
Market Roundup

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Novell Offers Linux Product and Protection

By AJ Dennis

Completing its \$210 million (£113 million) acquisition of SuSE this week, Novell immediately initiated discussions with IBM regarding their pending \$50 million investment in Novell and an indemnification program to protect its Linux customers from SCO's industry wrangling and saber rattling. This is the fourth legal protection program initiated by Linux systems and software vendors grappling with legal threats brought by the SCO Group. Hewlett-Packard also offers indemnification, while Red Hat has a legal defense fund to protect open-source programming efforts. On Monday, Intel, IBM, and MontaVista Software (embedded Linux) contributed to an Open Source Development Labs consortium fund set up to protect Linux customers against SCO. Novell will begin offering SuSE Linux Enterprise 8 server customers legal protection for using their open-source operating system. Under Novell's plan, the company will provide each customer with protection from copyright infringement lawsuits to a limit of \$1.5 million, or a factor of 1.25% of their software purchase price. To get the protection from Novell, customers must acquire the SuSE Linux Enterprise 8 Server, required customer support, update programs, and complete a licensing agreement.

The completion of the SuSE Linux acquisition, juxtaposed with this year's LinuxWorld Expo, has afforded Novell a very timely opportunity to bring to that annual event a notable presence and positioning for its Open Source commitment. The company's Linux indemnification announcement is an excellent example. SCO's legal actions and threats against UNIX/Linux vendors and customers are a disruptive influence on the industry and the Novell initiative highlights the various responses now under way to blunt that threat. However, Novell's position, particularly with its historical rights as the former owner of UNIX System V, projects a more credible stance than, say, the HP indemnification, which reflects confidence with no particular legal justification. SCO says Linux violates the UNIX operating system's copyrights. Novell believes it still owns key UNIX copyrights. Another unique opportunity enjoyed by Novell is that the company's program is hardware-independent, free from the platform limits of the HP offer. Finally, Novell stated that it is including all the third-party open software in its Enterprise 8 Server release in the indemnification program, which constitutes a more sweeping approach than HP has offered.

Novell appears to hold several powerful cards in its hand: a claim of historical UNIX copyrights, a full stack of Linux products being extended and integrated with Novell's well-tested network technology, and hardware vendor independence regarding the deployed server software, yet has solid working relationships and or investments with IBM, HP, and Fujitsu Siemens (with whom they have a new Linux partnership). Depending on how the legal game plays out and how well Novell's management and marketing organizations play their hand, we believe Novell is strategically poised to become a significant branded ingredient in whatever growing industry presence and opportunity Linux will become. Since most potential customers prefer vendor-based invitation as opposed to vendor-based intimidation, we believe that customers are likely to respond positively to the proactive, customer-friendly approach of this Utah vendor, which is in sharp contrast to that other Utah UNIX vendor.

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Intel and Microsoft Enhance Itanium 32-bit Performance

By Charles King

Intel has announced the availability of IA-32 Execution Layer (EL) software for Itanium2 systems running Microsoft Windows. Rather than running 32-bit applications via on-die hardware, IA-32 EL carries out IA-32 applications in software, translating 32-bit application code into native Itanium code. According to Intel, IA-32 EL will increase the performance of many 32-bit Windows applications on Itanium and aid the migration of customers to Itanium2/Windows solutions. IA-32 EL is supported in Windows Server 2003 Enterprise Edition for 64-bit Itanium systems, Windows Server 2003 Datacenter Edition for 64-bit Itanium systems, and Windows XP 64-bit Edition. Microsoft participated in the announcement, and according to news reports, the company plans to develop applications specially optimized for IA-32 EL. In an unrelated event, HP announced it has applied to dual-list its common stock on the NASDAQ stock market. If the application is approved, HP expects its common stock will be listed on both the NASDAQ and New York stock exchanges under the ticker "HPQ" within a few weeks.

Like most things, Intel's IA-32 EL can be considered according to the good reason and the real reason for the announcement, but it also has ramifications that extend beyond Intel to its best buddies Microsoft and HP. The good reason for IA-32 EL is to help Intel-based server customers that wish to run 32-bit Windows applications on their Itanium servers. Never mind that the company has insisted for months that Itanium's inherent 32-bit capabilities were good enough for the handful of customers that might wish to engage in such goofy behavior. Goofy or not, these customers will gain about a 50% performance boost, so long as they are running 32-bit Windows applications, of course. The real reason for Intel's move can be described in a single word: Opteron. Since AMD's hybrid x86 processor made a notable splash by offering native 32- and 64-bit application support/performance, reports suggest it has maintained or even increased its momentum, far outstripping the curiously anemic market adoption of Itanium2. The question remains whether IA-32 EL's Itanium2 enhancements offer a true alternative to Opteron. In a word, no. IA-32 EL should provide benefits to the Itanium2 faithful, but simulation is a poor substitute for native performance. Overall, Opteron has placed Intel between a very real rock and a hard place, since if the company provided its own hybrid x86 solution (say, a 32-/64-bit Xeon), it would cut the already wobbly legs out from under Itanium2.

Which brings us to the greater ramifications of this ongoing melodrama. For months now, it has become increasingly obvious that three companies stand to gain the lion's share of benefits from the success of Itanium: Intel, HP, and Microsoft. Though Intel touts other vendors' support of Itanium, reports suggest that HP is responsible for 90%+ of Itanium server sales. This number is less cheery than it looks, since HP's enterprise products division has been a continuing drag on the company's overall performance, despite HP gaining notable business products and market share from its Compaq acquisition. In addition, Itanium's turgid market acceptance threatens HP's long-term plans to migrate all of its enterprise server clients to the IA-64 platform, which has embarrassing implications for Microsoft, who has seen precious little interest for its 64-bit offerings outside of the Intel-centric market. Would any of these companies dry up and blow away if Itanium ultimately failed? That is unlikely, given Intel's and Microsoft's incredibly deep pockets and other successful product lines. Circumstances are more problematic for HP, since its enterprise solution difficulties have distracted the company from its larger plans to metamorphose into a consumer electronics powerhouse. That issue makes HP's decision to dual list its stock particularly intriguing. While HP says it is simply trying to expand investor choice, the move could also ease the creation of a spin-off HP enterprise products company. If such a plan were followed, perhaps good buddies Intel and Microsoft would be willing to pony up a billion or two each for minority stakes in what would essentially become a Wintel systems house positioned to stand toe-to-toe against IBM and Sun. Some might suggest that such speculations are pure fiction at this point in time, and while they would be right we believe it is wise to remember that the best fiction usually keeps at least one foot planted firmly in reality.

Please Don't Take My Kodachrome Away: Kodak Continues the Shift to Digital

By Clay Ryder

Eastman Kodak announced this week that it would accelerate its 35mm consumer film efforts in growing emerging markets, as part of its digitally oriented growth strategy announced in September. This will entail an increased commitment to 35mm reloadable camera sales and manufacturing in emerging markets such as China, India, Eastern Europe, and Latin America. In addition, the company announced introduction of new high-performance 35mm and APS films next month; continued manufacture of APS films, based upon consumer demand; and an end to sales of reloadable APS cameras worldwide, and reloadable 35 mm cameras in the U.S., Canada, and Western Europe by the end of 2004. This announcement comes four months after the company confirmed its intent to cease manufacture and distribution of slide projectors by June 2004. At that time, it was announced that the company would continue to provide service and support for slide projectors through June 2011 and that the firm had no plans to discontinue any color slide films at present.

Some who are long in tooth, or simply downright serious about amateur photography, have special places in their hearts where a bastion of carousels, spare lamps, a fold up screen, and a coveted Carousel, Ektagraphic, or Ektapro slide projector can be found. Few visual formats encapsulate so compactly the beauty of the sun setting on a panoramic landscape or the breathtaking reality of a coal fire steam engine pulling a load up a 3% grade, while reproducing the awe-inspiring image at near life-size with few noticeable imperfections. Yet despite this museum-quality imaging capability, the fact remains that most consumers today prefer low-cost imported cameras or disposable cameras and 4x6 double prints garnered from discount one-hour developers, or the increasingly high-quality and simplicity of digital cameras. To the SLR-owning, Kodachrome-packing loyalist, digital photography will never, ever equal the experience of checking the lighting, composing the shot, waiting for the clouds to clear, snapping the picture, and dropping the mailer in nearest mailbox. But then again, these are the very reasons that the masses have gravitated away from the format to something faster, simpler, and in some respects cheaper. What does this have to do with IT? Plenty.

The exiting of Eastman Kodak from its legacy slide projection business, its not-that-long-ago developed ADVANTIX film format, and the reusable 35mm camera market in the First World are all testimony of a firm looking to the future and trying to define what its place will be in a market increasingly dominated by digital imaging. At the same time, we note that HP is making similar motions behind the scenes that could be easily interpreted as setting the stage for a new organization focused on digital imaging and consumer electronics being discreetly separated from the company's traditional enterprise IT business. In addition, Motorola unveiled new plasma televisions at last week's Consumer Electronics Show — yet another form of digital imaging. Are these three large U.S. firms simply chasing the winds of past consumer electronics glory long gone Japanese or are they preparing to capitalize on a permanent change in the trade winds? We believe the latter. With all forms of information storage becoming digital including traditional computer applications, databases, medical records, entertainment media, photography, and PDF documents, amongst many others, the reality of a digital future is at hand. The intrinsic ability of digital formats to easily create, modify, and distribute information will significantly impact all of us, whether we are in the enterprise, at home, or on vacation. In a digital world, networks, servers, storage, and consumption devices take on a special importance: technologies in which all three U.S. vendors have a stake. So while the loyal will continue to hope that an interested niche vendor (other than eBay) will take over the specialized market represented by Kodak's recent product divestitures, Kodak is clearly planning for its own long term survival in a rapidly changing world. If the inner reworking and scheming of Kodak, HP, and others comes to pass (as we believe it will), do not be surprised if in the near- to mid-term we see a reemergence of some North American firms squarely in the digital consumer products space; a place thought long abandoned to Asian vendors. But this time, it will not be just about consumer products, as digital imaging and information storage will surround us and transform our behavior at the office, at home, and on the road, giving vendors in this market access to the needs of individuals and enterprises twenty-four hours a day.

A Change of Tune

By Jim Balderston

Microsoft announced this week that it will extend support for Windows 98, 98 SE and Windows ME, just days before the operating systems were to be cut from Microsoft's support program. The company announced that support for the desktop operating systems will continue through June of 2006, meaning that telephone support and ongoing security upgrades and alerts will continue to be available. In a separate announcement, HP claimed it had set a new record for Linux-based revenue, amassing more than \$2.5 billion in fiscal 2003, a 40% gain over fiscal 2002.

While Microsoft painted its support extension in the most positive colors, it seems likely that the company found itself up against a significant push-back from customers, who faced the choice between running unsupported desktop software or investing vast amounts of money on the hardware upgrades necessary for a Windows XP migration. Given these two choices, we believe many customers would have elected to pursue a non-Microsoft plan C, which may have included some form of Linux. While the facts are not all clear, it seems reasonable to assume that enterprises are trying new leverage points in dealing with vendors like Microsoft, who have pursued carefully orchestrated four- to five-year product cycles. While these cycles have been wildly profitable for software and hardware vendors of all stripes, they may well be something largely of the past. Enterprise customers are increasingly looking to extend the lifecycle of their IT deployments with an eye to actually performing the business tasks at hand, not upgrading to the latest and greatest products that may have little or no impact on enterprise productivity.

Does the ratcheting momentum of Linux and growing availability of Open Source solutions give enterprise IT managers a shot of courage, allowing them to finally stand up and tell vendors like Microsoft that they are not going to take it any more? We suspect so, mainly due to the increasing visibility and support of Linux by vendors like IBM and HP. It is difficult to gauge the exact importance of Linux to HP's revenues at this time, since we suspect the company's announcement was largely a response to a similar announcement from IBM last week that touted its own Linux sales. In any case it does not matter since what is important is that companies like HP and IBM are talking about Linux, driving the impression that they are selling lots and lots of Linux-based products. As a result, the message to IT managers is that Linux is already a viable solution on the server side and may well be maturing enough to reside on many desktops as well. While Microsoft assuredly prefers singing its own new song in the Open Source hootenanny, the company appears willing to continue humming an out-of-date tune over losing many or even most of the choir.