CONSOLIDATED CLASS ACTION COMPLAINT

1. Y to the X, Inc., individually and on behalf of all other persons and entities similarly situated, for its Consolidated Class Action Complaint, alleges upon its own knowledge as to itself and its own actions, and upon its counsel's investigation as to its other allegations, as follows:

NATURE OF THE ACTION

2. This class action is filed on behalf of all persons and entities (the "Class Members") who purchased the securities of Visual Networks, Inc. ("Visual Networks" or "the Company") between February 7 through August 22, 2000 and who suffered damages caused by defendants' misrepresentations and omissions concerning Visual Networks' acquisition and integration of
Avesta Technologies, Inc. ("Avesta") and the Company's actual and/or anticipated revenues, earnings, and sales of its products. Defendants' misrepresentations and omissions of material fact violated the federal securities laws and damaged plaintiff and the Class Members.

3. Plaintiff's allegations are based on its own knowledge and an extensive investigation conducted by Plaintiffs' Counsel, which included examining public filings with the Securities and Exchange Commission ("SEC"), press releases, publicly available trading information, articles in the general press, the financial press and on wire services, publicly available information concerning defendants, and interviewing persons familiar with the business and operations of Visual Networks and Avesta.

4. Visual Networks provides management systems for computer networks. On or about February 7, 2000, the Company signed a definitive agreement to acquire Avesta, a privately-held provider of computer management systems to businesses engaged in electronic commerce, in an all-stock transaction valued at approximately $415 million.

5. Defendants characterized Visual Networks' planned acquisition of Avesta as a "critical piece of [Visual Networks'] articulated strategy to become the largest service management
vendor with the industry's broadest portfolio of products and functionality." Defendants asserted that the combined business would answer the need of businesses requiring end-to-end service management. According to defendants, the acquisition "change[d] the playing field for service management" so that "instead of having to integrate products from many small vendors...customers will now have a unified strategic partner."

6. Despite these upbeat pronouncements, Visual Networks' acquisition of Avesta was from the outset impacted by problems that defendants deliberately concealed from the investment community. For example, although the acquisition was announced on February 7, 2000, Visual Networks did not begin its due diligence investigation of Avesta until over a month later, in March 2000. Without having commenced, much less completed, a due diligence investigation, Visual Networks agreed to pay what at least one analyst later described as a "high price" for Avesta, a "problematic and unprofitable" company that had reported "significant losses" for the previous three years, and that had to restate its earnings for 1997, 1998, and the nine months ending September 30, 1999 to comply with Generally Accepted Accounting Principles ("GAAP"). Such restatement had the net effect of increasing Avesta's losses by $1.45 million
for 1998, and by $5.65 million for the nine months ending September 30, 1999.

7. Defendants represented that the integration of the two companies would take only three to four months, that a post-acquisition Visual Networks would experience nearly 50% revenue growth in 2000 and 2001, and that Visual Networks would realize management synergies of $5-12 million because of the acquisition. At the time these representations were made, however, defendants knew or were reckless in not knowing that (a) the integration of the two companies could not possibly be completed within three to four months; (b) Visual Networks' post-acquisition revenue could not possibly grow by anywhere near 50% in 2000 and 2001; and (c) little, if any, management synergy would result from the acquisition. Moreover, when news of Visual Networks' problems began to emerge, defendants publicly issued knowing misrepresentations to keep the price of the Company's common stock artificially inflated.

8. Contrary to defendants' claims that Visual Networks would experience 50% revenue growth in 2000 and 2001, defendants knew that during the first half of 1990 Visual Networks had oversold merchandise to several of its key customers, thereby compelling those customers to curtail or eliminate their
purchases from the Company during the very time that defendants were informing the investment community that its revenue would continue to experience 50% revenue growth in 2000 and 2001.

9. Defendants had been placed on fair notice that the integration of Avesta into Visual Networks could not be completed within the time frame announced, as well as that the other claims defendants made for the Avesta acquisition were false when they were made. Visual Networks had recently experienced significant difficulties in a prior integration that demonstrated to the Company's management the difficulties and delays associated with acquiring and integrating other businesses; this placed defendants on notice that their positive statements on the Avesta acquisition and integration were false and misleading when made. For example, defendants knew that when Visual Networks acquired a California-based company named Inverse Network Technology, Inc. ("Inverse") in 1999, for quite some time the Company encountered several problems with the integration of Inverse's business, slowing the process and lowering the value of the acquisition. Indeed, Visual Networks was still struggling with the Inverse acquisition when it announced the Avesta acquisition in February 2000.
10. These misrepresentations and omissions of material fact had the effect of artificially inflating the price of Visual Networks' common stock.

11. While defendants were engaging in their scheme to disseminate false and misleading information about Visual Networks to the investment community, significant insider trading took place. During this time defendant Stouffer (Visual Networks' Chairman, President, and Chief Executive Officer) and Michael Watters (Visual Networks' Chief Operating Officer until March 1, 2000; thereafter the Company's General Manager/Benchmark Products) engaged in insider transactions of the Company's stock by selling substantial portions of their stockholdings in the Company at artificially inflated prices, thereby garnering over $11 million for themselves at the expense of the Class Members to whom they sold their shares. This insider trading, conducted at the highest executive and managerial levels of Visual Networks, provides additional evidence that the Company's senior management -- including Stouffer and Watters, who had access to material, nonpublic information about the Avesta acquisition and the Company's financial condition -- was aware of the true nature of the Company's status, including problems associated with the acquisition.
12. On July 5, 2000, defendants were forced to acknowledge publicly a portion of the truth that they had previously concealed from the investment community. On that date, defendants announced that Visual Networks would fall short of its expected revenues for the second half of 2000 and for 2001 as a direct result of, inter alia, the problems related to the integration of Avesta. Defendants specifically acknowledged that the shortfall was attributable to "management's focus on the Avesta transaction and the resulting diversion of...attention from day-to-day operations." As a result of this disclosure, the price of Visual Networks common stock, which had closed at $26.25 on July 5, 2000, closed on July 6, 2000 at $12 -- a 54% decline in a single trading day -- on trading volume 27 times the stock's average daily trading volume for the first half of 2000.

13. However, as set forth in detail below, Visual Networks' July 5, 2000 announcement did not reveal the full truth to the marketplace. After July 5, defendants continued to conceal, from the investment community, material information regarding Visual Networks' sales results. It was not until August 22, 2000 that Visual Networks announced that its third quarter sales would be half of its previous forecast. As a result of this disclosure, the price of Visual Networks common
stock, which had closed at $10.81 on August 22, 2000, closed on August 23, 2000 at $6.84 -- a 37% decline in a single trading day -- on trading volume 10 times the stock's average daily volume for the first half of 2000.

**JURISDICTION AND VENUE**


15. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78t(a), and Rule 10b-5 of the Securities and Exchange Commission promulgated thereunder, 17 C.F.R. § 240.10b-5.

16. Visual Networks' headquarters is located within this District. Defendant Stouffer resides and/or works within this District. The acts alleged herein, including the preparation and dissemination of false and/or misleading information and the making of material omissions, occurred within this District. Venue in this Judicial District is therefore proper under 28 U.S.C. §§ 1391(b) and 1391(c).

17. In committing the wrongful acts alleged herein, defendants utilized means and instrumentalities of interstate commerce, including the United States mail, interstate telephone
communications and lines, and the facilities of the national securities exchanges.

THE PARTIES

18. Lead Plaintiff Y to the X, Inc. purchased 32,100 shares of Visual Networks' common stock during the Class Period, and incurred losses of approximately $312,126 as a result thereof. Its certification of transactions in the stock is attached.

19. Defendant Visual Networks was incorporated in Maryland in August 1993 under the name Avail Networks, Inc. In December 1994 it was reincorporated in Delaware under the name Visual Networks, Inc. It is required, under the federal securities laws, promptly to disseminate accurate and truthful information on its status, operations, and financial results.

20. Visual Networks manufactures and sells service management systems for both providers and users of computer connectivity services and out-sourced Web services. Under the names "Visual UpTime," "Visual IP InSight," and "Visual eWatcher," the Company's management systems are designed to enable network and Web-hosting service providers to achieve the service levels their subscriber customers seek, and to lower operating costs associated with entire computer networks.
21. The Wide Area Network, or WAN, market has grown rapidly with the increase in computing and data traffic. WAN services are used in three distinct ways: (1) to interconnect computing facilities of geographically dispersed sites within a single enterprise; (2) to connect one enterprise’s computing facilities to another’s; and (3) to allow remote users to use an enterprise’s computing facilities. The networks in a WAN are generally deployed using a supply chain of various wholesale and retail network service providers, including traditional telephone companies and "new world" broadband network providers, to provide (a) network access, (b) backbone transport, and (c) hosting. These service providers may either compete or cooperate with one another to provide complete connectivity to their ultimate customer, the individual enterprise. In all cases, the service providers seek to provide quality, and highly-bundled hosting services.

22. With a premium placed on network performance and availability, companies have invented tools to measure end-to-end service quality across ownership boundaries, multiple vendors, and numerous types of access media. Because service providers offer services across all of the pertinent technologies, they seek "service management solutions" that will
accurately measure the quality of the multiple services they provide.

23. Visual Networks' products are designed to alert computer service providers to degradations of service before their customers are affected. Visual Networks claims to have pioneered diagnostic tools to monitor and troubleshoot the various problems that can arise in WANs, especially the technical problems associated with managing and verifying actual service levels.

24. Virtual Networks sells three basic groups of products. The Company's "Visual UpTime" product is a service management system that performs data collection, data interpretation, and data presentation while monitoring WAN-wide performance, thus enabling users to track service level problems on both the subscriber side and the service provider side. The Company's "Visual IP Insight" product is a WAN service management system for remote-access network technologies utilizing Internet Protocol ("IP") and the Internet. It is designed to assist operations managers, network managers, and help-desk (customer care) personnel in providing network management for service subscribers and internal enterprise users. The Company's "Visual eWatcher" product is designed to keep track of all Web resources, including routers, internal business services, and
URLs. While conducting monitoring and testing functions for availability, responsiveness, and accuracy of Web page content, the "Visual IP Insight" notifies IT personnel when faults are detected, thresholds are exceeded, or applications fail. The product is designed to communicate network problems through e-mail, on-screen interrupt, and pager services.

25. Defendant Scott E. Stouffer ("Stouffer") is (and was, during the Class Period) Visual Networks' Chairman, President, and Chief Executive Officer. By reason of his direct and substantial management positions and responsibilities from February 7 through August 22, 2000, Stouffer was a "controlling person" within the meaning of Section 20 of the Exchange Act, and exercised such control to cause Visual Networks to commit violations of the securities laws. He also had access to non-public, material, adverse information on Visual Networks' business and financial conditions and results of operations.

26. Because of his position of control and authority, defendant Stouffer was able to and did control the contents of the Company's public filings. As the Chairman, President and C.E.O. of a publicly held company, defendant Stouffer had a duty promptly to disseminate accurate and truthful information with respect to Visual Networks' operations and financial status.
27. The defendants pursued and effected the unlawful conduct or scheme alleged herein to artificially inflate the market price of Visual Networks' common stock, and thereby acted to defraud plaintiff and Members of the Class. While the Company's stock price was artificially inflated, Watters and defendant Stouffer sold substantial amounts of their own holdings of Visual Networks' common stock into the open marketplace, garnering millions of dollars at the expense of Class Members who purchased such shares at artificially inflated prices.

28. Each defendant is liable as a direct participant in the wrongs complained of herein.

29. The statements made by defendants were materially false and misleading when made. Further, defendants had no reasonable basis to justify or support their statements concerning (a) the acquisition and integration of Avesta, and (b) Visual Networks' revenues, earnings, operations, and financial results.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

30. Plaintiff brings this action as a class action pursuant to Rule 23(a) and Rule 23(b)(3) of the Federal Rules of Civil Procedure on behalf of a class (the "Class") consisting of all persons and entities who purchased the common stock of
Visual Networks during the period February 7 through August 22, 2000, inclusive (the "Class Period"). The Class excludes defendants, Visual Networks' present subsidiaries, affiliates, and entities they control, and members of defendant Stouffer's immediate family.

31. The Members of the Class are so numerous and geographically dispersed that joinder of all Class Members is impracticable. According to the Company, 25,036,912 shares of Visual Networks' common stock were outstanding as of March 21, 2000. Plaintiff believes there are at least hundreds and probably thousands of Class Members. Identification of the Class Members can be readily made from the Company's records and those of its transfer agent.

32. Plaintiff will fairly and adequately protect the interests of the Members of the Class, and has retained counsel competent and experienced in class action and securities litigation.

33. Plaintiff's claims are typical of the claims of the Members of the Class. Plaintiff and all Members of the Class sustained damages arising out of defendants' wrongful conduct in violation of the federal securities laws.

34. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.
because joinder of all Class Members is impracticable. Furthermore, because the damages suffered by individual Class Members may be relatively small, the expense and burden of individual litigation render individual redress by Class Members impracticable.

35. There are questions of law and fact common to the Class which predominate over any question solely affecting individual Members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;
(b) whether defendants participated in and pursued the common course of conduct complained of herein;
(c) whether the documents disseminated to the investing public, and other public statements made by the defendants during the Class Period, omitted and/or misrepresented material facts about the success of the Avesta acquisition and integration, and about Visual Networks' sales, revenues, earnings, operating results, or general financial condition;
(d) whether defendants acted knowingly or recklessly in omitting to state and/or misrepresenting material facts;
(e) whether the market price of Visual Networks' common stock during the Class Period was artificially inflated due to the non-disclosures and/or misrepresentations complained of herein; and

(f) the proper measure of plaintiff's and Class Members' damages sustained as a result of defendants' unlawful conduct.

36. Plaintiff knows of no difficulty that will be encountered in the management of this litigation which would preclude its maintenance as a class action.

37. Plaintiff will rely, in part, on the presumption of reliance established by the fraud-on-the-market doctrine in that (1) defendants made public misrepresentations or failed to disclose material facts during the Class Period; (2) the omissions and misrepresentations were material; (3) Visual Networks' common stock traded on a well-developed, open, and efficient market; (4) the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and (5) plaintiff and the Members of the Class, having no knowledge of omitted material facts or the falsity of defendants' misrepresentations, purchased their Visual Networks securities between the time defendants failed to disclose or misrepresented material facts
and the time the true facts were disclosed. Plaintiff and the Members of the Class therefore are entitled to a presumption of reliance based on the integrity of the market.

**NO STATUTORY SAFE HARBOR**

38. The statutory safe harbor, which is provided for forward-looking statements under certain circumstances, does not apply to any false statements alleged herein which were not identified as a forward-looking statement or accompanied by proper cautionary statements identifying important factors that could cause actual results to materially differ. To the extent that the statutory safe harbor does apply to any statements pled herein, defendants are liable for those false forward-looking statements because at the time each of those statements was made, the speaker actually knew the forward-looking statement was false, and/or the statement was authorized and/or approved by an executive officer of the Company who actually knew that the statement was false when made.

**FACTUAL ALLEGATIONS**

39. On February 7, 2000, the first day of the Class Period, Visual Networks issued a press release announcing that it had signed a definitive agreement to acquire Avesta. The press release stated, *inter alia*, that the acquisition would increase Visual Networks' market opportunity, expand its
products, and provide end-to-end service to its customers. Defendants claimed that the acquisition was critical to making Visual Networks the largest service management vendor with the broadest portfolio of products.

40. The February 7, 2000 press release stated that the combined companies would be fully integrated within three to four months of April 1, 2000, and that the Company's revenue would grow by 50% in 2000 and 2001.

41. The February 7, 2000 press release indicated that the acquisition would expand Visual Networks' customer base, leading to higher revenues. Defendant Stouffer stated that the acquisition "chang[ed] the playing field for service management," and that "[i]nstead of having to integrate products from many small vendors...our...customers will now have a unified strategic partner." Stouffer further stated, "As a combined entity, we can offer a broad solution set for managing the Internet infrastructure end-to-end -- from client to servers to host computers -- as well as the underlying transport infrastructure." In the same press release, Avesta's President and CEO Kam Saifi (who was to join Visual Networks as a Board Member and executive vice president) was quoted as stating, "The market is ready for a comprehensive service management solution, and this union of our two companies will bring us, our customers
and the rapidly growing market that much closer to a single-vendor solution."

42. Due to the representations made by defendants in their February 7, 2000 press release, SG Cowen Securities Corporation issued a securities industry research report maintaining a "Buy" rating on the Company's stock, and predicted increases in its revenue growth.

43. On February 8, 2000, the investment banking firm Dain Rauscher Wessels issued a securities industry research report that rated Visual Networks' shares a "Strong Buy - Aggressive" due, in part, to the anticipated expansion of Visual Networks' customer base and dramatic revenue growth as set forth in the Company's February 7, 2000 press release. Dain Rauscher forecast that Visual Networks' shares would exceed "a price target of $100."

44. Based on the announced acquisition as set forth in the February 7, 2000 press release, Van Kasper & Company issued a report on February 8, 2000, raising its rating on Visual Networks from "Buy" to "Strong Buy" "based on the potential benefits of the recent announcement." Van Kasper's 12-month price target was set at $100 per share.

45. On February 18, 2000, defendants filed a Form 8-K with the SEC claiming, in part, that "[b]y combining Avesta
Technologies' next generation management and applications monitoring capability into its product portfolio, Visual Networks is responding to the growing trend among enterprises to out-source their networks and applications to service providers." Moreover, defendants reiterated their claims that top-line revenue of the combined company would rise 50% in 2000 and 2001, and that the integration of the entities would be completed within three to four months.

46. On March 24, 2000, Visual Networks filed its Form 10-K for 1999 with the SEC. Though the document set forth the terms of the Avesta acquisition, it failed to disclose that there were any issues concerning the Avesta acquisition that would adversely affect the Company's revenue or financial results.

47. On April 13, 2000, defendants issued a press release announcing that revenue for the first quarter of 2000 was $30.5 million, compared with $18.6 million for the same quarter the previous year -- an increase of 64%. Defendants attributed the revenue increase to the growth of e-businesses which "created a need for end-to-end service management that integrates networks, systems, and applications into a unified service view for service providers and their enterprise customers." It was this supposed need for such end-to-end service management that defendants, in February 2000, had
claimed was one of the reasons for the Avesta acquisition. In the April 13 press release, defendants again referred to the Avesta acquisition, stating "Avesta Technologies -- combined with the acquisition of Inverse Network Technology late last year -- is a key component of Visual Networks' strategy to become the most comprehensive service management supplier in terms of product functionality and markets served." Thus, defendants represented that the Company's revenue growth was being fueled by exactly the type of business it was promoting through its acquisition of Avesta.

48. Contrary to such representations, Visual Networks' purported revenue growth was not the result of the generic type of business it was promoting through its acquisition. To the contrary, the reported revenue growth was the result of the Company's deliberately overstocking at least two of its key customers with merchandise, which materially and artificially inflated Visual Networks' reported revenues.

49. Among Visual Networks' most important customers were AT&T, MCI, Sprint, and Verizon, which together accounted for approximately 65% of the Company's revenue. Sales lost from any one of these customers, therefore, would present a major problem for the Company. In order to maintain and prolong the illusion of revenue growth until the Avesta acquisition could be
consummated, as well as to keep the Company's stock price artificially inflated, defendants overstocked AT&T and MCI with merchandise consisting of Visual Networks' switches. Defendants' sales of this excessive inventory fraudulently boosted the Company's reported revenues until such time as the acquisition could be completed and insiders could sell considerable portions of their Visual Networks stock at artificially inflated prices.

50. Visual Networks' April 12, 2000 press release, and the purported positive growth outlook with respect to the acquisition's potential to continue the Company's revenue performance, resulted in Merrill Lynch's April 14, 2000 "Buy" rating on Visual Networks stock. Based on defendants' representations, Merrill Lynch issued a 12-month price objective of $93 per share. Merrill Lynch also stated, based at least in part on defendants' representations, that its estimated combined revenues for the post-acquisition Company were $164 million for 2000 and that this was "very conservative," and that such estimates could be exceeded by Avesta's positive contributions to Visual Networks.

51. On April 14, 2000, the same day the Merrill Lynch report was issued, Dain Rauscher Wessels issued a report maintaining a "Strong Buy - Aggressive" rating on Visual
Networks' stock based on "accelerated revenue momentum over the balance of 2000, as the...Avesta acquisition bear[s] fruit."

Similarly, on April 17, Van Kasper & Company maintained its "Strong Buy" rating and stock price target of $100 per share.

52. On April 20, 2000, defendants filed a Report on Form S-4 with the SEC. In that filing, defendants acknowledged that Avesta had experienced "significant losses" increasing over the period of 1997 through the first nine months of 1999, and for that same period was required to restate its financials in order to comply with GAAP. This had the net effect of increasing Avesta's net losses by $1.45 million for 1998, and by $5.65 million for the nine months ending September 30, 1999. However, the Form S-4 continued to maintain that the Avesta acquisition could reasonably be expected to produce $5-12 million in corporate synergies, and failed to identify any specific information that would have indicated that Visual Networks had experienced or anticipated any delay in or problems with integrating Avesta.

53. On May 12, 2000, defendants filed Visual Networks' Quarterly Report on Form 10-Q for the period ending March 31, 2000 with the SEC. The Report on Form 10-Q stated that "the market for our product is growing rapidly," and reiterated the terms of the Avesta acquisition.
54. The statement in the Form 10-Q that "the market for our product" was growing rapidly was false and misleading because, contrary to the statement, Visual Networks was recording and reporting revenue from the sale of product that should not have been recorded or reported. Such revenue resulted from the Company's overstocking two of its most important customers with merchandise, which caused Visual Networks' sales to be artificially inflated during the Class Period and which inevitably led to a glut of product and to a curtailment of purchase orders by these customers. Contrary to defendants' representations, the market for its product was not growing rapidly -- in fact, it was not growing at all.

55. On May 18, 2000, Morgan Stanley Dean Witter issued a "Strong Buy" rating for Visual Networks' stock based in part on "opportunities for acceleration over the next 12 months from sales traction with acquired properties" and the fact that "upcoming new-customer wins, with a recently announced acquisition, and product offerings should calm some recent anxiety in the market about the stock."

56. Visual Networks completed its acquisition of Avesta on May 25, 2000. On that day, defendants issued a press release stating that the acquisition was a response to growing industry
trends, and that the acquisition positioned Visual Networks to respond to the needs of its growing customer base.

57. The closing of the Avesta acquisition caused securities analyst Richard Sherman of Janney Montgomery Scott to issue an analyst's report in which he revised Visual Networks' 2000 revenue projections upwards from approximately $132 million to $148.7 million, and raised 2001 projected revenues from $182 million to $222 million. Sherman based these upward revisions on his conclusion "that the acquisition of Avesta is a major step forward for Visual [Networks]," in part because of the anticipated synergies with Avesta. These comments were based, at least in part, on the Company's own representations concerning the synergies it expected to achieve from the acquisition.

58. By May 31, 2000, six days after the acquisition closed, Visual Networks' stock had risen by 13 points, to close at $49.62.

59. On or about June 1, 2000, defendants filed a Report on Form 8-K with the SEC, in which they disclosed the terms of the Avesta acquisition.

60. In or around mid-June 2000, two of Visual Networks' most important customers, AT&T and MCI, informed the Company that they would substantially curtail their purchases because
Visual Networks had overstocked them with merchandise over the preceding months. Because AT&T and MCI constituted two of Visual Networks' largest customers, this decision had an immediate and dramatic impact on the Company's ability to record sales and revenue.

61. The decision of these two customers to curtail purchases made it impossible for the Company to continue to record sales and revenue at the rate that defendants had projected over the previous several months. Rather than disclose this news to the investment community, defendants concealed the decision of two of Visual Networks' most important customers. They thus left uncorrected their February 7, 2000 statement that the Company's revenue would grow by 50% in 2000 and 2001, as well as the Company's May 12, 2000 statement that "the market for our product is growing rapidly."

62. Defendants' failure to disclose the fact that two of the Company's most significant customers had effectively ceased purchasing its product left uncorrected the false and misleading impression of major revenue increases forecast by the investment analysts who had issued reports on the Company -- including Merrill Lynch's April 14, 2000 projection, Dain Rauscher Wessel's April 14, 2000 projection, and Janney Montgomery Scott's 2000 revenue projection of $148.7 million and 2001
revenue projection of $222 million. By approximately mid-June 2000, defendants knew (or were reckless in not knowing) that such revenue projections would be impossible to achieve. Defendants breached their duty to plaintiff and the Class by failing to correct their prior revenue projections, as well as the analysts' projections that had been disseminated into the marketplace after receiving guidance from defendants. In fact, as set forth in detail below, when analysts spoke with Visual Networks' management on June 14, 2000, they were informed by the Company's senior management that Visual Networks was "on course" and "on track" to meet revenue expectations.

63. On June 14, 2000, securities analyst Richard Sherman of Janney Montgomery Scott, who three weeks earlier had applauded the Avesta acquisition and made upward revisions to Visual Networks' projected revenues and target stock price, downgraded Visual Networks from "buy" to "accumulate." Sherman listed concerns that the Company was experiencing "short-term hurdles related to the [Avesta] integration" and that Visual Networks was "back-end loading [revenues for] the June quarter." On that basis, Sherman cut his second-quarter earnings estimates for Visual Networks in half (from $0.06 per share to $0.03 per share), and dropped his earnings expectations for Visual Networks' third quarter from $0.08 per share to $0.06 per share.
64. The price of Visual Networks' stock fell 36% during trading on June 14, 2000 to as low as $32 per share. In response to this decline, defendants made or caused to be made a series of misrepresentations on that same day to support the price of Visual Networks' stock, including:

- Debra Eisenberg, the Company's director of public relations, stated "We're all in kind of shock, trying to figure out what in the heck happened....It's only attributable to the Janney Montgomery downgrade, and that is the only thing we can point to."

- Management reassured investors, through discussions with securities analysts, that the Company remained on target to meet second-quarter estimates. Defendant Stouffer informed analyst Mark Fernandez at Merrill Lynch that the Company's "business was tracking well," and indicated that Visual Networks was on course to meet revenue expectations.

65. After such discussions, Dain Rauscher Wessels reported on June 14, 2000 that it "had caught up with Visual management...and based on those conversations, we continue to believe that our June-quarter expectation of $36 million in revenue...[is] on track" and "[w]e continue to rate VNWK [Visual Network] Strong Buy-Aggressive" with "a price target of $78" based on the Company's revenue projections.

66. These explicit June 14 representations by defendants to the investment community and to investment analysts halted the decline in price of Visual Networks' stock, and the price moved up, to close at $36.25 on June 14.
67. Defendants' June 14, 2000 statements were false and misleading. Contrary to their representations, defendants knew, or were reckless in not knowing, by June 14 that (a) Visual Networks could not achieve $36 million in revenue for its second quarter because of, inter alia, revenue shortfalls from products and the curtailment or cancellation of orders by two of its most important customers; and (b) the serious problems the Company was experiencing in integrating its acquisition of Avesta would cause its revenue and earnings to fall short of its public projections.

68. As defendants knew, the problems Visual Networks faced in integrating its acquisition of Avesta proved intractable from the start. Defendants had previously encountered serious problems in Visual Networks' prior attempt to acquire a company, in that case, Inverse. On September 15, 1999, before the beginning of the Class Period, Visual Networks had announced that it would acquire Inverse (a Sunnyvale, California-based provider of computer management systems), in an all-stock transaction. The Inverse acquisition closed on October 1, 1999, with Visual Networks exchanging 4.1 million shares of its common stock for Inverse in a transaction valued at $192 million. Visual Networks recorded a third quarter 1999 charge of $10 million related to the Inverse acquisition.
69. However, despite months of effort, Visual Networks found it extremely difficult to integrate Inverse into its business operations. For example, Visual Networks encountered intractable connectivity problems with Inverse's California office. These problems, which involved difficulties implementing a direct T1 or 256kb connection line between its Rockville, Maryland office and its Sunnyvale, California office, continued for three to four months after the Avesta acquisition, i.e., close to a year after the October 1, 1999 formal announcement of the completion of the Inverse acquisition.

70. Visual Networks also invested in audio and visual equipment to facilitate conferences with its offices other than in Rockville, Maryland. However, this equipment either (a) never worked or (b) was never installed, thereby further stultifying communications among the Company's offices.

71. Having had first-hand experience in the difficulties involved in assimilating the Inverse acquisition even as to relatively simple matters like communications, Visual Networks had actual knowledge before the beginning of the Class Period that it would encounter manifold difficulties in assimilating the substantially more complex Avesta acquisition, both in regard to technical matters and in regard to sales, merchandise, customer relations, and integration of managerial, engineering,
and sales staff. Contrary to Visual Networks' oft-repeated statements that full integration of Avesta would take only three to four months, these problems were so severe that, as the Company would be forced to acknowledge, they substantially affected the Company's ability to run its operations on a day-to-day basis, and made it impossible for it to achieve or even approach its target revenue and earnings numbers.

72. The presidents of Visual Networks and Avesta had initially met in December 1999 to discuss a possible acquisition. The public announcement of the acquisition occurred on February 7, 2000. However, Visual Networks did not begin a due diligence investigation of Avesta until March 2000—more than a month after the acquisition was publicly announced.

73. According to an article that appeared in the April 1, 2000 edition of *IT Support News*, under the terms of the acquisition, the two firms were to continue to maintain separate headquarters and personnel. But, within a month or two after the acquisition, it became apparent to Avesta employees (but was not publicly disclosed) that this plan would not be implemented. Instead, long-term Visual Networks employees were given all the top positions. With the exception of Chief Information Officer, no integration of positions took place. No one from Avesta was
given a management position at Visual Networks, nor was anyone from Avesta assigned to head up a department.

74. It was not until June 2000, when Avesta employees were put on Visual Networks' health plan, that the actual integration process even began. In July 2000, employees in Visual Networks' (formerly Avesta's) New York office were put on the same payroll as Visual Networks' employees in Rockville, Maryland. It was not until August 2000 -- six months after the February 7 public announcement of the acquisition, and over four months past the previously announced target date for completing the acquisition itself -- that the e-mail system used in Rockville was implemented in New York. The two offices continued to utilize different customer support software until the fall of 2000. The combined company also continued to use different accounting software until the fall of 2000. When the New York office finally began using Visual Networks' accounting system (after Avesta's server was shipped to Rockville), Avesta's accounting employees were laid off.

75. Within several months after the acquisition, Avesta employees concluded that Visual Networks had no intention of maintaining Avesta's product line. Visual Networks did not understand Avesta's products and did not understand how to sell
them. Moreover, Visual Networks decided that it was unwilling to allow Avesta employees to sell its products.

76. During April, May, and June 2000, approximately 30% of Avesta's sales force quit. Several key employees in Avesta's sales engineering department also quit. Many of these employees — sales and sales engineers — had been with Avesta since it began operations, and took with them key knowledge of Avesta's products and their possible improvement or growth. By August 2000, Avesta's Chief Executive Officer, Chief Operating Officer, Head of Project Management, and Head of Sales had all quit.

77. The significant loss of orders from two major customers, revenue shortfalls in the Company's products, and the intractable difficulties Visual Networks encountered in integrating its management, personnel and operations with Avesta's, proved impossible to ignore. With no prior warning from the Company, on July 5, 2000, Visual Networks revealed a portion of the truth by announcing that it expected to post second-quarter earnings well below analysts' consensus estimates, stating:

> it will not achieve the level of pro forma revenue or earnings anticipated for the second quarter 2000 by the current analyst consensus. The Company anticipates pro forms revenue for the quarter to be approximately $32.2 million and pro forma earnings for the quarter to be approximately $0.01 per share. In addition, the Company anticipates revenue and earnings
for the second half of 2000 and for 2001 to be lower than consensus street estimates.

78. The projected second quarter earnings of approximately $0.01 per share were far short of the $0.06 per share that had been expected. Further, expected losses of $0.03 per share for the third quarter of 2000 were dramatically worse than the $0.08 per share profit which had been previously forecast.

79. Defendants issued a press release in which defendant Stouffer attributed the quarterly shortfall:

to management's focus on the Avesta transaction and integration, and the resulting diversion of our attention from day-to-day operations. The nearly doubling of the size of our company and the organization of the combined sales force has [sic] proven more challenging than with our other acquisitions. We believe the attention applied to the Avesta transaction took away from our traditional focus on demand creation activities as well as aggressive management of sales opportunities. This resulted in a short-term decrease in revenue from our Visual UpTime and IP Insight products....Given the magnitude of the integration activities still to be done, management has concluded that it is appropriate for analysts to revise their expectations.

80. This was the first time that defendants disclosed that the Company's serious integration problems -- problems of which it had been aware from February 2000, but which it had not disclosed to the public -- had affected and would continue to adversely affect operating results. The July 5, 2000 announcement demonstrated that defendants and the highest management levels of Visual Networks had been personally
involved in and knowledgeable of the difficulties encountered in the acquisition and integration process. However, at no time until July 5 did defendants disclose to the investment community the fact that these problems would materially affect the Company's revenue and earnings.

81. The market's surprise at Visual Networks' July 5, 2000 revelation can be ascertained by examining the almost uniform praise that analysts had bestowed upon its stock before July 5. From the beginning of the Class Period, based on defendants' false and misleading statements, no fewer than eight analysts had issued or maintained a "Buy" rating or better for Visual Networks. Robertson Stephens issued a "Buy" rating on April 14, 2000; Van Kaspar & Company maintained its "Strong Buy" rating on April 17, 2000; and Bear Sterns and Goldman Sachs maintained Visual Networks as "Buy" and on its "Recommended List," respectively.

82. The result of the July 5, 2000 partial disclosure was swift and dramatic. By the close of trading on July 6, 2000, Visual Networks' shares fell 54%, or $14.25, on volume of 20.1 million shares, representing trading volume 27.5 times the stock's average daily trading volume during the first six months of 2000.
83. However, the July 5 announcement, though revealing some of the truth, was far from a complete disclosure of the Company's problems. The July 5 announcement was itself false and misleading because, while quoting defendant Stouffer, it attributed all of Visual Networks' problems to "management's focus on the Avesta transaction and integration, and the resulting diversion of our attention from day-to-day operations." Contrary to this statement, much of the Company's problems resulted from its inability to sell its products to its major customers, such as AT&T and MCI, because it had overloaded them with product several months earlier, which resulted in those customers' decisions to curtail further purchases, thereby sharply eroding Visual Networks' revenue, and hence earnings, for the second and subsequent quarters. Indeed, in a Company internal meeting and conference call in July or August 2000, defendant Stouffer specifically admitted that purchase orders from AT&T and MCI had "slowed down" because the two companies had become overstocked with Visual Networks merchandise. In fact, these customers, instead of continuing to buy the same amount each month from Visual Networks, had shifted to purchasing merchandise on an as-needed-when-needed basis only. Defendants omitted these facts from the July 5, 2000 public announcement, thus falsely blaming the Company's revenue
and earnings shortfalls solely on acquisition- and integration-related difficulties.

84. The July 5, 2000 announcement was also false and misleading because it contained no mention of the deleterious effects that Visual Networks' inordinately expensive MIVPP Project had on the Company's revenues and earnings. The Project also caused serious distractions for management from maintaining and growing the Company's core business.

85. The goal of the MIVPP ("Make It Visual Product Partner") Project was to achieve a partnership with Cisco, ADT, and Netopia to embed Visual Networks' technology into the routers that these companies sold. Development on this project began in late February or early March 2000. Visual Networks wanted to embed a firmware component, such as an ASE (Analysis Service Element), into the partners' routers or other products, which could then be sold with the Company's "Visual UpTime" software. (The firmware component, e.g., an ASE, acquires information that is transmitted to Visual UpTime or a personal computer, which can then analyze the information and use software to prepare reports on the current state of a network system.)

86. The MIVPP Project, which was extremely expensive, required Visual Networks to invest large sums of money in the
Project even though the Company had no contract with a partner to sell it. In fact, no partnering agreement had been signed with Cisco, ADT, or Netopia by August 31, 2000. Defendant Stouffer was a key participant in the ongoing negotiations to sign such a contract. Yet, despite the impact on the Company of its failure to achieve a signed contract by the end of August 2000, the July 5, 2000 press release made no mention of the MIVPP Project.

87. Defendants continued to conceal the full truth from the investing public until August 22, 2000. On that date, defendants issued a press release stating that Visual Networks expected its third quarter revenue:

- to be approximately half of the $30 million figure previously forecast by the company in July. Additionally, the Company's loss will be substantially greater than the $0.03 per share loss forecasted previously. In addition, the Company anticipates fourth quarter 2000 revenue will be comparable to that expected for the third quarter. The Company no longer believes that its revenue expectation of $165 million for 2001 is achievable.

In addition, defendants announced that Kam Saifi, Avesta's Chief Executive Officer, had "resigned as an employee and director of Visual Networks."

88. The market's reaction to Visual Networks' August 22, 2000 press release demonstrated that defendants' July 5, 2000 statement that "the Company anticipates revenue and earnings for
the second half of 2000. . ., to be lower than consensus street estimates" was misleading when it was issued. By the close of trading on August 23, the price of Visual Networks stock fell from $10.81 the previous day to $6.84 -- a one-day drop of 37% on trading volume 10 times higher than the stock's average daily trading volume for the first six months of 2000, thereby demonstrating the materiality and falsity of the information that was revealed on that day.

**THE COMPANY'S STATEMENTS DURING THE CLASS PERIOD WERE FALSE AND MISLEADING AND WERE RELIED ON BY THE MARKET**

89. The market for Visual Networks' common stock was open, well-developed, and efficient at all times during the Class Period. As a result of the materially false and misleading statements and failures to disclose the full truth about Visual Networks' operations, revenues, earnings, and its acquisition and integration of Avesta as alleged herein, Visual Networks' stock traded at artificially inflated prices during the Class Period until the full truth was finally disclosed on August 22, 2000. Plaintiff and other Members of the Class purchased Visual Networks' stock, relying on the integrity of its market price. Had plaintiff and other Members of the Class known of the materially adverse information not disclosed by defendants and/or the falsity of defendants' representations, plaintiff and
the Members of the Class would not have purchased Visual Networks' stock at the artificially inflated prices they paid.

90. At all relevant times, the misrepresentations and omissions set forth in this Complaint directly and proximately caused or were a substantial contributing cause of the damages sustained by plaintiff and Members of the Class.

91. The statements attributed to defendants, as set forth above, were materially false and misleading when made, and defendants had no reasonable basis to make the statements at the time they were made. Defendants knew or recklessly disregarded the fact that Visual Networks' acquisition and integration of Avesta would and did encounter difficulties that would adversely affect the Company's operating results, including its revenues and earnings. Moreover, defendants knew or recklessly disregarded the fact that two of Visual Networks' key customers had curtailed their purchases of merchandise from the Company, thereby significantly affecting its revenues (and therefore its earnings). Furthermore, defendants knew or recklessly disregarded the fact that the Company's pursuit of the MIVPP Project throughout the Class Period, without a signed contract with a partner, was extremely costly to the Company's bottom line.
92. In light of this undisclosed knowledge, defendants' public statements during the Class Period were false and misleading. Moreover, when, on June 14, 2000, information began to leak out concerning Visual Networks' difficulties, defendants made affirmative misrepresentations and omitted to tell the truth in order to improperly allay the market's concerns, as described above.

93. Defendants further knew or recklessly disregarded the fact that securities analysts, relying on information and guidance provided by defendants, would issue positive recommendations to purchase Visual Networks' stock and, under defendants' guidance, would issue baseless forecasts of revenues and earnings, all of which would help to artificially inflate the price of Visual Networks' stock during the Class Period.

**DEFENDANTS ACTED WITH SCIENTER**

94. Defendants knew or recklessly disregarded the fact that their representations as set forth above were materially false and misleading when made during the Class Period, and defendants knowingly or recklessly failed to disclose material information that would have had an adverse effect on Visual Networks' stock price. Defendants made material misrepresentations and omissions to maintain Visual Networks' stock price at artificially inflated levels to facilitate the
Company's acquisition of Avesta. This acquisition was a stock-for-stock transaction, and defendants wished to commit as few shares of Visual Networks' stock as possible to the merger. The higher defendants could artificially inflate Visual Networks' share price, the fewer shares they would need to commit to the transaction. Conversely, if the price of the Company's stock had materially decreased, the merger would have required more Company shares or ultimately could have been terminated, both of which would have been injurious to the Company's stock price.

95. Defendants also artificially inflated the price of the Company's stock during the Class Period to permit defendant Stouffer and other corporate insiders to engage in selling substantial quantities of their stock to Members of the Class at artificially inflated prices, as follows:

- During the Class Period, defendant Stouffer sold 50,000 shares of Visual Networks' common stock, garnering total proceeds of $3,066,200

- During the Class Period, Michael Gatters sold 136,000 shares of Visual Networks' common stock, garnering total proceeds of $8,384,406

- During the Class Period, William J. Smith, a Director of the Company, sold 7,000 shares of Visual Networks' common stock, garnering total proceeds of $428,750.
COUNT I
VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT AND
RULE 10b-5 OF THE SECURITIES AND EXCHANGE COMMISSION
(Against Both Defendants)

96. Plaintiff incorporates by reference and realleges each paragraph set forth above as though set forth here in full.

97. During the Class Period, defendants, singularly and in concert, engaged in a plan, scheme and unlawful course of conduct, pursuant to which they knowingly and/or recklessly engaged in acts, transactions, practices, and courses of business which operated as a fraud and deceit upon plaintiff and other Members of the Class. Defendants made various deceptive and untrue statements of material facts and omitted to state material facts which were necessary to make their statements not misleading to plaintiff and other Class Members. The purpose and effect of said scheme was to induce plaintiff and the Class Members to purchase Visual Networks' common stock during the Class Period at artificially inflated prices and to inflate the value of the stock which was held by defendant Stouffer and other insiders.

98. During the Class Period, defendants, pursuant to said plan, scheme, and unlawful course of conduct, knowingly and/or recklessly issued, caused to be issued, and participated in the issuance, preparation, and/or dissemination of deceptive and materially false and misleading statements or omissions to the
investing public, which were contained in or omitted from various documents and/or statements as particularized above.

99. In particular, the statements and omissions in the public filings and the other statements made during the Class Period were materially false and misleading for the reasons set forth above.

100. Defendants knew and/or recklessly disregarded the fact that the aforesaid acts and practices, misleading statements, and omissions would adversely affect the integrity of the market in Visual Networks' common stock and/or would artificially inflate or maintain the price of its stock. The Company's common stock is traded on an active and efficient market, and is followed by numerous stock market analysts. Had the adverse facts that defendants concealed been disclosed, or had the misrepresentations not been made, Visual Networks' stock would not have sold at the artificially inflated prices at which it traded during the Class Period, and plaintiff and the Class would not have purchased the stock at all, or at the inflated prices that they paid.

101. By reason of the foregoing, defendants, directly and indirectly, violated Section 10(b) of the Securities Exchange Act, 15 U.S.C. § 78j(b), and SEC Rule 10b-5 promulgated thereunder, 17 C.F.R. § 240.10b-5, in that they (a) employed
devices, schemes, and artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, and a course of business that operated as a fraud and deceit on plaintiff and other Members of the Class in connection with their purchases of Visual Networks' common stock during the Class Period.

102. As a result of the foregoing, the market price of Visual Networks' common stock was artificially inflated during the Class Period. In ignorance of the false and misleading nature of the representations described above, plaintiff and other Members of the Class relied to their detriment on the integrity of the market as to the price of the stock that they purchased.

103. The price of Visual Networks' common stock declined drastically on public disclosure of the true facts which had been misrepresented and/or omitted as alleged in this Complaint. Plaintiff and other Members of the Class have suffered substantial damages as a result of the wrongs herein alleged.
COUNT II
SECTION 20(a) OF THE SECURITIES EXCHANGE ACT
(Against Defendant Stouffer)

104. Plaintiff incorporates by reference and realleges each paragraph set forth above as though set forth here in full.

105. Defendant Stouffer was a "controlling person" of Visual Networks within the meaning of § 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), by virtue of his position as an officer and director of Visual Networks and his direct or indirect ownership of the Company's voting shares.

106. By virtue of his position as a "controlling person" of Visual Networks, defendant Stouffer is, along with Visual Networks, jointly and severally liable under § 20(a) of the Exchange Act to plaintiff and the Class for their damages suffered as a result of the actions detailed above.

JURY DEMAND

Plaintiff demands a trial by jury on all issues so triable as of right.

PRAYER FOR RELIEF

WHEREFORE, plaintiff, or its own behalf and on behalf of the Class, prays for judgment as follows:

A. Declaring this action to be a proper class action, and certifying plaintiff as the representative of the Class pursuant to Rule 23 of the Federal Rules of Civil Procedure;
B. Awarding plaintiff and all Members of the Class compensatory damages in such amount as may be proven at trial, together with interest thereon as permitted by law;

C. Awarding plaintiff and the Class the costs and expenses incurred in prosecuting this action, including reasonable attorney's fees, expert fees, and such costs and other disbursements as permitted by law; and

D. Such other and further relief as the Court may find just and proper.

DATED: November 9, 2001

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facsimile: (212) 545-4653

Additional Plaintiff's Counsel
Certification Pursuant to Federal Securities Laws

The investor identified below ("the Investor") authorizes and retains Barrack, Rodos & Bacine ("Barrack") to represent the Investor's interest in connection with claims brought under the federal securities laws to recover damages and to seek other relief against Visual Networks, Inc. and, if appropriate, others. Barrack will prosecute the action on a contingent fee basis and will advance all costs and expenses as outlined in the Retention Agreement incorporated by reference.

Note: Colored fields are required in order to submit this form.

First Name: Daniel  on behalf of Yottaex, Inc.
Last Name: Hill
Address: 1800 NE 14th St, 507
City: Miami
State: FL
Zip: 33132
E-mail: docsimple@barrack.net
Phone xxx-yyy-zzz: 305-899-0691
Fax xxx-yyy-zzz: 305-899-0691

By checking the box below, I hereby certify as follows:

1. I have reviewed a complaint against Visual Networks, Inc. and authorize its filing.

2. I am willing to serve as a representative party and lead plaintiff on behalf of a class, or to be a member of a lead plaintiff group representing a class, and will, if necessary, provide testimony at deposition and trial.

3. I have not within the three-year period preceding this date sought to serve, or served, as a representative party on behalf of a class in an action brought under federal securities laws, unless noted below:

4. The following is a description of all my transactions in the securities that are the subject of this action from and including February 7, 2000 to July 5, 2000:

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Click here if you owned securities of Visual before the start of the class period: ☐

5. I did not acquire the security that is the subject of this action at the direction of my counsel or in order to participate in any private action or any other litigation under the federal securities laws.

6. I will not accept any payment for serving as a representative party on behalf of the class beyond my pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

7. I represent and warrant that I am fully authorized to make this certification.

I declare under penalty of perjury that the information entered is accurate: ☒

By checking this box and sending this certification, I authorize Barrack to proceed on my behalf and copy of this form in papers filed in court:

Date of Certification: 09/01/00

Daniel

Visual Networks Transactions
Y to the x, Inc.

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**Remaining Shares**

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Daniel X

Y to the x, Inc.

President.
CERTIFICATE OF SERVICE

Lisa M. Mezzetti, an attorney at law, hereby certifies that a copy of the foregoing Consolidated Class Action Complaint was served by first class mail, postage pre-paid in a properly sealed envelope, upon all Plaintiffs’ Counsel and Defense Counsel as set forth on the attached Service List. In addition, Bruce T. Carton was also served by facsimile.

Service was made this 9th day of November, 2001

[Signature]

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