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digital markets

DATAPOINT:

IBM to Acquire Rational Software Corporation



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IBM'S PENDING ACQUISITION OF RATIONAL SOFTWARE

Announced: December 6, 2002

December 6, 2002 – IBM (NYSE: IBM) and Rational Software Corporation (“Rational”) (NASDAQ: RATL) today announced the two companies have entered into a definitive agreement for IBM to acquire the equity of Rational at a price of approximately \$2.1 billion in cash or \$10.50 per share. The offer price provides a 28.5% premium over Rational's closing stock price on December 5 and a 14.6% premium over its average price over the 10 trading days ending December 5. Rational shares traded as high as \$69 in 2000 and \$24.91 in January, 2002 before dropping to a low of \$4.17 in September, 2002. The acquisition is subject to customary closing conditions, including Rational stockholder and government regulatory approvals, and is expected to close in the first quarter of 2003. IBM will merge the business into its IBM Software Group, joining Websphere, Lotus, Tivoli and DB2.

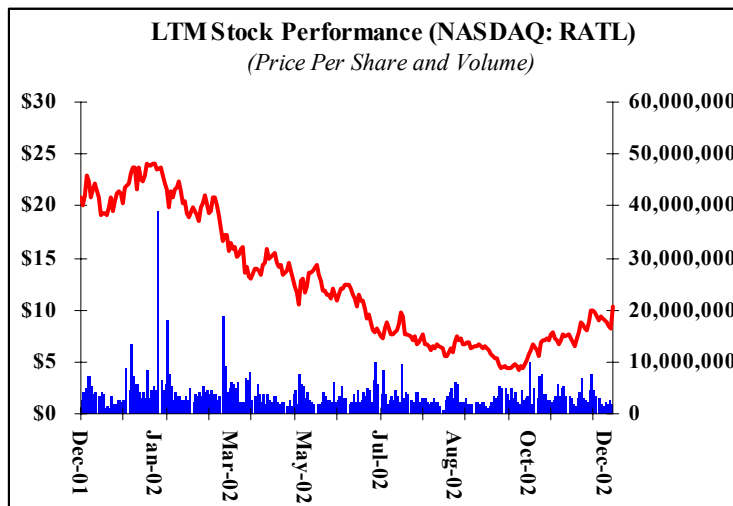
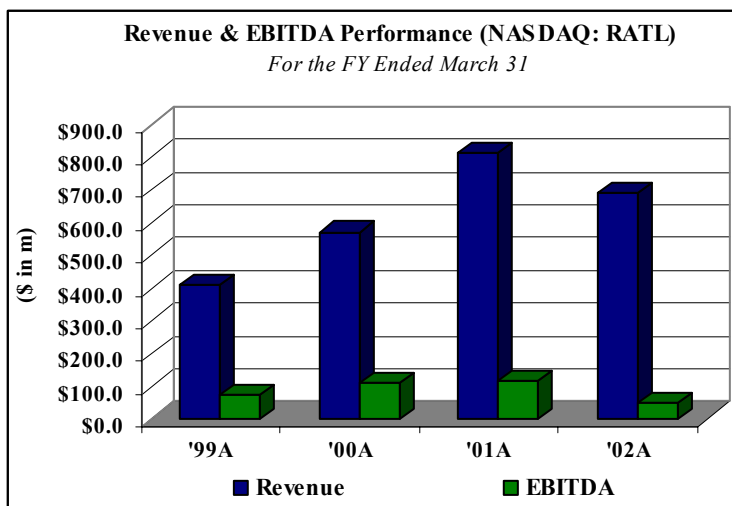
Transaction Details:

Equity & Enterprise Value Calculations
Equity Value: Shares Outstanding x Price Offered = 195.2m shares ⁽²⁾ x \$10.50 per share = \$2,049.6m
Enterprise Value: Equity Value + Net Assumed Debt = \$2,049.6m (Equity Value) + (\$500.3m) (Net Cash) = \$1,549.3m

Valuation Metrics Based on the Enterprise Value (1) of the Pending Transaction			
Latest Twelve Months ⁽³⁾		Latest Qtr Annualized ⁽³⁾	
Revenue	EBITDA	Revenue	EBITDA
2.36x	16.86x	2.51x	23.33x

- (1) Based on the 9/30/02 balance sheet of RATL, net debt (cash) assumed is estimated to be approximately (\$500m). See net debt (cash) calculation below.
 (2) 195,169,259 RATL shares outstanding per 11/14/02 10-Q filing (for period ended 9/30/02).
 (3) LTM & LQA operating results as of 9/30/02. Excludes one-time charges.

Historical Performance of Rational Software:



Rational Software Company Description: Rational Software Corporation is a provider of integrated solutions that automate the software development process. Its integrated solutions include unified tools, software engineering best practices and services that allow customers to successfully and efficiently develop and deploy software. Its solutions help customers organize, automate and simplify the software development process and enable them to gain a competitive advantage by consistently developing higher quality software in less time. The Company's portfolio of products and solutions include Rational Unified Process, Rational Integrated Solutions, Rational Suite, Configuration and Change Management Solutions, Requirements Management Solutions, Visual Modeling Solutions, Automated Testing Solutions and Integrated Development Environmental Solutions.

Balance Sheet Adjustment – Net Debt	
From 9/30/02 Balance Sheet (\$ in m)	
Plus:	
Long Term Debt:	\$500.0
Total:	\$500.0
Less:	
Cash And Equivalents:	(\$370.4)
Short Term Investments:	(\$629.9)
Total:	(\$1,000.3)
Net Debt (Cash) Assumed:	(\$500.3)

-- The information contained herein was obtained from public sources and should not be relied upon without independent verification --