Market Roundup

This Week

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Compaq Announces "Next Phase" Computing on Demand Options

By Charles King

Compaq Computer has announced three new Capacity on Demand offerings for business clients. Combining Compaq's technology solutions with the company's Global Services architecture, management and support capabilities, the new solutions are designed to provide enterprises computing capabilities when, where and as they are needed. The new offerings are:

- Capacity on Demand – Managed Storage Service delivers data storage capacity on a pay-per-use basis. Compaq will monitor and manage clients' storage infrastructures from remote locations, and clients access a secure, dedicated Web portal that allows them to inspect their storage infrastructures and make service requests. The solution also offers "dial up" and "dial down" capabilities, to closely match storage capacities to clients' needs.

- Capacity on Demand for Proliant Servers – Pay Per Use allows clients to pay for computing according to measured CPU consumption. Based on four-way and eight-way Proliant servers, the new service is designed to improve clients' quality-of-service levels by delivering greater flexibility and manageability of server resources.

- Access on Demand – Thin Client Package allows clients to develop and deploy thin client networks that access major applications residing on a central server. Pricing is determined on a per seat/per month basis, making the package a good choice for customer service and call center environments.

No pricing or availability information was included in the official announcement.

As IT solutions continue to drop in cost and increase in robustness, the notion of delivering computing capabilities as tailored, dynamic services is developing serious traction. We believe Compaq's new Capacity on Demand services raise the bar for the competition, especially with their "dial up/dial down" capabilities. While other major vendors provide remote dynamic implementation of server and storage capabilities, most follow the "Roach Motel" service model: clients can power-up new processors or disks (along with their attendant costs), but they can't turn them off. Compaq's pay-per-use model is likely to be looked upon kindly by clients, and creates a line in the sand competitors will need to toe if they plan to stay in the game. We are also interested in the place in this offering that Compaq has made for thin client products. Though mainstream computing has been slow to adopt thin clients, the fact that they are easier

to manage and upgrade than stand-alone PCs make them attractive options for specialized environments and large enterprises.

In all, Compaq's addition of "dial up/dial down" capabilities demonstrates the sort of infrastructure flexibility and capacity that will be necessary to support the Service Computing model we believe is in the process of coming to fruition. In the Service Computing future, hosted computing capabilities will be offered in a model similar to how utilities and telephone service are delivered today. While myriad technological challenges stand in the way of true Service Computing deployments, Compaq's new Capacity on Demand offerings suggest that some vendors are preparing for a hosted services future that we believe is closer than many suspect.

Intel, Others Empower Peer-To-Peer Anthrax Research

By Charles King

The Anthrax Research Project has announced the availability of a screensaver program allowing PCs to process research data that the group hopes will aid the development of a treatment for anthrax. Based on a United Devices' distributed computing application, the screensaver downloads raw data from a central project database, performs the molecular pattern matching whenever the machine is sitting idle, then automatically uploads the results and downloads new data for processing. The goal is to find molecules that have binding capacity on a protein known to affect anthrax's toxicity to humans. The results of the project will be made available free of charge to the United States and other friendly governments who can use them to develop drug therapies for anthrax. The screensaver is offered by Intel as part of the company's Peer-To-Peer Philanthropic Program, and is also being used to support cancer, Alzheimer's disease and genetics research. The Anthrax Research Project is a joint endeavor whose members include Intel, United Devices, Oxford University, the National Foundation for Cancer Research, Microsoft and others. More information on the project and links to the screensaver can be found on Web sites sponsored by Intel and United Devices.

Crunching scientific research data with home PCs is old news by now. The first such effort was the SETI@Home project. Begun in July 1999 after government funding was slashed for programs studying extraterrestrial intelligence, the program offers volunteers the opportunity to process raw radio telescope data with PCs and other idle computers. To date, SETI@Home has involved over 3,000,000 computer users who have donated more than 800,000 years of computing time to the project. The program is still going strong with about 500,000 active participants, including schools, universities, research labs, government agencies and large companies including Sun, Compaq, IBM and SGI. While no calls to or from E.T. have been intercepted, the main lesson SETI@Home offers is that such programs can prosper if they start with an idea that captures the enthusiasm and imagination of computer users. SETI's success, it should be admitted, is at least partly due to the built-in geek factor of searching for extraterrestrials. Whether searching for a cancer, Alzheimer's or anthrax cure will generate similar enthusiasm is uncertain at this time, but these areas certainly inspire strong public interest and concern.

In the long term, however, we believe the success of volunteer distributed computing efforts suggests that the time may be ripening for distributed computing models of a different scale. Hardware vendors including IBM, Compaq and Sun have launched "Grid" computing initiatives (a critical component of what we call Service Computing) designed to leverage computer resources across enterprise, institutional and geographical networks. Though it resembles volunteer efforts in part, Grid computing methodology is crucially different, with central data distribution and processing managed automatically via dedicated network tools. A close examination of SETI@Home and the Anthrax Research Project reveals that

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distributed computing can leverage the resources of widely dispersed and divergent volunteer networks. With effective network and data management tools, we believe that Grid computing solutions will eventually offer similar leverage to organizations of virtually every stripe.

The Long and Winding Road: Amazon.com Announces Q4 Profit

By Clay Ryder

Amazon.com announced financial results for its fourth quarter ended December 31, 2001. Net sales for the quarter were a record $1.12 billion, compared with $972 million in Q4 2000, an increase of 15%. *Pro forma* operating profit was $59 million, compared with a loss of $60 million in Q4 2000; while *pro forma* net profit for the fourth quarter of 2001 was $35 million, compared with a *pro forma* net loss of $90 million a year ago. On a GAAP basis, the company recorded a fourth quarter 2001 net profit of $5 million compared with a net loss of $545 million a year earlier. Operating profit for Q4 2001 was $15 million, compared with a loss of $322 million the year before. International sales across the Company's UK, Germany, France and Japan sites grew 81%. Including sales from the U.S. site, more than 29% of sales were made to international customers. In addition, operations for the UK and German sites had a combined pro forma operating profit for Q4 2001. The company also announced that it now offers Super Saver Shipping, which provides free economy-rate shipping for qualifying orders over $99.

In the declining economic climate of the past eighteen months or so, emerging conventional wisdom suggested that online retailers did not stand a chance of ever achieving profitability. While largely true for many of the bad-idea.com businesses, it is reassuring to note that for every rule, there is always an exception lurking in the wings. In this case, the exception happens to be huge. Although it has lost around $3 billion (yes, with a b) since its inception in 1995, Amazon.com has demonstrated what scale, bravado, and painful attention to cost control can bring; i.e., profitability. Although there are many ways to calculate profitability, most online retailers to date have not been able to finagle any one of them, whereas Amazon.com is reporting operation profitability in some of its businesses, with the guidance that overall profitability is possible at some point during 2002.

Was there one factor that allowed the company to turn red ink into black? In our opinion, the answer is no. Rather we believe that a confluence of several factors effected this change. The economic slump of 2001 drove many of Amazon's competitors out of business, terrorist attacks caused many consumers to avoid the former solace of shopping malls, discount pricing on a growing base of products allured more shoppers online, and Amazon's management paid close attention to controlling the costs of running the business. Effective cost control has also seemed to enable the company to offer free shipping on larger orders, which could become another competitive advantage to bolster growth. In general, businesses that find ways to survive the lean times are well positioned to thrive in the times of plenty. This of course is what the next chapter in the Amazon tale will be about, namely maintaining and growing a profitable business. So hoist a *pro forma* glass of bubbly in good cheer and toast the thought that this Internet thing may still work out after all, at least for some in the online retail business.

Ratcheting Up the Profits: Citrix Systems Announces Year End Results

By Clay Ryder

Citrix Systems Tuesday reported results for the fourth quarter ended December 31, 2001. Revenue for Q4 01 was $158.0 million, up 28% over a year ago. Earnings were up 32% at $25.6 million for Q4 01

compared with $19.4 million a year ago. Earnings exclusive of one-time charges were $39.4 million for Q4 01, which is up 25% compared with $31.7 million a year earlier. For the year, revenues were $591.6 million, up nearly 26% from $470.4 million for the year 2000. Earnings for 2001 came in at $105.3 million, compared with net income of $94.5 million for the previous year. Earnings exclusive of one-time charges were $151.0 million for 2001, compared with $123.9 million for 2000. The company indicated that the market has been very receptive to its new MetaFrame XP platform, which accounted for two-thirds of MetaFrame product licenses sold. Additionally, Citrix stated that international sales represented 49% of revenue, up from 42% the previous quarter, and electronic delivery of licenses pulled in 28% of revenue, roughly the same as in Q3 01. The company also repurchased approximately 2.6 million shares of its common stock during the quarter. Key strategic relationships and alliances were reached with Microsoft, Computer Associates, Documentum and Business Objects, among others.

Although 2001 may be remembered as the year that many would just as soon forget, the IT market has not been a total disaster, as a few well-established and -positioned companies have escaped the economic malaise of the many. Citrix finds itself in the happily contrarian position, at least with respect to the market as a whole, of remaining a profitable and growing company while at the same time beginning to look to the future. Although the company continues to do well with its franchise product, MetaFrame, we believe that in the long run, the changing nature of the market and the thrust of Service Computing will alter the corporate IT landscape to where the demand for access to remote applications will shift toward access to remote services. We believe that the architecture of Service Computing and Web Services will drive this behavior, and apparently so does Citrix, as evidenced by their code name South Beach product and the company's focus on providing value on top of the .Net server platform. This view towards tomorrow combined with present day remote application access solutions is one reason we believe Citrix is well positioned to continue to help lead the market to a place where the location of data, application and presentation layer is increasingly irrelevant. The focus of many enterprises on business continuance in light of the September terrorist attacks have also had a positive change for companies that enable remote access to applications and data, and we believe that Citrix is no exception. With the number of alternative computing and access solutions continuing to grow, Citrix enjoys the enviable position of being a core provider of technology that will ultimately play an important role in enabling Web Services as a stepping-stone to realizing the Service Computing vision.