

## **Excerpts from the Sun Microsystems/Microsoft Press Conference, April 2, 2004**

Scott McNealy: A little less than a year ago at the prodding of just about every customer I met who said cut the rhetoric, Scott, [we realized we needed to] go get interoperable. We have Solaris. We have Java. But we also have Windows and Dot-Net. We need to interoperate. We need to make these things happen, and you need to just stop the noise and start the collaboration and cooperation and get it together. So I called Steve, and we went and played golf and sat down and talked about it after. And sure enough, at 4:15 this morning we got to a signature on a ten-year collaboration to make interoperability in a very unique and exceptional way here that we think will advantage both the Microsoft and the Sun customers in a special way, with interoperability and familiarity, while respecting each other's intellectual property (IP) in a very solid way.

Steve Ballmer: I'm really thankful for Scott's initiation of the discussions a little over a year ago. People said, okay, if you started, why did it take you so long. It's complicated stuff. And we needed to rebuild between the companies, not just between Scott and I, a level of trust. And there's a lot of discussion. We had teams down here, teams in Sun, up in Microsoft. We took a breather after Christmas because we just kind of weren't seeing our way through. We got a little tied up, our team did on a couple of other matters here in the last month or so. But after they were freed back up, we got back to it in earnest and are thankful for the good work by Scott's folks, as well as our own.

We got to an agreement that, as Scott highlighted, is really all about helping our customers who own both of our stuff who will continue to buy products from Microsoft and Sun that compete in the market, but to really help customers put that together in a unique way. And it's an agreement that comes from two companies that believe in intellectual property, that develop intellectual property, and that are respecting intellectual property. And we needed a framework for our collaboration that honored our mutual interests in intellectual property. And as part of doing all of this collaboration – oh, by the way, we had to make sure we took care of other ongoing legal matters between the two companies.

Scott McNealy: So let's turn it around to Q&A.

- Steve Shankland: Steve Shankland from CNetnews.com. What were the patent issues between the two companies and are we going to see a merged version of Java and C-Sharp?
- Steve Ballmer: We've never had any kind of patent regime between our two companies. We are both big developers of intellectual property. We both own lots of patents. And in a sense, it seems it was impossible to create a technical collaboration framework without having some framework in which both companies could be assured that they've got the right protection looking back and forward with respect to the other's intellectual properties. And so that I would say probably took our legal teams as much time as any so that we could do the things that were necessary – licensing one another, protocols, etc. – to get the kind of technical collaboration that this agreement contemplates.
- Scott McNealy: We're not going to – we shouldn't say never, but there's no plans to merge C-Sharp with the Java language or Dot-Net with the Java web services architecture. But we are going to work hard to find ways in the appropriate manner. And in fact, Bill Gates and Greg Papadopoulos have been meeting on a regular basis for many months now to go drive the appropriate interoperability, compatibility framework that allows the two architectures to work in a much more seamless way than they would do had our technical teams not been allowed to collaborate. And this framework now sets up that framework and makes it very clear how the issues are handled going forward.
- Steve Ballmer: There's a level of interoperability I think we both know people want. I actually think with this agreement announced, there will be more customer feedback that will help Greg and Bill shape exactly what else customers might want in terms of the way they target our Dot-Net platform, as well as Sun's Java platform.
- Scott McNealy: Make no mistake about it, there's nothing about this agreement that would upset us if it resulted in people buying more Microsoft and more Sun equipment than they normally would have. We have no issue with that. I don't think you have a problem with it, and I don't think we have a problem with that. And the rest of the world will have to deal with that. So understand that's part of the motivation here.

John Markoff: John Markoff, New York Times. Scott, we've had conversations maybe going back 17 years or maybe 18 years over Microsoft's behavior in the marketplace. Do you believe their behavior has changed? And as a corollary, do you think as part of this Java desktop and Windows and Office and Star Office will interoperate?

Scott McNealy: Today they do interoperate, and this just provides an opportunity and a framework to provide server-to-client/server-to-server with Solaris and Windows and Microsoft and Sun clients, talk to those servers to provide a higher level of interoperability and compatibility going forward, while respecting each other's IT. So yes, I believe Sun and Microsoft have uniquely advantaged each other from an interoperability perspective with the Solaris and Windows servers stacks.

I'm not sure we ever asked (Microsoft) for this kind of relationship before. So I can't speak for their behavior with respect to other people or out in the marketplace. I can tell you that the behavior and relationship when Brad and Mark worked together with Hank and Lee and everybody else at the Steve and Scott level, the relationship has been with a high level of professionalism. All we could ask is for a high level of respect and integrity throughout the whole conversation. So maybe we've grown up. Maybe they've grown up. Who knows? Maybe the customers are getting more in charge these days, which is kind of what I think is happening, is the customer is in charge. And if we don't pay attention and listen to them, I challenge you all to go seek out a large number of customers who are really unhappy with this deal.

(next question)

Rachel Conrad: I'm Rachel Conrad, also from Detroit – go, team – and from the Associated Press. I just wanted to ask Scott in particular, can you give us sort of a fly-on-the-wall impression about the first phone call that you made to Steve? The recent one that led to the golf match? And to be perfectly blunt, how much of eating crow is this? And who won?

Steve Ballmer: We were partners. We lost, and I have to say I don't have the lower of the two handicaps in this group.

Scott McNealy: The phone call was actually very short. I just said, hey, Steve, why don't we get together? Do you want to play some golf? And let's pick a date, and let's go do it. It didn't take more than about two or three minutes. It's not like we don't know each other or haven't known each other forever. And I've got some stories I could share with you about him.

(next question)

Unidentified Speaker: Scott, you announced some financial stuff today as well. It looked like the losses were even, excluding the charges, were a little bit bigger than some people expected. Was Sun's marketplace sales at the moment a driver of this? Do you feel pressure to do something to kind of help you in this sort of marketplace in a sense?

Scott McNealy: I feel pressure every day. We've been working on this forever, and literally I think the bigger driver here was their ability to apply themselves to the issue, just because they had some other issues they were dealing with in a place far, far away. So I think that was actually the real driver here in terms of timing.

Steve Ballmer: The truth is I think we were close in December, needed a little bit more creativity. And after we were able to kind of reapply, I think there was great creativity from both the Sun team and the Microsoft team that was able to finish up the deal.

(next question)

Ian King: Ian King, Bloomberg News. I'd just like to ask Scott, you say you're listening to your customers' more now and that's what has driven this decision. Does that mean there's an increased possibility that we'll see Sun systems with Intel processors in them?

Scott McNealy: We've been shipping Intel-based computers for four or five years, and we have a complete line of Intel-based products, 1U and 2U products, as well as Blade products, appliances, OEM and end-user, and have been running Solaris as well as Linux on those. And we have announced today that we are certifying all of those products to be Windows ready and Windows compatible. We also have a very quickly-developing line of Opteron servers that are X86, 64-bit X86 compatible machines also, and we just announced

that we are in the process of acquiring Andy Bechtelstein's server company, Kealia...we will have what we believe will be the most complete X86 Opteron server product line in the industry. Again, all certified to run Solaris, Windows server and Linux.

(next question)

Rex Crum: Hi. Rex Crum, CBS MarketWatch. Could you just refresh our memories as to how far back did the original litigation between your two companies go?

Andy Lark: I'd say '97.

Steve Ballmer: If two lawyers agree it was '97, I'll bet that's right.

Rex Crum: And, as a follow up, did you feel there was any need to speed this up as the out growth of the EU decision and also when that decision came down – I mean, Scott, you were quoted in a press release coming down very much in favor of the EU decision. So I was just wondering with that decision, did you feel like we need to really take some steps to tie up some loose ends at home?

Steve Ballmer: No. I really think you've got to completely separate – I certainly do – completely separate the two things. As I said and as Scott said, it's been almost a year that we've been at work on this. Sometimes there's an ebb and flow of things in a big, complicated deal like this. It is true that our capacity to focus in – some of the same folks were involved in some of the other matters going on. But the truth is, this is a good idea today. This was a good idea 12 months ago or so when Scott called. This would have been a good idea 12 months from now, and I'm thankful. And I think, as Scott points out, our customers all will be quite thankful that we got on with it as quickly as we possibly could. And at 4:00 this morning, it just happened to be the time.

Mr. Farber: Dan Farber with ZDNet. A question for Scott: Does this mean as of 4:00 this morning that you no longer call Microsoft a hairball or welded shut or any of the other kind of interesting terms you've come up with over the years?

Steve Ballmer: Look, we're going to continue to compete. You're going to continue to hear from me and from our guys about why Windows

servers are the best and you're going to continue to hear from Scott and his guys about why Solaris, why Java. That's good, healthy stuff. The thing I don't think you'd hear out of either one of us is that it's welded shut. The customers say to do these things and interoperate well, can I get information I want back and forth, do they play together well. That's the thing absolutely that we're agreeing to agree on, even if we still have other great work that we're going to sell in competition.

Scott McNealy:

I think Steve is on the right point. The customers do not want us to stop competing and competing on R&D, on architectures, on strategies, all the rest of it. They want that choice. That's the beauty of the market economy.

Steve Ballmer:

I think we both have understood it for a while. I think there are a few things that go on. I do think that in an environment that gets litigious, it's harder to have open discussion. I remember I talked to Scott a couple of summers ago at a golf tournament, and it was just hard to have open discussions because neither party knows exactly what to say, what to do. I think this is complicated stuff. Frankly, the agreements that got put in place by the teams on both sides, there was a lot of creativity required because we do both believe in intellectual property. We do both value our work. And so the question is how do you interoperate without giving away the crown jewels so to speak, an issue both for us and for Sun, I'm quite sure. So with the right kind of respectful environment – and we've spent a lot of time. It wasn't just sort of one golf game and send people away. There have been a number of discussions between Bill and their CTO, Greg Papadopoulos. We had a number of joint meetings with our teams. We were doing weekly phone calls for, what, two months, three months last fall. So it took a lot of time to kind of not only develop the framework, but I think build a level of trust that let us actually go and do what was probably obvious to both of us as a good thing a number of years ago.

Scott McNealy:

And by the way, don't underestimate the fact that we work and interoperate to a large degree already, and we both do the IP stack. We're on lots of standards bodies together, and our customers make our products work well together already. There's just a lot more we can do if we put the legal stuff behind and set up a framework around which to do joint IT development and

technology sharing.

Unidentified Speaker: First, can you talk more specifically about what you'll be licensing from each other and what sort of sums of money we're talking about exchanging hands? Second, Scott...I just wonder if some people will view this as a surrender and how would you defend it as not being that way? What in your mind is the most important thing Sun is getting from this?

Scott McNealy: There has been an equal amount of rhetoric coming back the other way. Mine was just more clever. And there will continue to be the rhetoric around whose product is better and all the rest of it. But I think one of the areas that we will not argue on is around interoperability and the fact that we're both trying to solve the same problem. So I feel comfortable that the tone will be the kind that the customer wants to see, the kind of competitive, hey, tell me why your stuff is better than theirs. They want to hear that. They want to see that, and it will be a lot less – one of the advantages of now – and, by the way, the rhetoric was toned down many, many years ago. You just all can Google that old stuff up.

The message here is that we are both very well established in these enterprise customers. Everywhere we go, he's there. Everywhere he goes, we're there. It's just there's a fairly high level in the enterprise and service provider market. There's a fairly high level of near ubiquity for both platforms. So we run into each other a lot, and it's become more and more clear that this kind of relationship was required.

Steve Ballmer: On the first question, there's a few things. First, we put in place – we deal with all of the antitrust matters just so we have a foundation to move forward on. Second, we put in place what I best describe as a patent regime between the two companies that serves as a framework to me to ensure that we don't want to follow one another in ways past or forward-looking that would be problematic for the technical collaboration. Third, we agreed on specific technical collaboration as it relates to how you make servers and clients talk to one another across the network. And each of these is long and detailed and certainly the detail of that is best probably gone through with the key teams on both sides and their folks here from both Sun and Microsoft who can do that. But there are things that need to get licensed in terms of making these

things plug together over the network. There's a licensing framework that's put in place for that. So that's the element. And then if you take a look at the payments, some of the money is to resolve our antitrust lawsuit. Some of the payment takes a look back and says let's make sure we are clean with respect to one another on patents. Some of it is forward-looking in terms of how we work together from a patent perspective. And then some of it is forward-looking, us to Sun and Sun to us in terms of the licensing of key intellectual property that relates to making these things plug together and interoperate well over the network. And so it's all kind of laid out in the press release. It's quite detailed, but those are what I would say are the key elements.

Steve Ballmer:

And what you'll see from Sun Microsystems is every quarter when we do our network computer launch, you'll see...another set of features or capabilities of interoperability and compatibility with the Microsoft environment. So it will just be an evolution. There will be no one product that we launch; it will be just as the technical teams get at the issues, you'll see a gradual building of the portfolio of compatibility.

Mike Singer:

Mike Singer with Jupiter Media. You're saying that this is obviously a good thing for your customers, but both of you have said on many occasions that everything begins and ends with the developers. I'm curious about what your thoughts are on that and, for example, Scott, I know that your R&D budget is huge. Are you just going to put more pressure on making sure that you work with Steve to –

Scott McNealy:

I think this actually makes our engineering budget more productive. And without the technology collaboration, you're kind of guessing. And you're kind of trying to reinvent stuff and the testing and certification and the guarantees that you can give a customer are much more tenuous. I think this will make both of our organizations more productive from an R&D perspective.

Steve Ballmer:

I would say for the IT customer who has to put together and manage these systems, I think the benefits – we could clearly articulate the benefits right here right now. I think from a developer perspective, we see some immediate benefits and we're also asking Gates and Papadopoulos to spend more time trying to figure out and develop more fully the rest of the potential benefits.

While still Sun needs to have its differentiation to compete, we need to have our differentiation to compete. And so I think we've done part of the job we need to for the developer, but I suspect there will be more creativity that now comes out of that process.

Scott McNealy:

There's a [lot of] potential. This is just phase one.

Steve Ballmer:

If you look at who's got the most robust development platform for next generation applications, you could get us to have wingding drag out about why ours is better, why theirs is better. But the gap between – to the next one, that's a big gap. That we both agree on. That's a big gap, and I think there's nothing in this – nothing, nothing, nothing, nothing – that will do anything other than delight customers. We've been modeling this through together because we're looking for the downside, and I don't think there's any downside.

Scott McNealy:

And the fall out is if more customers like this, that's what attracts developers. Developers want volume, and so this attracts more customers and is going to attract more developers. And in fact I think it draws more developers to the two platforms.