

**Microsoft Corporation and Sun Microsystems Inc. Press Conference  
Steve Ballmer, Microsoft Chief Executive Officer, and Scott McNealy, Sun  
Microsystems Chairman and Chief Executive Officer  
Palo Alto, Calif.  
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**MODERATOR:** Everybody thank you for coming. Welcome to the Sun-Microsoft Update Event. It's been about a year since we had our landmark agreement together, and we've got some terrific announcements. You're going to hear from us, but you're also going to hear from important customers and partners. We've got General Motors, Accenture, EDS, NEC and so on.

Before we start today's press conference, I do have an important notation to read. During this event, we'll be making forward-looking statements, which are just predictions that involve risks and uncertainties such that actual results may differ materially. We refer you to Sun and Microsoft's periodic reports that are filed with the SEC. These reports contain and identify certain factors that could cause actual results to differ materially from those contained in our forward-looking statements.

With that, I would like to introduce Scott McNealy, chairman and CEO of Sun; and Steve Ballmer, chief executive officer of Microsoft. (Applause.)

**SCOTT McNEALY:** This is our photo op, so get your cameras out everybody.

**STEVE BALLMER:** And, no, the scratch on my head was not from Scott. I went up for a dunk and I hit my head.

**SCOTT McNEALY:** They're not going to believe a thing now.

**STEVE BALLMER:** Let me kind of kick things off, and thank everybody for taking the time with us today. Thanks to our partners, to our customers, and certainly thanks to Scott for really pushing this along to this event.

We've been hard at work, the two companies, for a year. A year ago, you could say we were sort of emerging from the courtroom and entering the computer lab. Twelve months later, I think we're poised, thanks to the work of hundreds of engineers on both sides, we're poised to leave the computer lab now and really enter the marketplace together. And that's the key message I think we want to make sure that people get today. And you'll hear from customers, and from integrators around that.

People say, 'What have you been doing, where's the progress, what's been going on?' And we've really been working in four or five key areas that I want to highlight today, where we can now deliver the kind of solutions our customers want. Let me go up a step just to make sure the framework is clear, some folks can get confused. You guys sat down a year ago, aren't you really just going to converge everything? There won't be a

.NET and a Java, there will just be one thing; there won't be a Solaris and a Windows, there will just be one thing.

That's not the challenge we took upon ourselves. We think we've got great innovations at Microsoft that we're going to continue to push to the marketplace. Sun has great innovations it's going to continue to push to the marketplace. We want to make sure that we address the key issues our customers have in really taking advantage of the great innovations that are coming from Sun and other partners of Sun around Java as well as partners of Microsoft.

So, where are the issues? Number one is the end user; end users want to be able to log in in the morning, want to be able to log into applications that run on .NET and applications that run on Sun systems. IT managers want to be able to come and they want to be able to go to one console, a Microsoft console or a Sun console, and they want to be able to manage applications and systems that are running on Sun hardware and on Solaris, as well as on Windows and .NET. Developers want to be able to build applications that have components that run on Windows and that run on .NET. I'm not sure if you were starting a new application you would design it that way, but they already have components of applications that live in both of our very popular worlds, and they want to be able to stitch them together and add new functionality in a variety of ways.

You want to be able to have an end user who is using a Sun Ray terminal come to work and have access to applications that run on Solaris as well as applications that run on Windows. We've attacked that challenge. You want a user who comes in and wants to use a Windows server, be able to take advantage of some of the incredible storage innovations that have been coming out in Sun. We focused in on that problem.

And so, in 12 months we've really made progress across a wide variety, a wide variety, of customer scenarios. We'll show you in a minute the work we've done in security. Some of you say, 'It's the most boring demo I've ever seen,' and you'll be right because that's what the user wants. They want a single, integrated experience. But we've integrated the security environment, enabling you to essentially form an integrated view of users, security and ID between the Sun world and the Microsoft world, and that's a very important piece of work that we have done in the first 12 months.

Management, we've cooperated together, and then in the standards body to really get a strong Web services management specification in the marketplace, and actually, I guess it was probably two or three weeks ago when I was on stage at our management conference showing technology that lets you manage Sun systems and Windows systems from a common console. I did that demo with a Sun engineer and a Microsoft engineer on stage. Scott actually gets a copy of the transcript and sent it to me in an e-mail, and said, 'Boy, who would have ever thought this would work 12 months ago?' So, we were both kicking it off, but, hey, 12 months, 12 months of work, 12 months of progress, and I think that's fantastic.

I talked a little bit about storage. Storage is a very -- if you look at a part of the market that is really growing and booming, it's the storage market. There's a bunch of technologies that we've put into our Windows Server products that improve the end-user experience and the IT administrator experience in storage. Those now work to the storage product line that Sun puts in the market because of our cooperation. We've certified Windows running on Sun's Opteron boxes; that involved close cooperation between the engineers working together. We've done a licensing and protocol agreement around our Windows Terminal Services technology, and then done the technical work behind it, as I said, so you can take a Sun Ray, and that Sun Ray can, in fact, access Windows applications through Windows Terminal Services, and Sun even went so far as to do an acquisition, I guess, in the last couple weeks, and I have a hard time pronouncing — I want to say Tarantula — but it's Tarantella, that Sun went out and bought. Tarantella is a value-added product that essentially facilitates that scenario of interoperability between Sun gear and Microsoft gear.

It has been 12 months of really productive work. I will be the first to tell you, we've got 12 more months of really productive work to go through. The list of things that our partners and customers want, who you'll hear from some today, is long, there's more to do. Scott and I acknowledge that, and we're going to spend a lot of time, as we have in the last year, at our level, but really the work is going on now between the engineers, and the work starts going on really in front of the customer as we make sure these systems knit together and allow our customers to get the kind of productivity they want out of their enterprise IT infrastructure in really quite a unique way.

Microsoft's .NET, and Sun's Java, those are the two leading platforms in the market. There is no doubt about that, and so having our teams cooperate is important, unique and essential if the world is going to get the interoperability it needs, and it's a pleasure to have a chance to kick this off today.

**SCOTT McNEALY:** Thanks. Pretty interesting, Steve can actually finish my sentences. In fact, I think he finished most of them, which is why he got to go first. I think that's absolutely, and I couldn't agree any more with everything that he said.

I wanted to talk a little bit more about another aspect of this relationship, two of them. One is the anthropology of working together, because it was one thing to kind declare peace a year ago. There was another, and I would like to thank Greg Papadopoulos our CTO, and Bill Gates, and Microsoft, and Brian Sutphin and Hank Vigil, who were kind of the leaders of bringing this thing together, because it was a nontrivial effort.

I have to tell you, it wasn't all easy. And there were times over the last year where it just looked like we were going to -- centrifugal force or antibodies were going to make this thing not happen, and over the last three to six months it's really come together very nicely. And that list of products, and technologies and interoperability that Steve announced at the technical level is quite impressive, I believe. And even more impressive is the road map they have going forward.

But it's what we're doing with customers. Our CIO, Bill Vass, was actually at the CIO Conference up in Redmond at Microsoft's event. Microsoft is a major sponsor of JavaOne at the end of next month. I mean, who would have think that Microsoft would be a sponsor of our JavaOne Conference. And Steve mentioned demoing Sun equipment, and Solaris on stage at his manageability conference. These are huge messages to our employees, and to our customers that we are working together. So that anthropology has changed a lot in the last year and, in fact, we expect to see an acceleration in terms of the products we bring together that will work together.

The other piece of it is, we have tried to keep this, rather than a press event, or a product-focused issue, a customer-focused partnership. And so one of the things we did is, we set up a Technical Advisory Council of 10 large enterprise customers that are joint customers of us, or one or the other, and said, what do you need? What do you see out there that is causing you problems? And they actually put a very detailed, very precise focus list of something like 20 separate items and areas in priority order, and clearly the whole single sign-on, directory and access manager, identity management, interoperability architecture was key. As everybody is dealing with SOCKS 404 compliance, and trying to reduce complexity, trying to drive security into all parts of their organization. So that's been the number one area.

But Steve mentioned the other areas, like thin client access, and certifying storage environments, manageability environments; those are all huge wins also that were very high up on the list of what our customers want. The next big area, and the one I know Bill and Greg are working on very aggressively, is how do we bring the service-oriented architecture environment forward.

But the bottom line is, you have Solaris and Windows playing nice in a unique and quite unexpected way across the board. The operating systems are absolutely critical. And I've been saying for quite a while now that there are two clear survivors in the U.S. marketplace, and they both run on the X-86, X-64 market, they're volume players, they're supported by very large R&D budgets, they have huge install bases, and that's Solaris and Windows. I'm not really sure who third place is long-term, but it's pretty clear in my mind that these two environments are going to be out there, and what we're doing, because the operating system is the boundary system to everything, it touches the server, the storage, the switching, the networking, systems administration, the application, Web services, and virtual machine environment, and the user, these are the two critical components. And rather than Sun and Microsoft, what you're seeing is Solaris and Windows very tightly bringing their whole ecosystems together in a nice and interoperable way, while we can still compete and give the customer choice. So, we're not eliminating choice, we're augmenting choice, and providing more substitutability, interoperability and complementary capabilities between the two environments.

So, again, it's very customer-focused, and we've listened very aggressively and carefully to what our Technical Advisory Council has asked us to do.

We can, in Q&A, get into more of the details of the actual technology, but I thought it would actually be useful to maybe have Steve come on back up, and I'll introduce from General Motors the Chief Technology Officer, Fred Killeen to kind of talk from a user perspective of what this arrangement means for a very large and complex user like General Motors. So, Steve and Fred, do you want to come up.

**STEVE BALLMER:** You chat, and when you're doing that, we'll see if we can't do a demo.

**FRED KILLEEN (CTO, General Motors):** Well, I appreciate it. I appreciate the opportunity. Obviously, this is something that we're working with Sun and Microsoft for the past year and beyond in terms of bringing them together. It's important for GM. If you look at our context, we're a very large Sun user from a directory perspective. We're a very large Microsoft user from an Active Directory standpoint. From a user perspective, we have a million-plus users across 190-plus countries. Those users fall into the categories of employees, retirees, joint ventures, suppliers, alliances, dealers. That does not even include customers, so it's a very large install base that it's critical for us to bring these two components together.

As part of that, we're actually executing a proof of concept with the support of Microsoft and Sun and it's to really develop an integrated environment. And so what we're demonstrating internally is going from what is our GM Online Desktop, which is a Microsoft-based desktop that will authenticate back to an Active Directory, and then what we'll do is go out from there to do Web single sign-on to user portal environment. We have a user portal called Socrates uses Sun's portal products and directory in the back, and so it will enable us to have an end-to-end authentication for the user.

The reason this is important for us is, number one, it's to give better capability for the users. The users are demanding this and expecting it. Number two, quite honestly, it will take out a significant amount of the complexity in our current environment. We'll have fewer passwords, we'll have fewer calls to our help desk. And so we expect that we'll reduce the complexity, we'll reduce the cost, and so this is really a big deal for us.

Going forward, we expect that we're going to look at how we implement this within our environment and take full advantage of it. So we appreciate the support and help from Microsoft and Sun.

**SCOTT McNEALEY:** Thank you, Fred. I appreciate it.

**FRED KILLEEN:** Thank you.

**STEVE BALLMER:** So we have today in the marketplace products from both companies to do directory synchronization, do the appropriate thing for security. We are announcing today all the protocol specifications to try to bring together the Liberty world, and the WS-\* environment. So to bridge those gaps the Web single sign-on metadata

exchange protocol, the Web service sign-on interoperability profile are both areas where Sun and Microsoft have done a lot of work as part of this cooperation over the last year.

I don't want people, though, to just think that this is about specs and standards, and those things. They're super important, but at the end of the day they're not going to let folks at General Motors get full access to the Microsoft world, the Sun Portal world that lives at General Motors. That will come through the products that our companies deliver. And we want to demonstrate that for you today.

So I want Don Schmitt from Microsoft, and Pat Patterson from Sun — you'll be able to tell them apart. Don is wearing the Windows shirt, Pat is wearing the Sun shirt. I told them they could exchange shirts for today; that's what single sign-on is all about. But, they're going to go show you single sign-on at work. Please welcome Don and Pat.

**DON SCHMITT (Microsoft):** Thank you, Steve, for that warm welcome to the most boring security demo you might see. We'll try to make it not too boring for you folks. The specifications that were announced today by both companies, whether they be based on Liberty or WS-\* protocols to be used together to provide browser-based, and cross-domain single sign-on.

**PAT PATTERSON (Sun):** So to do that let's introduce ourselves. I'm Pat Patterson, but for this demonstration I'll be an IT manager at Harrington Insights, a computer industry analyst firm. And we use Sun's Java Identity Management Suite to protect our internal portal, and to give our customers across the Web access to report by our J2EE extranet applications.

**DON SCHMITT:** And I'm Don Schmitt. Today I'll play the role of an engineer from Tray Research, a computer equipment manufacturing company. We use Windows Server Active Directory, which I'm logging into now to control access to our network, and to internal applications such as our company portal. We also use the same Windows environment to protect the .NET applications that we've hosted on the Internet, so our partners and customers can purchase computer equipment online.

**PAT PATTERSON:** So we have mutual customers. We need to use each other's extranet applications to do our jobs. Today's announced specifications makes access easier and more secure.

**DON SCHMITT:** Today in the world we're used to, as Fred was talking about perhaps, when I try to hit an application such as this site for purchasing memory, every site prompts me to enter a password. That's because every local application stores the user names and user passwords, and they use different rules for this. There are many problems to this. As you can well imagine, I don't use a password very often, I forget it. This hurts productivity. So increasingly it's a problem for users. It's also a problem for help desk and IT departments, it consumes more and more of their budget. In fact, we've heard estimates of maybe \$50 to \$150 dollars for every single password reset. Then in the end, imagine that for my company, Tray, an employee were to leave. There's nothing

to communicate that to my partners, so that they remove those local accounts that they've been keeping. Those dangling accounts, they could lead to a security breach that could be very costly for both of our companies.

**PAT PATTERSON:** So Web single sign-on technology addresses this scenario by allowing the creation of secure, cross-domain relationships called federations. Federations allow a company to project identity data from its local directory across the Internet to partners. Partners can then use that identity information to grant access to their systems, such as these extranet applications, instead of asking the user to provide a separate user name and password every time.

Today Sun provides cross-domain Web single sign-on with Sun Java System Access Manager, and it supports the SAML assertions, and the Liberty Alliance Federation specification.

**DON SCHMITT:** And in Q4 of this year, Microsoft will add cross-domain Web single sign-on to Active Directory, through the use of security tokens such as SAML assertions, and support for the Web services architecture. The specifications announced today allow identity solutions to be used together, whether they're based on Liberty or WS-\* protocols. This allows customers to achieve identity federation, cross-domain Web single sign-on, using platforms from different vendors.

Let's see how this really works. My company, Tray, has established a federation with a partner, Harrington. If I click on this link it will just work. A lot of things are going on in the background to make this happen, so let's look under the covers for a moment.

When I access this site, instead of asking me for a password, it checks to see if I have the necessary security token. Since I don't have it yet, the two sites are going to communicate, using the new metadata exchange protocol, to determine what identity protocol should be used for user authentication. Back on the Tray site, since I've already logged into Windows, Active Directory can automatically build me a security token without prompting me again. And it can use the new interoperability profile as a bridge to communicate identity data about me from a WS-\* environment to the Liberty environment running over at Sun. So I'm being redirected there, their Sun software interprets the data from the token, and grants me access based on what I provided in real time.

**PAT PATTERSON:** Moving back to the portal, when Don actually clicks that link, everything he's just said takes place in the background. There's no separate user name or password to provide that he could easily forget. And we at Harrington get away from managing extranet users, and this reduces our IT costs and complexity.

So switching sides now, cross-domain Web single sign-on works across both our environments, regardless of which side is the user and which side is the application. So I can access the Tray Research site, and go access their extranet applications, again, without being prompted to enter credentials.

**DON SCHMITT:** Notice, Pat is a manager at Harrington. He is getting access to the administrative functions at a Tray site. Before federation, we used to have to keep a list of all external users, and all their roles, so we knew what to give them on the site. We don't have to do that anymore, because every security token we receive tells us not only who that user is, but what role they're playing at the moment. Our .NET application simply interprets that role information, turns it into user permissions, and grants the right access.

**PAT PATTERSON:** And to make this clear, we at Harrington Insights retain control of this role data and identity data in our Sun directory. But, Tray is able to rely on that information, and give me access to functionality, even though it's running a Microsoft environment.

**DON SCHMITT:** Not, let's look at how a Sun environment can interpret and respond to user attributes coming from Tray's Active Directory. I've logged on here as Don, as an employee. I can obviously manage my local account. I can see reports. But, what would happen if I were to log back into Windows and, say, a manager from Tray, a rather quiet, soft-spoken gentleman named Steve. When Steve accesses this site he sees everything we saw before, but because he also has the manager role in his token, he can review statistics for all of Tray employees, and their behavior at the Harrington site, what reports they buy, what's the most popular report.

**PAT PATTERSON:** So now closing the loop, I'm going to log in as another user on this side. I'm going to log in as Scott, one of our senior analysts, and a rather shy and retiring fellow. Again, I go to Tray Research, and again the content that I see is driven by my role. I'm a senior analyst, I'm not an IT manager, so I have no access to the admin functionality, but I can still access everything I need to do my job.

**DON SCHMITT:** Right. It's really important, since a user's role can change at any moment, federation technology builds the security token at the moment it's needed. And because federated across the main Web single sign-on provides the most current user context, it automatically eliminates the possibility of unauthorized access based on stale local user accounts.

**PAT PATTERSON:** So what Don and I have shown you here today is that with our new commitment to interoperability, and the new specifications jointly developed by Microsoft and Sun, we're bringing customers with heterogeneous IT environments the benefits of cross-domain single sign-on, improvements in productivity, efficiency and security.

Thanks for your attention. (Applause.)

**SCOTT McNEALEY:** That's pretty good stuff. Now, they showed it across two different companies, many companies have this problem internally. Just about every customer I see is running Active Directory and the Sun directory, and just to be able to do

this internally will be a huge breakthrough, and then to be able to federate this through their firewalls will be -- that's like gravy.

So what I'd like to talk about now is how do we get from where we are to what you just saw? Not only here in the identity and Liberty-WS-\* space, but also in systems management, and storage and server consolidation, all of these things where you're going and moving to the thin client environment so that you have centralized management.

I know Steve feels a little bit like we do sometimes when we hand the -- you know how you go to the restaurant at night and you hand your keys to your brand new car to somebody with green spiked hair and some body piercings, and they do a neutral slam and smoke around the corner with your new car. Sometimes we feel that way about when we hand the -- I'm sure when you hand a PC to some folks you go, uh-oh, there's going to be a problem, or we hand the server over to somebody, a customer, like IBM Global Services, I get very nervous. I'd rather give it to anybody than IBM Global Services.

The idea that we can centralize this, it's going to require a lot of work and a lot of energy and help from people who are truly understanding of the customer environment and also the technology. We've brought three partners here today that I'd like to bring up on stage to kind of talk about this, because we're going to need help. It isn't just going to be done in the lab. It's going to have to be done with the customer to integrate these environments. Granted, there's lots out there, but there are a few very large, global systems integrators who can go make this happen. It's kind of mankind against IBM Global Services. And I've got three great representatives here from mankind.

No particular order here, we'll start in Dallas, fresh from the EDS Byron Nelson classic is Charlie Feld, who is the EVP of portfolio management at EDS. Thanks for being with us, Charlie. (Applause.) I know Sun and Microsoft are both members of the new Agility Alliance as you build out the agile enterprise. Can you just give us a quick overview of what that is, and how you think you can help people bring the stuff we're doing here in the lab to the market.

**CHARLIE FELD (EVP, Portfolio Management, EDS):** I was actually very excited about the demo, because Fred's got big problems, but Fred is only part of EDS's service. We have 100,000 servers and millions of devices connected in in places, in addition to General Motors, places like the Navy Marine Corps, places like the Department of Public Works and Pensions, healthcare Medicaid, the security issues, the privacy issues, the complexity that's been built in this 40 years worth of junk yard that we call the IT era, that we started in the '60s, is pretty overwhelming to get to work in this new world that's global, its open at the edge. It has many ecosystems, whether it's supply chain, or customers getting onto your network. So scale up, scale down, privacy issues, security issues are daily problems for us.

So we formed an alliance which is made up of best-of-breed companies to focus in with our clients and help solve these problems, so we can take the expenditures which are huge in IT, and turn them into real business value.

So we're going to see an era now where interoperability, consolidation, kind of reversing the archeology of 40 years of IT complexity down to where people can focus on their supply chain, the customers, because we're in an era now where almost everything that's been done in the first 40 years needs to be simplified, modernized, automated and decomplex so we're very excited about the agility alliance.

And the thing that's critical about it, because we've had alliances for years but they've been one-to-one; this multilateral is so powerful, it is more than the power of one-to-one or even the power of two, it's the power of many focused in on problems like Fred has and I have on Fred's behalf and all of our other clients and particularly when you're dealing with things that are on aircraft carriers. I mean, our servers are not in nice closets all over the place and it's not just you're going to make a customer unhappy; I mean, people are going to get hurt if our servers and this interoperability don't work, so we are very, very grateful for what's gone. And I think the IT world is going to mature as we learn how to work with each other.

**SCOTT MCNEALY:** So thank you, we appreciate it.

One last question I would have, what are the chances we can move people off of the mainframe legacy environments to the joint Sun-Microsoft? Maybe you can talk about that.

**CHARLIE FELD:** I wake up every day and when we talk about modernization the problem that we face as an industry is, regardless of what people say, there are 200 billion lines of legacy code still running on 30,000 mainframes and everything that goes with it. And part of the modernization is to begin to systematically take that apart. And when I say modernization, it really is not just lift and shift, it's go in and fundamentally change the data structures to simplify, get things more into a service-oriented architecture.

So the work of the next three to five to 10 years is for companies that have been around for 40 years to really go at the heart of the problem and the issue is we've got to free up money to invest, which means getting things off of very expensive aging platforms onto simpler, more user-friendly environments that operate with each other. So it's a very exciting time.

**SCOTT MCNEALY:** Thanks, Charlie. We look forward to bringing your stuff off the mainframe to .NET and Java Web Services. (Applause.)

So, Don Rippert is here, CTO of Accenture. Come on up, Don, he's got a brand-new job here as CTO. Welcome. So, like you've got a long history of working with Sun and with Microsoft and created quite a bit of energy now. Talk to us about what you're going to do

with the practice to go bring this interoperability stuff to market and why you're excited about that.

**DON RIPPERT (CTO, Accenture):** Well, I'm excited for a number of reasons. It's great to be here standing between Steve and you and for the first time not having to wear any of that bulky body armor -- (laughter) -- that they used to advise us to have on before we came up.

I mean, it's happening now, we do a lot of work at Accenture in trying to improve business processes and we use the technology from companies like Sun and Microsoft to do that. And we have a number of places where we have to make these environments interoperate. We just can't say we're going to do a rip and replace, it would take too long and it would cost too much.

At a grocery chain we had to implement identity management between Sun and Microsoft, which we did in order to get their acquisitions to work more effectively. At a bank we had to build a customer portal integrating J2EE and .NET. At a government agency in Europe we had to produce a citizens portal, we needed to take the Microsoft .NET portal that they had and connect it with a CRM system running on Sun's architecture.

So we get these opportunities all the time. The trouble is before this alliance, before this cooperation agreement, it just was hard. I mean, we had to use a lot of our own kind of figure it out as you go architectures and approaches. Now with what we're getting from this cooperation, we can take on things like identity management, we can do it cheaper, we can do it quicker and we can do it with I think a lot more trust from our customers who want to see the fundamental technology producers in agreement on how to do it and then they'll let us implement it.

Things like adherence to Sarbanes-Oxley is of high concern to our customers; preventing identity theft is of high concern to our customers. The more that this cooperative agreement and this cooperative effort can reduce those barriers, the more we can come in as Accenture and as Avanade and we can improve the processes and we can do more work for our clients.

So I think it's good for the clients, it's good for the industry, it's good for Sun and Microsoft, and it's definitely good for Accenture.

**SCOTT MCNEALY:** Great. So we worked on the identity piece and there's more to do there and we're working on the management and storage and the thin client environment and some of the other things. From what you're hearing from customers and from the problems you deal with, what are some of the areas you'd like to see us aim at from a technology integration perspective as we send Bill Gates and Greg Papadopoulos off to work on the next round? A year from now what would you like to see us stand up and talk about?

**DON RIPPERT:** Yeah, well, first I applaud the fact that you're working through the Web Services standards and not coming up with yet another set of ways to do things; that's been very positive for us and for our customers.

I'd say the systems management area is one that our customers are increasingly saying these systems have to stay up, I can't afford dual management capabilities, I can't have two groups working on it. So I know you guys have started that and have progress made on it and I think that's an area of great importance to us.

**SCOTT MCNEALY:** Great, good message. Don, thanks for being here, appreciate it.

**DON RIPPERT:** Thank you very much. (Applause.)

**SCOTT MCNEALY:** I'd like to now introduce Yuji Ichimura, who is VP of Corporate Planning and Marketing for NEC Solutions America. Come on up. I know he's stepping in for -- thank you for being here. He's stepping in for a good golfing buddy of mine, "Tiger" Kawamura, who I think is probably down at Dallas playing in the Byron Nelson or whatever. (Laughter.) I don't like to play with him, he beats me, very bad for my ego.

Well, thanks for being here. So I know we've had a very recently announced partnership and now we have a chance to expand that. I know you've been working with Microsoft for a long period of time. Tell us how this helps you all in solving your customer integration problems.

**YUJI ICHIMURA (Vice President, Corporate Planning and Marketing, NEC Solutions America):** Yes, thank you.

I'm representing Mr. Kawamura today. NEC has been the greatest partner of Microsoft in Japan. At the same time, NEC has been delivering tens of thousands of systems in the last couple years. So our customer bases have almost 100 percent of the Java environment and .NET environment; this interoperability is so critical to have the greatest two worlds coming together so they don't have to waste their past investments and the future investment will not be diminished by two interoperability existing.

**SCOTT MCNEALY:** So how large is the system -- I don't think people often think of NEC as an appliance company and selling PCs and other consumer products. You have a very large systems integration business, is that correct?

**YUJI ICHIMURA:** It's part of our fold and ever since I moved into the U.S. three years ago, actually I have a lot of questions about it. Just quickly, NEC is a \$50 billion organization. The IT part of NEC's business is about a \$20 billion business. Actually 50 percent, over 50 percent, of our IT business is now coming from the software and services business, so it's a global business now; the customer base is expanding globally and we are also expanding our system integration business in the global market.

**SCOTT MCNEALY:** So I think what you see here are three very large, very powerful and very established integrators who will help bring these two worlds together with the people, practices and methodologies to go make this happen.

Thanks for being with us, appreciate it.

**YUJI ICHIMURA:** Thank you. (Applause.)

**SCOTT MCNEALY:** So I don't have too much more I want to share. Steve, if you want to come on up and offer any closing statements, I'd be happy to hear those and then I think we're into Q&A; do I have that right?

**STAFF:** Yes.

**STEVE BALLMER:** I think the one thing I want to stress most is while we are making the switch from lab to marketplace together, we know there's a lot more work we've got to do in the lab, whether it's additional work that we need to do in management, I know Greg and Bill, based on input from the Technical Advisory Council, know that there's a lot more underpinning that we could do, consistent with Web Services spec to make sure that the Java environment and the .NET environment you can write applications that work together from those two worlds.

The number one thing we still get pushed on from every CEO, not just CIO, is CEOs don't understand it when their CIOs come and say to them, I can't get done what you want to get done for a year because we've got to integrate systems. CEOs say, why is it hard to integrate systems. Well, they say, I just want this piece of function and they say, well, I need to get a little bit of stuff off of here and a little bit of stuff off of there and it's a year and it's a big budget and it's etc., etc.

Well, the work that we need to do around Java and .NET interop is very important. You want to be able to take a billing application perhaps that's been written and it's going to say running under J2EE on Sun systems but you want to extend its functionality with something that for whatever set of reasons somebody wants to build on .NET or vice versa, and there's a lot of work that the team is working on now. We just filed I think or are in the process of getting ready an eventing specification between the two of us to help people manage events between the two worlds.

I'm a little out of school but certainly I hear from customers that there is work they want us to do in the area of messaging with the standards body, Sun and Microsoft, and I'm throwing that in the hopper at Greg and Gates and saying, Come on, guys, let's get after it. There's a lot more to do in the lab, and with the kinds of partners and customers that were here today, there's certainly a whole lot more we know we need to go do in the marketplace.

I think — what did you call it, the anthropology — I think Scott did a good job on the anthropology and I think the anthropology also changes going forward. We figured out

how to really hit our stride and I think we're just driving forward. We're going to continue to compete and offer great new innovations to the marketplace, but at least the people who own the two leading platforms in the enterprise are cooperating in exactly the way I think our customers want us to.

So good future in front of us, a lot of work to do, but really 12 months' work of progress - - 12 and a half months, I guess, since we did our announcement.

**SCOTT MCNEALY:** And I guess the last thing I would offer is there is going to be stuff that is certification and engineering between the two companies, there is going to be stuff that we each go off and do on our own and there is also going to be a place and space where we play in the more open standards bodies like in the WS Management System specification we work with Intel, AMD, Dell, BMC, WEBM Solutions and other folks to go create these things.

So there will be all kinds of innovation, some between the two of us, some that is unique to each, and some that is part of a community development, and we'll do whatever is appropriate and right for that particular piece of technology and level of maturation.

I think we're basically done, not a bad first year's work and no time outs for any of the people involved, no bodily harm at any point and I think we've set ourselves up. I've not yet met a customer, and I have talked to thousands in the last year, who isn't just absolutely thrilled.

(Operator Direction.)

(Applause.)

**STAFF:** Great. Folks with questions, put your hand up, please say your name and who you're with, and we'll hand a mike over to you.

**QUESTION:** You had mentioned some of the initial difficulties in working together and getting this. Could you outline some of those for us and what was the breakthrough, what changed in the last quarter or so to really get this going?

**STEVE BALLMER:** I would say the first few months, I won't even call it difficulty but you have a world, I mean, it's a little bit like when the Berlin Wall came down there wasn't a lot of sort of natural contact between folks from the East and folks from the West. We probably spent three months, six months, where engineers on both sides were literally getting to know each other and learning to speak common language.

And I've got to say probably, I think I can say this fairly from both of us, as executives it was a little frustrating; we were saying, OK, stop with the getting to know you stuff and start with the making the progress stuff. (Laughter.) And I mean it wasn't friction particularly, but I think it's in the nature of the engineering beast, so to speak.

**SCOTT MCNEALY:** Well, I also think the message might have gotten a little convoluted up front that we were going to — Steve talked about we're not merging .NET and the Java Enterprise System, we're not merging Windows and Solaris, we're providing interoperability. And once they got over that hump and they thought, Oh, I'm not giving up our strategic direction and our investment; rather, we're only providing filters and connectors and interoperability and commonality in new areas where they wouldn't have to go back, and the last thing engineers want to do is like — the last thing Microsoft is going to do is start over with a new kernel and the last thing we're going to do is start over with a new kernel, and that is the boundary.

So once they got over the fact that they just needed to make the stuff play nice and could still go out and innovate and provide a different choice to the customer, I think that was a big issue in getting everybody comfortable that they could work forward while still adding value.

**QUESTION:** So, Scott, you basically just admitted that you guys have sort of lived up to historically expectations in terms of good messaging, about good messages, good messages to deliver, but didn't deliver them very well about what this level of interoperability really, really meant.

So as part of the effort to deliver better messages about this interoperability, can you talk about plans for maybe including Microsoft products in I-4 centers and doing more stuff to demonstrate, to put wood behind the arrowhead about the claims of interoperability so that people understand this more quickly as you go forward?

**SCOTT MCNEALY:** We're already doing that to some degree, and it's starting to move into our I-4 centers. You go to our briefing center you will see Windows throughout that and interoperability messages. With the new Tarantella product we are going to be showing that off, and it will be not just Windows; we'll be showing mainframe and other environments. And it's not just to a thin client, but also to wireless devices and maybe even someday to an Xbox or something like that.

So you will see our servers running, Windows as well as Solaris; you will see our storage serving up and managing and allowing a common virtualized and provisioned storage environment. You'll see a lot of that.

By the way, you will see Microsoft sitting all the time in our briefing center and we had Bill Vass CIO sitting from Sun at Microsoft. So that kind of stuff from an anthropology and a joint literature, we actually have some very nice literature now that talks about how the two product stacks play together. And most importantly, we're going to be relying on this gang up here to go carry that message in a much more credible and they can actually mediate. So when the customer asks a question of the two of us, Should I use .NET or should I use Java Enterprise System, we're going to disagree. (Laughter.) Understand that. But these guys can then go play kind of switch in mediator or unbiased interpreter of where best to apply each implementation, and we're going to rely on them to go do that

for the customer. We feel very comfortable that this gang won't necessarily be pushing an IBM mainframe and we're happy to kind of compete on that basis.

**STEVE BALLMER:** I mean, it is an important last point. I mean, the truth of the matter is the world, it's been slower than anybody predicted but the backbone of enterprise computing is moving off of mainframe and we will disagree, as Scott said, religiously about where they should go but we'll agree they should go. (Laughter, applause.)

**QUESTION:** Could you tell us how you will take the specs that you announced today for single sign-on to market? Will they be included in existing products from both your companies or in new products and when? Thanks.

**STEVE BALLMER:** From a Microsoft perspective they'll be integrated in existing products, in our Active Directory product, in our MIIS product and those are the products that people use today for directory, for security, synchronization. We already have directory synch with our MIIS product and Sun's product, that's shipping in the market; those will move to support the new protocols, the WS protocol work that we talked about today, but the actual interoperability products are available to our partners and customers for use starting now.

So implementation moving to standards-based implementation, we don't think we need a new product, we think we need to have this be an extension of existing product lines.

**SCOTT MCNEALY:** So that's being embedded in the .NET Web Services stack, we're embedding the implementations of these protocols into the Java Enterprise System Web services stack, JES as we call it, and we will be jointly submitting what we've created to the standards bodies. I don't know, who are we — we haven't decided who we're going to go take that to but we'll find the right appropriate — the nice thing about standards bodies is you've got a lot of choice so we'll try and go to the — (laughter) — we'll try and go to the right organization to go get this adopted and available to everybody in a safe way. People don't always trust us to do the right thing for them so we'll get it out there to the public.

**QUESTION:** (Off mike).

**STEVE BALLMER:** When do we anticipate which part?

**QUESTION:** (Off mike).

**STEVE BALLMER:** When will we have the WS Security stuff implemented in MIIS?

**SCOTT MCNEALY:** Some of it is here now and it will be rolling out. I wouldn't want to predict, so stay tuned.

**STEVE BALLMER:** My guess it will be next year. I mean, things have to get through at our pace and we have to get through QA but also with us we have a wave of products that will come out, Windows products that will come out next year and will be in the next releases for us.

**SCOTT MCNEALY:** We're going to try and beat them to market. (Laughter.)

**STEVE BALLMER:** That's the way interoperability works; it's good to have one guy tangoing but we'll be here next year.

**QUESTION:** How far are you guys going to take this? You're not going to unify your product line, you're not going to unify the companies. This feels like a toe dip, an important one, and you hinted at things but are you going to get to the point where you point to each other's product lines and say don't go use my enemy's products, use my semi-enemy's products?

**SCOTT MCNEALY:** That's okay with me. (Laughter.) You know, choice is good, unlimited choice is in a switch room or a datacenter or a head-end or whatever becomes just absolutely a nightmare for scalability, reliability; the suppliers, half of the suppliers by the time you get done have either gone out of business, end of life of product or been bought by Oracle. (Laughter.)

And so they want a couple of large, stable R&D organizations. And if you look at who are the major players in the general purpose Web Services infrastructure R&D space, you're looking at two of the large R&D shops but we have also the installed base.

Quite honestly, if this cuts some of the so-called best-of-breed point products that haven't been integrated or if it cuts out a very large New York-based behemoth or whatever, I don't have any problem with that. If we end up on the short list together with interoperable product I think that will simplify the customers' problem, we'll give them choice and we will keep each other honest with two very large R&D budgets moving the specifications forward in a compatible way.

I also would rather we do it here than, for instance, have the government mandate what bumper heights we're going to have or what kind of crash and rollover specifications we ought to have and I think Mr. Colline would agree that it would probably work a little better if there was a little more self policing. So we're trying to do self policing and self driving of this thing so we don't have to deal with government standards.

**STEVE BALLMER:** I think one part Scott said I want to really just emphasize, which is the notion of there really are only two commercial stacks, the Java stack and the .NET stack or the Sun stack and the Microsoft stack. It's probably best to say the Java stack and the .NET stack, and Sun drives one and we drive the other. And it's not a toe dip, it's a plunge, it's like disarmament. Everybody feels like they can win and lose in disarmament. Sure, we feel like we have new opportunities that open up to us and Sun feels like it has new opportunities that open up to it and I think we both think there are

more opportunities that happen to open up to our two companies perhaps than to some other guy, and so our total pie gets bigger and our customers' lives get better and that sounds good.

**SCOTT MCNEALY:** So the way I describe it to customers when they understand, What are you guys, friends or foes or what are you? I say we're like two boxers when we shake hands that tap gloves at the start of the fight and we're going to abide by the rules and neither of us is going to bite each other's ear off, nobody is going to grab a chair and do the WWF clunk over the head or anything like that; we're going to play it by compatible rules.

Now, the issue is we don't necessarily have 50 people in the ring, it's not a barroom brawl, it's moving forward and offering something to the customer that is by the rules that they can then predict and understand and actually make bets on.

**STAFF:** We'll take one more question.

**QUESTION:** When you guys announced your détente just over a year ago, \$1.95 billion, a lot of that was going from Microsoft to Sun. As I recall from that announcement there was a possibility for payments to go the other direction for technology flowing the other direction. Has Sun paid any money to Microsoft and do you expect ever to do that and if so for what technology?

**SCOTT MCNEALY:** So we just recently licensed RDP, which I think stands for Remote Display Protocol, so that will be very complementary to and supportive of our thin client Tarantella Sun Ray effort. So, yes, and I think there's been some other — it's not kind of stuff that a customer needs or wants to know about, but there is licensing going on both ways and certifications going on both ways, so, yes, it is a two-way street.

**STEVE BALLMER:** And all the things I think which are financially material to both companies to disclose have been disclosed, but there are payments now both ways.

**QUESTION:** (Off mike).

**STEVE BALLMER:** Like I said, everything that's financially material to disclose we've disclosed. (Laughter.)

**QUESTION:** (Off mike). (Laughter.)

**SCOTT MCNEALY:** Next question. (Laughter.) I think we're all done here.

**STAFF:** Yeah, we are.

**SCOTT MCNEALY:** Well, thank you all.

**STAFF:** Thank you very much.

END