



The Late Breaking News™
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Memo from Bill: Thinking Out Loud About Software Sales Issues – Things are difficult enough for US manufacturers these days. How long will the following issues impact software sales and where? The cost of raw materials - Helium, copper, gold, nickel, molybdenum, platinum, and many others are all areas where demand is outstripping supply; prices for these and many other items are through the roof. Energy, labor, and infrastructure costs are rising and will continue to do so for the immediate future. It is difficult to pass these costs on to US as well as worldwide consumers. Financial markets have been unstable in recent weeks because of global inflation concerns. Investors are worried that rising interest rates could prolong the troubles in the slumping housing market. The consumer Price Index registered a terrible 0.7% increase last month, the biggest advance since Hurricane Katrina shut down Gulf Coast oil production in the fall of 2005. So far this year, consumer prices have been rising at an annual rate of 5.5%, double the 2.5% increase for all of 2006. The acceleration has

occurred because of the surge in energy costs. Consumers are seriously grumbling about volatile energy and food prices, because they have less free money to spend.

The US economy and productivity are a critical concern as well; World economic news is also a cause of further concern to manufacturers. The Commerce Department reported that the deficit, the broadest measure of foreign trade, increased to \$192.6 billion in the January-to-March period, compared to \$187.9 billion in the fourth quarter. Productivity is slowing. In manufacturing, non-farm business productivity advanced at an anemic 1% rate during the first quarter, according to the Labor Department. It grew on average just 1.6% last year. That's down considerably from the 3% plus growth rates seen early in this decade. Productivity is key to the economy's ability to achieve non-inflationary growth. When productivity is slow, then labor costs must either be passed along to consumers, which increases inflation, or absorbed in company profit margins, which eventually cuts further into economic growth. Given the current situation, I think the days of high productivity gains for US manufacturers may well be limited by world factors beyond their control. For example, Gasoline futures extended their upward trend, raising the prospect of that prices at the pump will reverse course and again head higher in the coming weeks. Oil futures moved above \$68 a barrel as well. The unknowns are terrorist activity, loose cannons like Chavez, or another natural disaster.

My point is, *still wondering out loud*, how many variables can today's manufacturers deal with on the risk side of planning, pricing, and entrepreneurial-ship before disaster strikes? Then, what will be the impact on mission critical software sales? Using past sales and market activity as prolog is probably not going to be a proper forecasting tool next year, not at all.

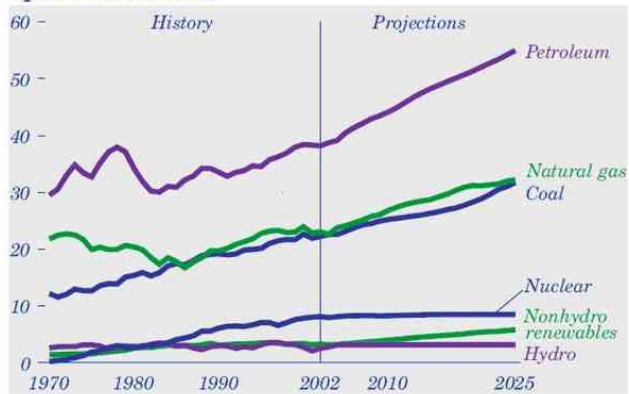
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Oil & Gas: Unintended Consequences - A push from Congress and the White House for increased use of biofuels, such as ethanol, is prompting the oil industry to scale back its plans for refinery expansions. For example, the Senate is now debating legislation for a huge increase in the use of ethanol production. The oil companies see that as meaning there will be less demand for gasoline, so they are already delaying, and even considering dropping, plans to expand refineries or build new ones. That will potentially keep gasoline prices high for years to come. Biofuels such as ethanol and new efforts by congress to also get automakers to build more fuel-efficient cars and SUVs have been portrayed as key to countering high gasoline prices. Many believe they will do not much to curb costs at the pump in the years ahead as drivers continue to travel more while refiners cut back expansion plans and potentially even reduce gasoline production. Seems congress is hell-bent on forcing biofuels without regard to the unintended consequences. As we prepare this report, the price of a barrel of oil has jumped to \$69 – should hit new records soon.

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Oil & Gas: The Natural Gas Supply Crisis No One Told You About – The natural gas segment of the oil & gas industry has not been in the news much. While researching the vertical, we ran across the following in a financial report. “Did you know that, since 1996, domestic production of natural gas has stagnated? Production growth rates have been less than 1%. Meanwhile, demand for natural gas, a clean,

*Energy consumption by fuel, 1970-2025
(quadrillion Btu)*



environmentally sound source of energy that has multiple applications, has doubled since 1987 and is continuing to increase every day. The growing supply-demand gap has been sending prices of natural gas up for years. And as mature basins dry up, the supply problem looked to be quickly approaching catastrophic levels. Natural gas is probably our most important energy source, right up there with petroleum and electricity. When you think of natural gas, you probably think of your home heating, your warm showers, and your cooked meals. Residential use

of natural gas accounts for only 22% of all consumption in the U.S.

The escalation of demand for natural gas comes from four enormous sectors, which pretty much encompasses our entire economy:

1. Residential and commercial demand
2. Industrial demand
3. Electric generation demand
4. Transportation demand

Industry accounts for 37.6% of natural gas demand and because natural gas is such a clean energy source, it is the preferred fuel for more than 80% of new electric generation. With existing fields being tapped out and demand for clean natural gas soaring, that spells higher gas prices in any language. And now it's your turn to make money.”

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Auto: Perhaps the Ethanol Plants May Want To Curtail Construction Plans Too –

Big oil is thinking about cutting back on expansion and drilling plans since the government is seeking to use alternative fuels to reduce dependence on oil by 12%. In addition, GM is working hard on fuel cell technology, and has been doing so for years. Now it is shifting responsibility for the work from its research labs to its development-engineering group that engineers engines, power trains, systems, and bodies for commercial production. That means about 400 new engineers and technical experts from GM's fuel cell labs will join development engineers in engineering units that produce power trains for production vehicles. An additional 100 will be reassigned to the

vehicle engineering group. The shift is a sign of Fuel cells use as a chemical process to convert hydrogen into electricity that can power an electric motor. Vehicles with fuel cell engines emit nothing but water from their tailpipes and would help reduce oil consumption and cutting greenhouse gas emissions. Several automakers have been working on the technology for years and many hurdles still remain before they will be able to offer hydrogen-powered cars at affordable prices. GM is hoping to win the race to market fuel cell vehicles in part because it believes producing cutting-edge technology will turn around the negative image many consumers have of the three domestic automakers.

GM is increasingly determined to have a fuel cell vehicle on the market by around 2010. The 500 engineers have, until now, worked within Mr. Burns's research group in Warren, Mich., Honeoye Falls, N.Y., Torrance, Calif., and Germany. They will remain in those locations but most will now report into the group run by Tom Stephens, vice president, global power trains and global quality. Others will be moved into the global vehicle engineering group run by Jim Queen. The news of GM's organizational change comes as Congress is discussing increasing fuel-economy requirements for conventional vehicles to address the issues of global warming and U.S. dependence on foreign oil. GM and most other auto makers oppose the move, arguing that developing new, clean technologies is a better and less expensive approach than the so-called CAFE fuel standards. "Improving fuel efficiency of the internal combustion engine alone won't solve the problem," Mr. Burns said. CAFE, he added, has been in place for 30 years but hasn't stemmed U.S. oil consumption. "The solution is to displace petroleum and find new sources of energy."

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Strategies: IBM Focuses On Software; More Acquisitions In the Works – IBM continues to focus on software sales and software acquisition. Big Blue sells computer hardware, services and software with computers taking a smaller share these days. IBM software sales now accounts for 20% of revenue and generates 40% of pretax earnings according to the Company. With that success, IBM has become the second largest software firm behind Microsoft. IBM believes software is the key to boosting its overall profitability. Gross profit margins at the company's software unit, led by Steve Mills, are typically the highest of IBM's four main businesses and stood at 83.6% in the first quarter. The hardware unit's profit margin, by comparison, was 34.8%, and global technology services came in at 29.2%. One area where IBM is seeing excellent results selling software is prepackaged with an original equipment manufacturer. For example, IBM expanded its partnership with Cisco who is using IBM communications software. IBM says bundled software with OEM's is growing at a double-digit annual percentage rate following acquisitions in recent years. The company has already signed thousands of deals with companies that use IBM software in their products. Expect IBM to continue making software acquisitions that match this strategy. See following report for more on this subject.

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Strategies IBM To Acquire Telelogic; Acquires Watchfire – IBM has made a \$745 million offer for Sweden-based Telelogic. Like its recent purchase of Watchfire, IBM's potential acquisition of Telelogic should be a nice fit and a growth driver. Telelogic builds software that helps with the design and delivery of embedded software. The technology is at the core of such things as consumer electronics devices, medical systems, and airplanes. Some of the marquee customers include DaimlerChrysler, and ABB Ltd. IBM will fold Telelogic into its tools division, Rational. While both companies have been rivals, they have also realized the importance of developing standards and have cooperated over the years. For fiscal year 2006, Telelogic's revenues have increased 18% to \$217 million and profits were \$22.8 million. The revenue forecast for 2007 is for 7% to 12%. But with the heft of IBM, the growth will likely be higher. Big Blue plans to cross-sell Telelogic's software through its massive Global Services unit. The deal will also bolster IBM's competitive advantage against players like Borland and Serena.

IBM has just acquired Watchfire. IBM has entered into an agreement to acquire Watchfire Corporation, a privately held security and compliance testing software company based in Waltham, Massachusetts. The acquisition is subject to customary regulatory approvals and is expected to close in the third quarter of 2007. Financial details were not disclosed. Online security and privacy incidents are on the rise which can result in loss of customer trust, costly technology and business remedies and often legal battles. According to a 2005 CSI/FBI Survey, internal security attacks cost U.S. businesses \$400 billion per year. Watchfire technology, together with IBM, can help customers reduce these security risks and the associated costs to their bottom line.

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Strategies: Global Water Problems, A Software Sales Opportunity? - Did you read the cover story of U.S. News & World Report last week? The headline of the main article: "Why You Should Worry About Water." Here are some of the points:

1. In China, an estimated 500 million people go without access to clean water every day.
2. In India, the crisis is even worse. Over half the cities in India are suffering from a shortage of potable water.
3. Australia, a country loaded with natural resources, is being hit hard by water shortages. So much so that a 10-year, \$10 billion national spending bill was introduced this year in Sydney.

Governments around the globe are about to spend nearly \$1 TRILLION trying to solve the shortage. So they're aware of the problem — acutely aware. That's especially true in China, where hundreds of billions of dollars will be spent. And unlike the oil crisis, the water crisis can be solved. Some of the top solutions include:

- Water purification

- Water supply and distribution
- Wetlands management
- Coastal engineering
- Erosion and sediment control
- Groundwater hydrology
- Storm water control and treatment
- Sewage and wastewater treatment
- Ocean water desalination

As you can see, the water crisis can be attacked on several fronts, from pollution control to ocean desalination. That means there are going to be loads of companies that can profit from it. One of the best ways to benefit is to sell to those companies that have made it their mission to solve unique problems like water shortages. But, there are only a handful of companies that are positioned to reap rewards from the global water problem opportunities.

The good news is that new owners will spare a number of the plants and jobs that are actively producing. With companies eager to shed sites that are often fully outfitted with expensive equipment, there are also plenty of younger or less encumbered firms on the hunt for a bargain. Some sites will continue to operate during the transition, while others will require some upgrading or validation work. Why our optimism? There are hundreds of local economic development groups successfully bringing together governments, investors and area universities who are trying to acquire some of these properties to retrofit as incubators for multiple start-ups that need low-cost research and manufacturing operations. This, in turn creates expanded SME software sales opportunities. The strategy here is simple. Hopefully, as these companies expand, they will grow in place. And if one evolves into an Amgen or Genentech, they offer an opportunity for expanded software needs.

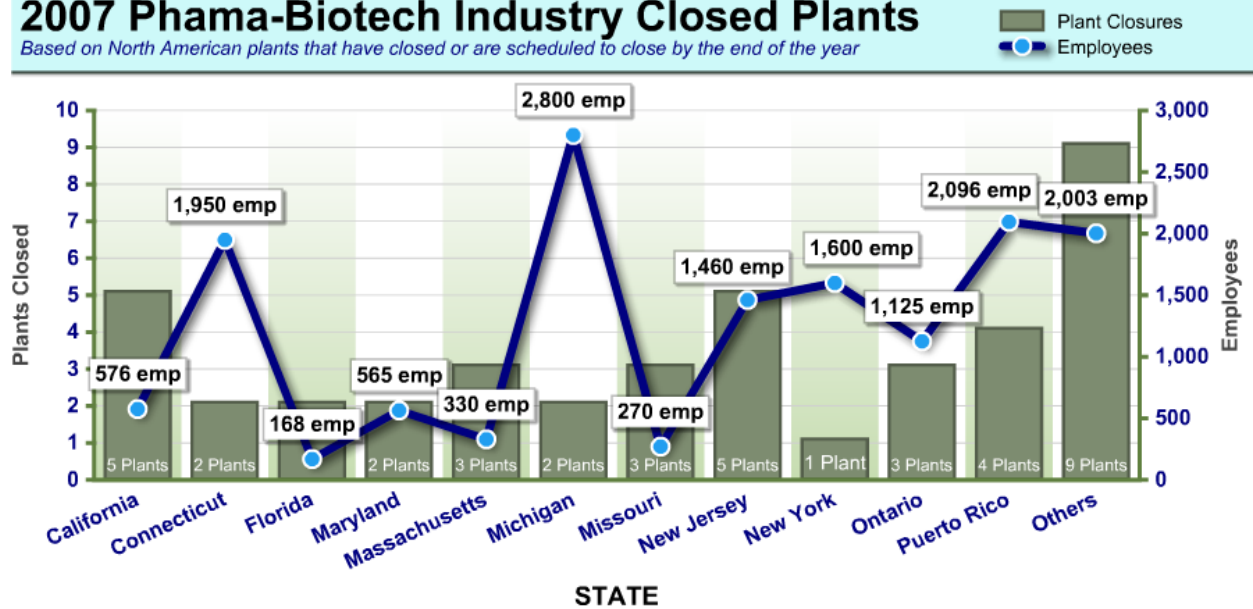
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Pharma-Biotech; 41 Plants Have or are About To Close; A Software Sales Opportunity? - 2007 continues the Biotech industry's problems. The Pharma-Biotech Industry currently has 41 plants that have either closed or are scheduled to close this year. The trend in Biotech closures has been a continuing trend over the past three years. This spike in the number of plants targeted for closure is disconcerting to the local areas and the loss of a large Pharma biotech producer can be devastating. But, opportunities for software sales (especially in the SME sector) follow the closures.

The reasons are a direct result of the issues that continue to plague the industry, such as product liability, patent losses, weak pipelines, excessive R&D exuberance and an overall right sizing by many. For example, too many of the early plants are inefficient and being abandoned for new, centralized facilities. Others have come up short in the wake of mergers and acquisitions, with the new owners shedding redundant infrastructure.

2007 Pharma-Biotech Industry Closed Plants

Based on North American plants that have closed or are scheduled to close by the end of the year



A recent analysis of the data reveals a more detailed picture of this activity. Of the 41 plants currently being tracked, California and New Jersey share the dubious distinction of hosting the majority of the sites, with five targeted plants each, or 12%. Officials in life science favorite Puerto Rico are hoping the four facilities (10%) on the island on the chopping block will be bought up by other Pharma/Bio's. The remainder of the sites are scattered throughout 17 other states. Canada is not being left out either, with both Ontario and Quebec losing one plant each. A regional look at the numbers places the Southeast in first place, with eight sites (20%) scheduled to close. The Northeast is right behind with seven (17%). The West Coast and New England, both Bio darlings, have joined the Midwest in a three-way tie for third with each dropping five plants (12%). The closing of all of these plants could ultimately result in a total job loss of over 15,000 workers.

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Chem: China's CNPC Is to Invest \$2.9 Billion in Ethylene Project - China National Petroleum Corporation (CNPC) will invest \$2.9 billion in Shaanxi province to build a petrochemical project. Shaanxi Yanchang Petroleum (Group) Company Limited (Xi'an, Shaanxi province) will cooperate with CNPC (Beijing, China), the parent company of PetroChina Company Limited in the project. This is considered to be a key project in Shaanxi province. The \$2.9 billion investment will be used to build a petrochemical plant, which will produce one million tons of ethylene and gasoline; 750,000 tons of polyethylene; 350,000 tons of polypropylene and other products. The plant will be built in the Yangshu Chemical Industrial Zone in Shaanxi's Yan'an city, where a reservoir and several new roads are under construction. The Shaanxi province has total of 4.3 billion tons of crude oil reserve and 7.1 billion tons of coal.

Changqing Oilfield, which lies across Shaanxi province, Gansu Province and Inner Mongolia Autonomous Region, has been verified with 1.19 billion tons of crude oil and

1496.3 billion cubic meters of natural gas. The ample reserve will provide the raw materials to be used in the petrochemical plant. Yanchang Petroleum is China's fourth largest oil recovery and petrochemical company after CNPC, China Petroleum and Chemical Corporation -- Sinopec and China National Offshore Oil Corporation. It recovered 9.26 million tons of crude oil and processed 9.7 million tons of crude oil in 2006. In 2006, Sinopec started its one-million-ton integrated ethylene and refinery project in China's eastern Tianjin city and a one-million-ton ethylene project in southeastern Zhejiang province. CNPC also started a Dushanzi ten-million-ton ethylene project in China's western Xinjiang Uygur Autonomous Region the same year. The Shaanxi project is an important one in Central China in order to boost local development.

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ERP: IFS Gets Needed Help In North America - IFS recently announced that it has signed a reseller agreement for the North American market with strategic business partner NEC Corporation of America (NEC), a provider of IT, network, storage, and storage software solutions. The agreement will enable NEC to sell IFS' component-based enterprise software suite, IFS Applications 7, in North America. It also allows both companies to work collaboratively to better serve the growing number of North American subsidiaries of Japanese companies. NEC just completed a process improvement-consulting project together with IFS for Funai Corp., Inc., Torrance, California. This project included moving Funai to a recent version of IFS Applications and the purchase of additional IFS user licenses to accommodate Funai's growth in North America. The result will enable Funai to take advantage of IFS' latest industry-specific functionality for the high-tech industry and realize the benefits of the latest technologies. Funai has been an IFS customer since 1999 and uses the software to support a multi-site distribution and product return processing operation.

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ERP: Microsoft Upgrades Dynamics - Microsoft Corp. releases upgrades to its Dynamics GP and SL. The ERP suites have improved integration with desktop and workflow software. The upgrade also provides access to tools for building customized user interfaces according to Microsoft. The new version 10 of GP and version 7 of SL provides better integration with Microsoft Office applications and the SharePoint Server suite of middleware, content management and collaboration tools, according to Eric de Jager, director of Microsoft Dynamics SL. The new releases also allow users to use the SharePoint Web portal to compile important customer information such as lists of invoices and orders. The current version requires that users learn how to navigate through a full set of GP screens to complete various tasks, he noted. But the new customized interface helps cut training requirements and obviously will make users more productive. Microsoft also said that the SL- v7 application, which targets process-based industries such as a construction or professional services, could also be used to customize workflow menus. Dynamics GP 10 and Dynamics SL 7 will be available through Microsoft's partners by the time you read this.

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ERP: ERP Vendor Kingdee, a Fast Growing Chinese Vendor You Never Heard Of -

Kingdee is a rapidly growing Chinese ERP and Middleware developer that plans to be one of the Top 10 ERP companies worldwide by 2010. That might actually become a reality. Kingdee says it has offices in 221 cities, about 3200 employees and 400.000 customers. IBM and Lehman Brothers are investing in Kingdee and could easily turn Kingdee into a major ERP player and we believe it will become a mini Oracle by 2010. SAP, for its part, believes Kingdee is its major rival in China. PWR believes it will first extend its influence throughout the Australasian ERP market and emerge as its objective of becoming a major ERP provider.

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ERP: SAP Announces New Mobile Solutions Functionality -

SAP has announced new mobile solutions and enhancements to existing mobile applications that help companies extend SAP business processes to information workers via mobile devices. The new capabilities are extensions for the existing suite of SAP mobile solutions, called "SAP xApps composite applications for mobile business," The company also announced the latest version of SAP NetWeaver Mobile, a mobile infrastructure that provides the foundation for SAP mobile solutions and enables organizations to easily build customized applications by leveraging the flexibility of enterprise SOA. Today, the company also demonstrates continued momentum in the mobile market with more than 850 customers and a 50% increase in its mobile business year over year. Customers have embraced SAP mobile solutions because SAP continues to deliver an infrastructure and applications that are vertically specific and address the needs of information workers according to their role within an organization, from executives to sales staff to field service professionals. SAP mobile solutions can easily be customized and extended to adapt to new business conditions, another key benefit for customers. Because the solutions are seamlessly integrated with SAP Business Suite and can be combined with non-SAP solutions, developers can select the exact business processes and data their remote users.

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MES: Aspen Tech Revising Financial Statements Again, and Again, and ... -

Aspen Technology has announced that its financial statements for the years ending June 30, 2005 and 2006, along with quarterly filings to date, are unfit for investor consumption, due to problems in its accounting for accounts receivable. It's an interesting issue because of the messy, rules-structured Statement 140 that's involved. That standard prescribes the methodology for companies to remove assets like accounts receivable or other loans, place them into a trust, and issue paper with a payout based on the assets in the trust. That process is known as a securitization, and Statement 140 governs when such a transaction results in a sale of such assets, resulting in a gain. If those conditions aren't met, then the transaction is a borrowing and

not a sale. In Aspen's case, the sale was initially recognized and proper. Their problem arose later when they licensed more software to customers whose receivables had been placed into a securitization, and their new installment receivables were consolidated with the previously unpaid balance already turned over to the securitization. Unfortunately for Aspen, that gave them control over the assets that were considered isolated for sale purposes - a third rail that must not be touched. Therefore, the company needs to restate its financials to treat the sales as borrowings.

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