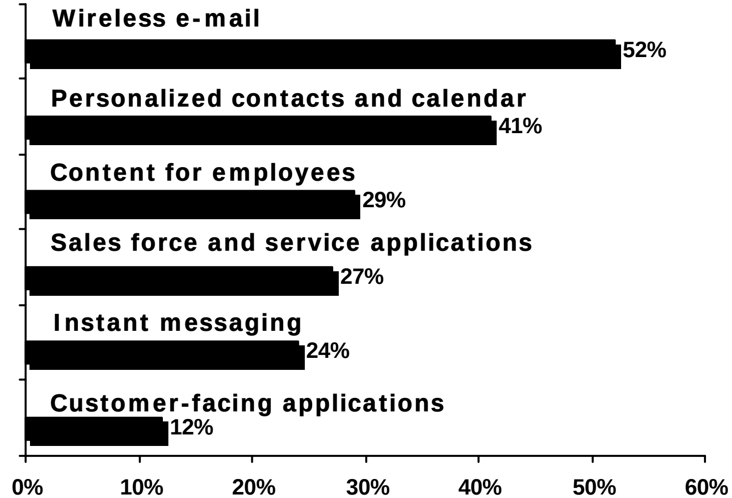


Source: *Yankee Group, July 2004*

Wireless Data Access – *The New Planet for Mobile PCs*

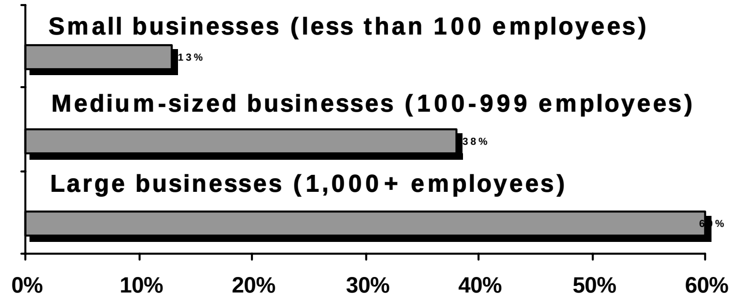
- Mobile e-mail will be the key driver in the growth of enterprise mobile data services over the next five years – inside and outside of the US among SMBs.
- Wireless voice and data services account for around 45% of total US SMB telecommunications spending.
- Wireless is an inexpensive convenience with low barriers to entry for SBs.
- The more sophisticated an SMB becomes, the more concerned they will be regarding WiFi inside and outside of the firewall.
- Degree of regulation, intellectual property, and IT savviness dictate security concerns.
- Blackberries are cannibalizing US mobile PC sales and threaten a more robust growth.

Types of Mobile Applications & Services MBs in NA Plan to Deploy in the Next 12 Months



Source: *Forrester Research, April 2004; n=596*

US Companies Using Blackberries* by Business Size



Source: *NOP World, November 2004*
Note: ** or similar device*

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Telecomm – *Not Very Exciting, But Required By All SMBs*

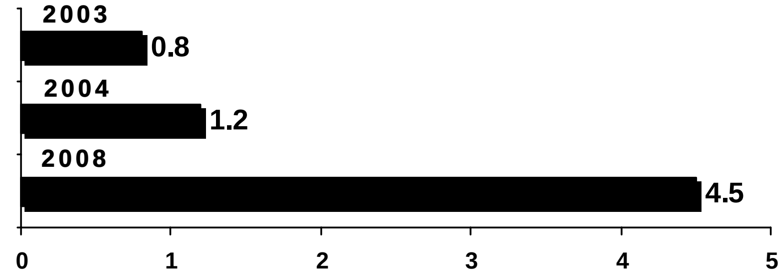
- **Although wired voice continues to decrease, it is still a huge portion of the overall telecomm spend. Wireless voice spending is now over 50% that of landline among SMBs.**

- **SMBs generally turn to their telecomm provider for telecomm solutions, as VARs continue to exit the space.**

- **Less than 50% of SMBs in the US express loyalty to their telecom service provider.**

- **Average SMB is 15 to 16 years old and tends to have had PBX's for most of its existence. Now there is a critical mass of SBs with aging systems. Many are evaluating if IP PBX is a suitable alternative.**

Worldwide IP Telephony Spending by SMBs (in billions)



Source: *Ami-Partners*
Note: CAGR=41.3%

US SMB *Monthly* Average Spending on Voice and Data Services

	1-4 employees	5-9 employees	10-499 employees
Wired Voice	$153.20	$344.96	$645.26
Wireless Voice & Paging	$73.68	$184.68	$428.42
Broadband	$18.43	$61.86	$105.78
Dial-up	$0.20	$10.04	$15.78

Source: *Small Business Association, 2004*

VoIP – *Bringing Excitement Back to Telecomm*

- 12% of US businesses are projected to be using VoIP – four times that from 2003. 40% of WW businesses are expected to be using VoIP by 2009. SMBs will make up a large portion of those using VoIP.

- Favorable economics and ease of change are strong motivators to purchase.

- Although Vonage is bringing VoIP into the mainstream, hardware solutions, including those from Cisco and Avaya, will be the focus.

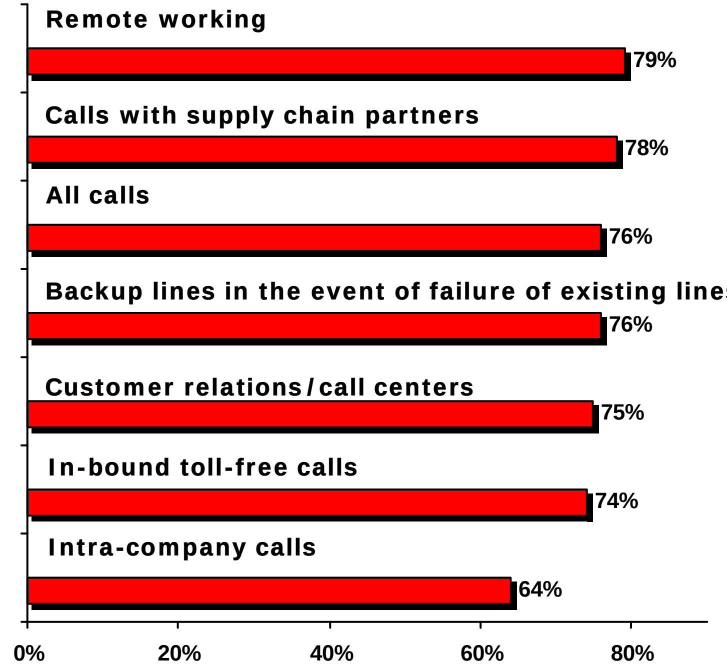
- VoIP is not necessarily about saving money on long distance – it's about flexibility, utility, and ease of ownership.

- Numerous recent announcements on VoIP for SMB from Cisco, Netgear, Boingo, Vonage, Microsoft, and others.

Percent of US Businesses Using VoIP

Source: *In-Stat/MDR, December 2004*

How Corporations Worldwide Plan* to Use VoIP



Source: *AT&T, Economist Intelligence Unit, September 2004*
Note: Multiple responses allowed * those who plan VoIP in the next two years

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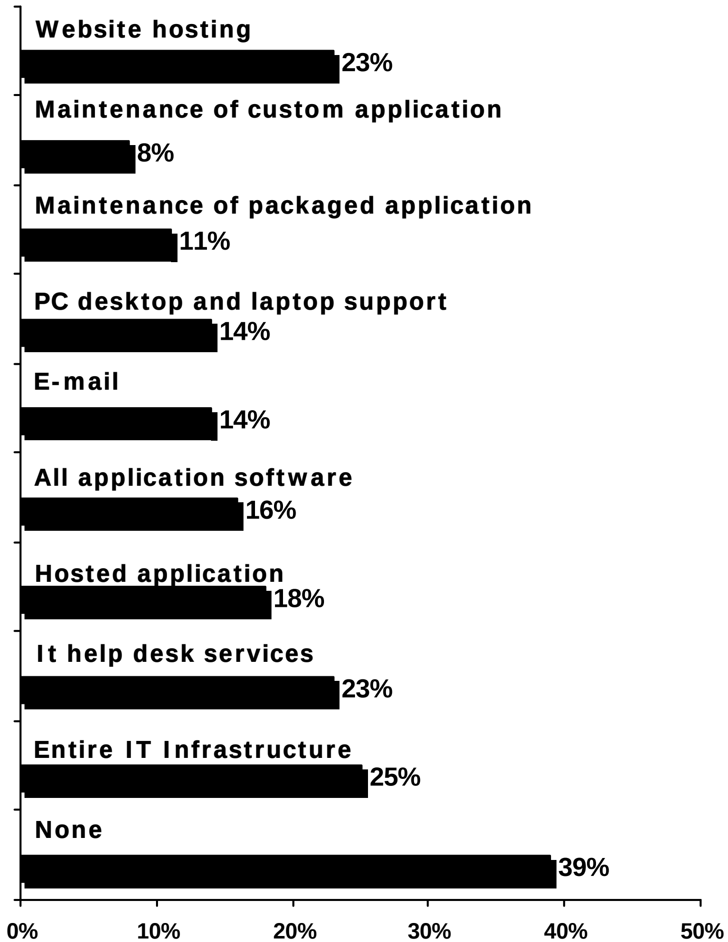
SMB IT Services – *Adapting to Changes in the SMB Landscape*

- IDC expects business process and IT services spending by SMBs to grow 7% (CAGR) over the next five years. Three out of four US SMBs outsource some type of IT service.
- Non-traditional services being outsourced include maintenance of customer applications and hosted applications. 80% of SMBs plan to purchase some form of IT consulting or integration service in the next 12 months.
- 8% plan on having their entire IT infrastructure outsourced.
- New SMB services have recently been announced by IBM, Microsoft, and Dell, including IT "managed services".
- Web services are a realistic alternative for smaller businesses that don't want to invest in the infrastructure for applications.

IT Services that SMBs in North America Currently Outsource



Source: *Forrester Research, April 2004; n=829*

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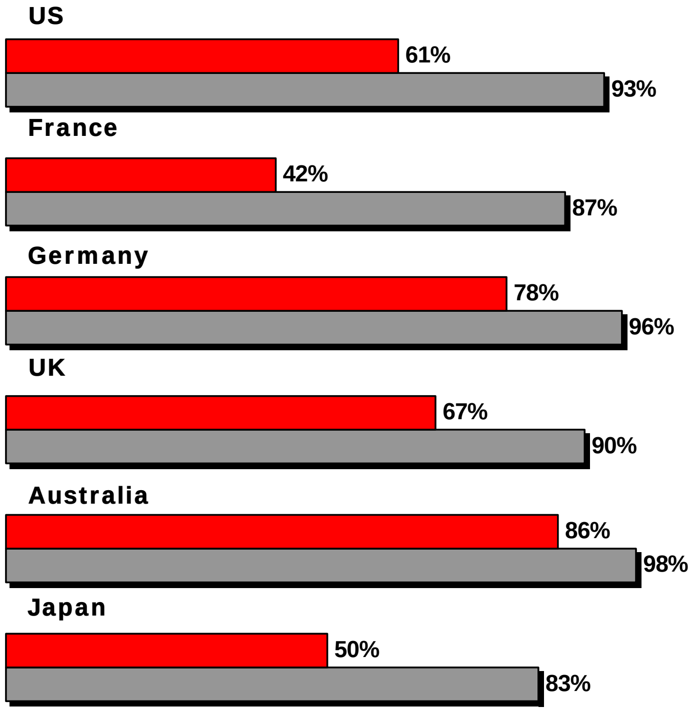
Anti-Virus Software – *The First Line of Defense in Security*

- Security tops the list of IT technologies being considered and IT products to be purchased by US SMBs. Security is top of mind for the vast majority of SMBs.
- U.S. small and medium businesses in 2004 spent $1.8 billion on IT security, spurred in part by the growth of anti-virus solutions, content filtering, firewalls, and VPNs.
- Anti-Virus software is being used by a large majority of SMBs inside and outside of the US.
- Spyware is a major issue among SMBs, but most are not sure how best to deal with the issue.
- Despite all of the talk of security, small businesses are still not convinced that they need anything more than just anti-virus SW.

US SMBs Who Consider Enhancing IT Security to be Important

Source: *AMI-Partners, February 2004*

SMBs Global Usage of Anti-Virus SW

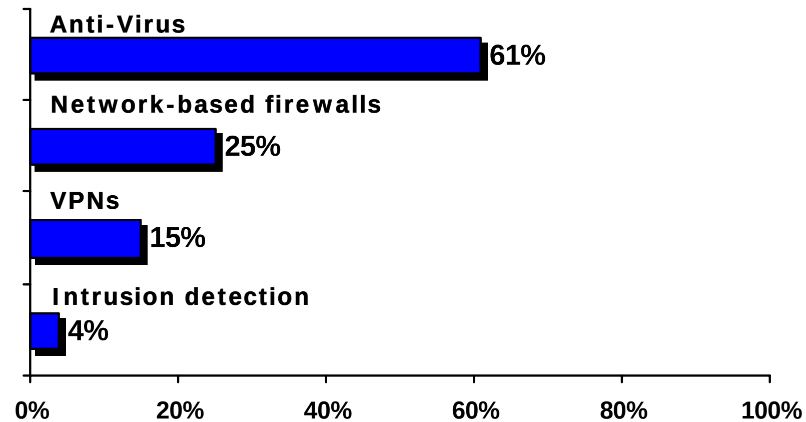


Source: *AMI-Partners, February 2004*

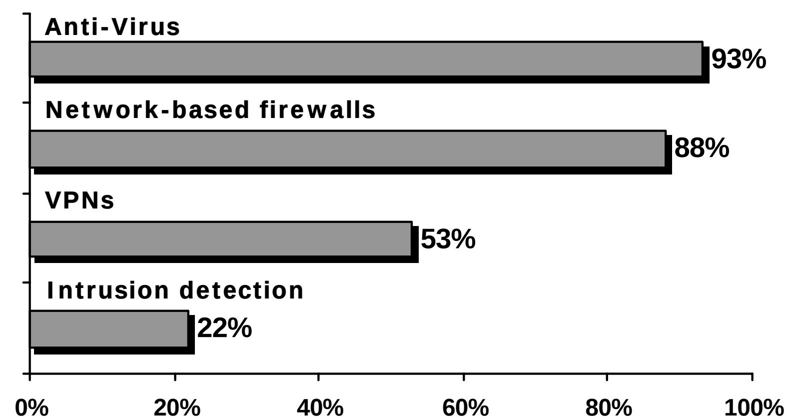
“Real Security” Solutions – *MBs Implementing, SBs Procrastinating*

- **MBs have become serious about security. SBs are procrastinating on addressing security.**
- **Disaster recovery is a key subject that needs to be addressed, but there are different ways in which it is being approached.**
- **Firewalls, VPNs, and intrusion detection top the list of “real security” solutions.**
- **Firewalls are now becoming the next ubiquitous security “must have” solution inside and outside of the US.**
- **Small businesses are starting to show a preference for security appliances with integrated functionality (e.g., firewalls with VPNs, content filtering, etc.), and managed security services. This may help to accelerate the SB penetration of higher levels of security.**

IT Security Products Used by US SBs



IT Security Products Used by US MBs



Sources: ***AMI-Partners, February 2004***

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Top Ten Things to Watch For in SMB for 2005

1. Need for **Integrated Security** Solutions
2. Priority to **IP telephony**
3. Deployment of **Versatile Networked Storage** and Backup
4. Response to **Enterprise Software** Vendors' Focus on SMB
5. The Far-Reaching **Impact of Wireless** Enablers
6. Effect of Formal **Planning** Cycles to **"Bigger-Faster"**
7. The Quest for **More Effective Service** and Support
8. Effect of **Vendor Partnerships** on SMB Decisions
9. Impact of **Microsoft**'s Activities
10. Drivers and Limits for **Linux**

Discussion of the Top Ten (1 of 4)
Integrated Security, IP Telephony, Storage

SMB Focus Priority	Key Aspects
1. Need for integrated security solutions	• Two complementary elements are recognized as keys to the solution: – *Need to deal with serious security threats through simple-to-implement VPN and firewall* – *Need to address the headaches of antivirus, anti-spam, spyware, and internet filtering in one place*
2. Priority to IP Telephony	• In developed countries, large numbers of MBs have a need to upgrade aging (15-20 year-old) bulky PBX equipment with solutions that are cheaper, innovative and more functional • In developing countries, SMBs already recognize IP telephony as an attractive alternative to the inefficiencies, limits and costs of traditional telephony
3. Deployment of Versatile Networked Storage and Backup	• Driven by increasing software deployments, especially digital imaging, and by the compliance and need-driven digitization of the healthcare industry • Dell unveiled a network attached storage (NAS) (define) server to help SMBs manage increasing volumes of data. • HP, Hitachi Data Systems and Network Appliance all make NAS or storage area network (SAN) (define) servers and devices for SMBs, spurred by the demand from a new influx of small businesses and departments within larger enterprises. Analysts have forecast multi-million-dollar opportunities for systems vendors to cater to these buyers. • Dell's late entrance reflects its strategy of waiting until the market has been saturated by competitors before it sells lower cost products to tempt customers who may be waiting for the best price to come along. In other words – Dell knows the market is ripe • Dell plans to drive down the cost of entry-level SAN configurations by delivering cheaper SAN systems to attract SMBs that don't want the expense of existing Fibre Channel gear

Discussion of the Top Ten (2 of 4)
Enterprise Software, Wireless, Planning Cycles

SMB Focus Priority	Key Aspects
4. Response to Enterprise Software Vendors' Focus to SMB	• SAP, Oracle and Microsoft have all recognized SMB as the brightest non-niche hope for growth – and as the new battleground – *Intense internal efforts to determine the economics and business models for success* • Complexity, lack of standards and cost, all point to web services' adoption trickling down to the most attractive SMB market segments – *Web services opens the field to other players, such as IBM, but complexity and lack of standards do not favor the adoption of simple utility computing yet* • For the same reasons, a healthy market for database development is emerging among MBs and larger SBs: those internal solutions are likely to complement, rather than be replaced, by enterprise packages in the longer term
5. The Far-Reaching Impact of Wireless Enablers	• SMBs outside the US are still lagging in the adoption of simple WiFi office networks – an immediate SMB opportunity • Securely expanding wireless usage (travel, remote location) is a major challenge, and a focus, for SMBs – just as it is for LEs • As SMBs are preparing to take better advantage of the expansion of wireless "bubbles", they are experimenting much more seriously with laptops – *Many SBs (up to 50% of all SBs in the US!) that did not have any interest in laptops until ~1-2 years ago, are now buying their first few units, the "seeds" of potentially ubiquitous adoption in a broad range of value-add situations*
6. Effect of Formal Planning Cycles to "Bigger-Faster"	• IT purchasing process maturity is rapidly expanding from MBs to SBs – *Formal 2-3 year planning cycles for IT purchases are the new driver for "bigger-faster" purchases, but only in areas expected to benefit the most: bigger HDDs; maximum processor-allowed memories; and 1 Gbps Ethernet connections*

SMB Focus Priority	Key Aspects
7. The Quest for More Effective Service and Support	• Disaster recovery is recognized as a real need by the majority of MBs in the US, and large proportions of MBs elsewhere • As they mature on IT, SMBs recognize the following: – *It is too costly to cover all needs through internal resources* – *Local partners with a know-how of their systems are essential: most often the purchase of white box PCs is driven by these considerations, even more than price* • At present there is a general sense of disillusionment with remote offshore support, and the effectiveness of E-support tools
8. Effect of Vendor Partnerships on SMB Decisions	• Dell-Oracle: market Linux-based systems in China (10 million SMBs in China) • SAP with American Express launch the American Express Edition of SAP Business One for Canadian SMBs • HP and Intuit: QuickBooks on HP servers • Cisco, Microsoft merge IP telephony with CRM for SMBs: channel partnership to lift the companies' channel partners, with system integrators and resellers taking advantage of architecture blueprints, system verification by the vendors and packaged offerings • Mobile enterprise software firm Extended Systems has partnered with Hewlett-Packard to market mobile solutions to SMBs • Microsoft and Cisco formed a new partnership to bundle Microsoft's CRM software for SMBs with Cisco's networking equipment

Discussion of the Top Ten (4 of 4) – *Microsoft, Linux*

SMB Focus Priority	Key Aspects
9. Impact of Microsoft's Activities	• Microsoft wants more of the pie: – *Small Business Center website established (replacing bCentral)* – *Going after QuickBooks business (Magellan)* – *Disk-to-disk backup-and-recovery app called Data Protection Server for SBs* – *Microsoft plans to invest $850 million over the next year in sales, marketing and research and development programs dedicated to beefing up its Microsoft Business Solutions (MBS) division* – *The MSN, Windows and Office teams are working together on a set of integrated IT services for smaller businesses and consumers to enhance security, lower costs, and improve the end-user experience in areas such as communication, collaboration and desktop management," Ballmer told employees in his missive* – *Microsoft announced Doug Burgum, SVP of Microsoft Business Solutions—the division that deals with Microsoft's Great Plains, Navision, Axapta and Solomon ERP (enterprise resource planning) suites—will report directly to Microsoft CEO Steve Ballmer*
10. Drivers and Limits for Linux	• Linux continues to be attractive, especially to the more technologically savvy SMBs, and has developed pockets of adoption by SMBs around the globe • The stability and consequent success of Windows XP has reduced mainstream SMBs' immediate desire to adopt Linux • An increased sharpness for TCO considerations among MBs is highlighting the hidden costs of Linux adoption