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Subject: Summary of Compaq RISC Meeting - 8/29/90
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This is a summary of the meeting Bill, Steve and I had with part of
Compaq Strategy team: Canion, Swavely, Stimac, and Clark. I will send a
modified copy of this report to Clark and Stimac for review. Please
excuse the lengthiness, but I wanted to get down as many of the
discussion points as possible. Please circulate on a need to know basis
only.

IBM Relationship - Bill reviewed where we are with IBM. The
relationship is getting stronger and we are not heading for a divorce.

1. IBM will have a business relationship with us for Windows. IBM will
bring out OS/2 1.3, but it will have less impact now that IBM can sell
Windows.

2. IBM will do all future work on the present OS/2 base, X86 specific,
which we have the rights to. IBM does not have OEM distribution rights
to this work.

3. IBM will use the NT code for future versions of OS/2.

4. The move to a direct Windows API interface in OS/2 but still
perserving the PM API.

Compaq issues were:

Stimac is concerned about churning the ISV and corporate accounts with
multiple versions of OS/2. Particulary why should we bring out 2.0 when
we will be moving to an NT base a year later. Bill went thru the need
to have 32 bit support for server applications.

RISC Discussion - We spent about 4 hours covering the issues. Overall
we are much closer to Compaq than we thought. Rod understands our
overall concerns with Compaq going down a SPARC path, and we understand
their need to control a Compaq/Microsoft solution. Rod said, " A SPARC
solution would be the last thing Compaq
would do."

We covered SUN's success, different RISC architectures, the need for a
Unix solution, Power PC postioning, and control issues.

1. SUN - We both agree that SUN is the competition/problem. We then
looked at the major reasons for SUN's success. The questions raised
from this useful discussion are; where do you stop SUN, do you need to
offer a Unix solution, what kind of Workstation do you compete with?
Below are some details in our discussion:

        SUN's Success

        Networking/integration support
        Direct sales/support
        Price/performance
        Technical applications and development tools
        Percieved openness of Unix
        Vertical markets
        32 bit support

Networking Support - We had a fairly long discussion about where and
why SUN's networking support is good. We made some good progress on
agreeing where SUN's strengths are.

SUN's networking is easy for customers to install and support; it is
bundled with SUN hardware and is supported by SUN. There is good
heterogenous networking support, but only with other Unix systems. Yes,
they support TCP/IP, but the industry is moving to ISO.

Bill made the point that the basic Unix networking solution is not any
different than a PC solution except in the way it is provided and
supported. SUN provides the complete solution; als IBM, versus multiple
vendor solutions in the PC industry. Bill offered NCR and Nokia as 2 PC
vendors that offer and support a complete networking solution with some

success.

Direct sales and support - Canion said Compaq might some day have to go to some kind of direct sales and support, but not in the next 5 years.

Price/performance - Steve showed Compaq the SUN price performance comparison slide. They were aware of this comparison, and Stimac had in fact priced a comparably configured 486 system, no bus no flexibility, to see how they would compare to the SUN IPC. Swavely said that they could get to the SUN price point, $9995. However, that in itself, Swavely felt was not enough for buying a 486 Compaq system over a SUN IPC.

Technical Apps - What we agreed to was that there still are not good general PC type applications in the SUN environment, but there are technical applications which are now more in the general business market; not just engineering/scientific apps but financial and other vertical market technical apps. Most of SUN customers are still creating their own applications to solve problems. In many cases these are problems that have been solved by traditional mini computer solutions.

Development Tools - There is a perception that SUN has better development tools. Bill feels that the tools that SUN has are really no better than those now available in the PC environment. SUN does not have good graphical based tools. This SUN perception might be based on packaging, SUN's familiarity to recent Computer Science grads who used SUN in school who are now buying SUN, or SUN's percieved "sexiness".

Percieved Openness - We agreed that there is a percieved openness based on Unix and the SUN "Sparc Standard". Bill made the point that SUN maintains and will continue to maintain it's proprietary position thru it's system software not hardware. Canion agreed, and said that he had probed McNeally in some of their discussions to see if SUN would ever relinquish control over their OS. The answer was an indirect no.

Vertical Markets - We talked about SUN's success in certain vertical markets; CASE, Engineering, Financial W/S, CAD, ...etc. The questions that were raised but not answered are what markets and how to deliver solutions in those markets.

The result of this discussion was that we need to continue to understand the issues better so that the where, when, and how of a product positioning by Compaq is right.

2. Architecture - Canion, Stimac, Swavely, and Clark understand our concern with Compaq going down a SPARC path. We talked about the alternatives to SPARC.

We feel that MIPS is clearly the best technical solution, but Gary and Rod have some problems with MIPs. Their primary concern is the lack of depth, maturity, flakiness on the part of the MIPs management team. Gary questioned MIPS' inconsistantency in licensing. Gary was also unhappy with the PC Week article; Rosenberg saying that Compaq is looking at the MIPs chip. It shows lack of maturity. Finally, we talked about NEC being a second source. Rod said that "MIPS is not out of the question".

Bill and Steve talked about how Compaq could better control MIPS. Sign an option to license the chip with heavy penalties for leakage as Microsoft has. Steve also brought up a Trademark concept similar to SPARC International's. The trademark could only be used by companies who conformed to the "standard". This should keep NEC from creating problems by adding on the instruction set.

3. Need for Unix - Compaq feels that Unix needs to be offered as part of a RISC solution. The Unix solution would be offered before NT/Windows would be available. Bill and Steve feel that this is fine, providing Unix is not bundled on the system, but sold separately.

SCO is Compaq's choice for the Unix development. However, Rod voiced some concerns with SCO:

     1. Lack of depth in SCO's management.
     2. Lack of financial stability.

Rod would want us to play a more active role in their management and help provide some financial stability. Compaq might also be willing to play a more active role.

4. Power PC Positioning - Bill explained the Power PC positioning for both the Intel and Risc environment. Rod likes the concept. Compaq is about 1 year away from having a modular architecture that would allow an Intal processor board that could be swapped out for a RISC board.

Canion feels that this would be a good way for Compaq to transition into the the RISC architecture.

5. Control - Rod and Gary feel that Compaq needs to control the positioning, processor, ASIC, and other OEM partners. Bill is willing to let Compaq call the shots on any non SPARC based system.

Swavely feels that Compaq needs to have greater control than they did with the EISA consortium. Rod would want Microsoft to be the primary partner and would not do anything without Microsoft's involvement and support.

OEM partners - We discussed potential OEM partners. SUN is the only company Microsoft has a problem with. We feel DEC would be a very good partner because of their system software strength. Others discussed were: HP, Siemens/Nixdorf, AT&T, Unisys. Compaq would prefer not work closely with the successful strictly PC clone companies: Dell, CompuAdd, AST...etc.

Clones - Gary feels that the standard should be as open as the original PC standard. There should not be $30,000 clone kits. Compaq's advantage would be through time to market.

Microsoft Management Team - Steve offered that he, Paul Maritz, and Ralf Hartnick would be the team that would work with Compaq and other partners in a RISC consortium on the development, marketing and rollout of a product.

Present Work - Compaq has no problem with our ongoing prototype hardware and software development, but they feel we should back off on our OEM strategy.

Action Items

1. Review and feedback by Compaq/Microsoft of the meeting and this report.

2. Paul Maritz/Mike Clark conference call next week. Maritz visit to Compaq, before Compaq/Microsoft management meeting, to meet the Compaq management team and establish priorities.

3. Checkpoint and follow up at the 9/25 Compaq/Microsoft management meeting.