

**SUN MICROSYSTEMS**

**NC05Q1 Launch Keynote**

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This transcript contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding the future results and performance of Sun Microsystems, Inc., including statements regarding our belief that as the demand for devices grows, the demand for industrial strength network infrastructure will similarly grow; that the industry will accelerate from a couple billion dollar industry to a multi-trillion dollar industry; that we are beginning to see a hardware consolidation emerge; that Sun is driving transparency and ultimately service through utility; that Sun must drive standards in the network to enable customers to consolidate and get their services from the grid; that the computing marketplaces are consolidating to those that have the ability to project a system, including an x86 hardware platform, a scaleable hardware platform, an operating system, a middleware stack, storage and services; that the storage industry is going to grow much more quickly than the computing industry; that Sun is looking to provide repeatable methodologies and architecture; that consolidation is well under way in the financial services and oil and gas marketplaces, and the movie industry; that Sun will allow you to take advantage of a far more efficient means of building out a data center; that that grid will provide aggregated, secured, protected storage that will be much safer for enterprises than using their own technology in the long run; that Sun will be working with its partners across the world to make the grid the largest and most high-performance, as well as secure, grid the world has ever seen; that the network will be populated by a broader diversity and greater number of devices and that Sun must drive its R&D to make sure that the spectrum of devices is open to service from the infrastructure that Sun is innovating; that Sun must have leading edge, world-class components that go into the grids that people are going to operate; that Sun must give people both professional and technological assistance to help them move from the way they are currently running their businesses to a way that will allow them to take advantage of the grid to help them solve their computing needs; and that Sun will announce the retail availability of the grid in upcoming quarters. Factors which could cause actual results to differ materially from those contained in our projections and forward-looking statements include: increased competition; failure to rapidly and successfully develop, produce or sell new products, technologies and services, in particular our Solaris 10 operating system; lack of success implementing new selling models; delays in product development, or customer acceptance and implementation of new products; or quality issues with our hardware or software products. Please also refer to Sun's periodic reports that are filed from time to time with the Securities and Exchange Commission including our annual report on Form 10-K for the fiscal year ended June 30, 2004 and our quarterly reports on Form 10-Q for the fiscal quarters ended September 26 and December 26, 2004.

Good afternoon. With that as the context of what we're going to be talking about today, it is kind of an interesting moment in history in a number of ways. If you notice, SBC and AT&T have announced their merger, that pretty much is the consolidation and

disappearance of the first communications grid, which originally could only handle one phone call between New York City and Philadelphia.

If you think about the evolution of that grid and the timing of Sun's announcement of the first true computing grid, and look at the history of the two, you'll see that there is actually some remarkable parallels between the evolution of the communications industry, the power grid and what Sun is ultimately talking about today—a true computing utility.

In a way, just as with the original evolution of the communications and power grids, it wasn't nearly as much about the technology involved, although surely that was an enabler, as much as it was about the change in how people thought about what they did everyday and how they did it.

A lot of what we are going to be talking about today isn't necessarily just about the technology—the technology has to be there, GE power systems has to provide a turbine if we are going to efficiently generate electricity.

The interesting change is driven by the ubiquitous availability of the service that is then cheap enough for people to use every day of their lives.

The next wave of growth for us, and we think the next wave of efficiency for our customers, comes from revisiting business models and cultural models (and you know we're big fans of that). Just talking about “The network as the computer” back when we first started talking about it was certainly a different lens onto the industry than some of our competitors were projecting.

Now, just to give you a quick reminder of our business model, it really is the ocean of devices on the right of this slide, devices that talk to the Internet: the seat back in a Boeing airplane through a Boeing connection, an On-Star automobile, a General Motors automobile that talks to the Internet in order to propagate information about the car and the whereabouts of the driver, or the Starbucks card that tracks who's buying what, where, when, how frequently and with whom.

The evolution of these fantastic new mobile devices being introduced by Nokia, Motorola, Samsung and others is the obvious convergence of the IP world with the cable and entertainment industry. There is no one that could possibly doubt that the industry on the right has now gone well beyond what used to be an otherwise relatively limited portal, called the desktop computer about a decade ago.

Last year, about a billion wireless devices and 100 million PCs were sold—a ratio of ten to one; that's not even looking at the evolution of our FID and the network of things that

will ultimately begin lighting up supply chains.

So our thesis for awhile has been this: as the demand and diversity for those devices on the right grows, the demand for industrial strength network infrastructure on the left will similarly grow.

To us, this almost seems like psychology now. We are just assuming the network is growing because it is going to be on a consistent ramp for awhile and so we're not really worried about the market opportunity out there. We're more worried about how we can enable the next really expansive growth—the acceleration from what is a couple hundred billion dollar industry today to what will necessarily be a multi-trillion dollar industry going forward.

But again, just as the availability of the technology is only one element of this, you have to look at the history of all technologies: how they are ultimately introduced into society, adopted by individuals in business and then ultimately propagated.

And so we've gone back. In fact, there is one wonderful example to go revisit, which is the evolution of the electricity industry. You'll see that all technologies go through this phase of customization, which tends to be relatively expensive; but, for a new technology, or buyers who have a lot of money and resources, customization is the most expedient way to get the results they are looking for. Then, ultimately, that customized solution becomes too expensive to run one off and standards emerge, whether they are de facto standards that are driven or another way. That standardization enables consolidation and aggregation of demand, which is, Robert will tell you later on in the week, really the hallmark of the utility.

Once you've aggregated demands, you can begin delivering a service that can be used or utilized by a large number of people. So what's a great example of this?

If you read my blog, you find a book on the history of the electricity industry, called, "Empires of Light." It talks about how the first power generators were purchased by financiers like JP Morgan. In fact, JP Morgan had a generator in the stable at his mansion on Madison Avenue along with a full-time electrician and they provided electricity for his house.

Now, you had to be rich enough to afford the dynamo, the generator, as well as the electrician. But, the wonderful thing about this example is that at eleven o'clock every night, the electrician would go home and all the lights would go out. Therefore, it wasn't exactly a very stable system; you needed a full-time operator there making sure everything worked and what happened over time was that it became way too expensive. The businesses that wanted to do this had cheap electricity officers (I'm serious, go look)

and they had thousands and thousands of electricians employed, who were relatively sophisticated folks at the time, trying to make this esoteric new science useful.

Then there were standards. Those standards ultimately allowed for the aggregation and consolidation of demand; now every one of you in this room just plugs into that little three-prong outlet.

What was the process like to establish these standards? It was pretty grim; it was pretty nasty; there was a lot of bribery and graft; a few people died. Ultimately, it isn't quite as dangerous in the computing industry, but we came out with a three-prong outlet—a standard for consumption. How much did the power companies know about what you plugged into the network? Not a lot.

But, what happened was fascinating. Price plummeted and price went from a huge—and I mean unquantifiable—initial amount of money down to what is now a nickel a kilowatt hour, depending on where you go around the world. A dime a kilowatt hour—it's a transparent price. By transparent, I mean for like goods you can compare the price, bid vendors off against one another, create a commodities marketplace, a futures exchange and, as a result of that, drive efficiency. That efficiency yields lower cost, which ultimately enables ubiquity.

Everybody around the world now experiences less of a power divide than a digital divide.

So spool forward now and that's a relatively physical infrastructure. Though they are parallels, it's probably a little more relevant to talk about the evolution of the communications industry. That is a picture, in the upper left-hand corner, of the switchboard at the Ford Motor Company.

I don't know how many of you are familiar with the story of the first switch and its evolution. The first switch was invented by a mortician whose competitor in a small town had a girlfriend who was the switchboard operator. This first mortician was so convinced that whenever anybody died the girlfriend of his competitor would send the business to his competitor, and so he invented a device called the switch to put her out of a job.

The net result of that was the first switch. That switch ultimately led to the standardization of the communications network, which you now know as a DSL line. How much do you pay for DSL? It's about \$30 a month. Or, if you want to buy a T1 or T3 line, there are bandwidth exchanges. It's a very transparent price, with huge efficiency and, for the most part, there is not a digital divide with respect to getting access to the bandwidth.

The digital divide is due to the expense of the client you will use to access the bandwidth.

Ultimately, it's driven—again, the hallmark of the utility—by aggregated demand and a transparent price.

Now, transparency is something that we've been working on for quite awhile. The idea is that you set a standard meter that enables customers to bid vendors off against one another. We've been a big fan of transparency for awhile. The first move in that direction was to say middleware shouldn't cost you more than \$100 per employee with an infinite right to use.

And what happened? A lot of vendors kind of went into the mode of saying, “Well that doesn't really make a lot of sense and it doesn't really compare here.” The net result, however, is this: over the last twelve months or so, we've signed up over 400,000 employees into our system of thinking.

When you look at what is going on in the computing industry now and you think about customization, standardization, consolidation, and the true utilities, you end up with a pretty interesting social analysis as well as a technical one.

The single largest force out there available to customize your system, to help build exactly what you want, which builds in dependencies and inefficiencies, is IBM Global Services. They just employ more bodies—human people around the world who will come customize the thing that you want to go build.

Now, for the most part, very few people are custom building their CRM application today. Some still do (maybe it's esoterically important for them to go do it), but most folks go to SAP, Sieble (and we'll talk about a few of the emerging players), Dell, or Salesforce.com.

But in order to get here, those vendors had to rely on standards—industry standards. Now, again, industry standards are set by standard-making bodies. They are set by the volume in the marketplace and obviously—with the 64-bit volume being on the spark platform, the 32-bit volume being dominantly on the x86 platform and the evolution of that x86 volume into the 64-bit space with the AMD Opteron—we're beginning to see a hardware consolidation emerge where if you talk to customers, they'll tell you about this platform on which we're consolidating—and they'll use that word.

But consolidating the box isn't necessarily where you're going to get the biggest bang for the buck. They are consolidating on the software platform. Whether they are saying, “We're going to run the whole place on UNIX” or “We're going to try to run the whole place on Red Hat,” they're trying to pick a standard—one standard they can then

consolidate around.

Moreover, they're building Web services components on top of that because just having an operating system doesn't make a computer useful: you need more mature infrastructures than just an OS.

Now, the evolution of these standards, therefore, is enabling some businesses to emerge that have really, really, interesting characteristics.

One characteristic is: you can generate a massive amount of value by giving something away for free. How many of you use Google? That's right. You all do. No one told you to and yet you do anyway, which is an interesting commentary on the power of the CIO today.

Secondarily, their business model is built off the idea that if you give something away for free, more volume will come to you. It's up to you then to monetize the volume: Open Table provides free dinner reservation on the Web, eBay provides free auctions, Hewlett manages payroll and benefits administration for large companies, and Salesforce.com, you know what they do.

With Sun here driving transparency as well and ultimately service through utility, the expression of all of these services is that they have transparent prices: whether it is \$1 per employee year or \$1 per sales rep, which is how the CRM companies price, or \$1 per auction, which combined with a percentage of the total auction value enables you to bid. In fact, some of the prices have become so cheap, you don't even care about the price anymore—you care about the service.

What enabled that to occur was true ubiquity, affordability and ultimately standards in the network.

So I want to talk for a few minutes about what some of these standards are and what is actually going on to drive these standards because that obviously is the foundation of what we're doing in the grid. We've got to drive those standards first to enable customers to consolidate and ultimately get their service from a grid.

If you look at the standards that are out there and we walk through what a few of these basics are, look at what people are running on those operating systems, the extent at which people are deploying Java Web services (and let's leave dot net aside for a moment). This is the spectrum of products that they will all be running. Every customer you talk to will be running an out server and a portal server and a Web server and a proxy server and they'll be authenticating against directories; they'll be looking to identity management; they'll ultimately run this on a clustered system; they'll be hitting the

database and that's ultimately what defines the utility of that operating system.

There are some interesting things to look at when you look at that stack and, moreover, look at it in terms of which OSes are available to run across that spectrum on the bottom. Which OSes can run on both Spark as well as x86 and x86-64? Which OSes are available that actually span platforms?

What you'll see is, at least with respect to those that can run on the unit volume leader in terms of x86-32 and 64, the three OSes.

Solaris with Solaris 10 obviously drives a lot of unit volume on x86, as much as it does on Spark.

Red Hat, which, in our view, has become the dominant Linux provider, clearly does most of its volume on x86 as well and then Windows is exclusively an x86 platform— notwithstanding their little experiment with Itanium.

Now, if you look at what OSes aren't available, that's even more interesting because, again, if you want to run an OS on a x86-64 system, you can't run HP UX; you can't run AIX and you most certainly can't run the OS.

So what does that mean? That means that the computing marketplaces, just as we talked about the communications marketplaces, are consolidating—consolidating to those that actually have the ability to project a system—where a system is an x86 hardware platform, a scaleable hardware platform, an operating system and middleware stack that goes on top of it.

Add on top of that storage. Add on top of that the services and ultimately you see what is today 99.9% of our business—world-class components. Now they are systems, but then again the power generator is only one component that goes into running a power grid and our systems. Technology storage services are world-class components as well.

For us, to get the rest of that shift to the right toward consolidation around standards and ultimately toward the delivery of a true utility, we've got to not only make these systems and services available, we've got to start fundamentally driving and engaging customers in a different way.

So one of the first announcements we're making today is truly the introduction of our client solutions organization.

One of the things we heard back from customers pretty consistently is, "You've got a bunch of folks who understand hardware, but I don't want to talk about hardware. I want

to talk about the things that are keeping me up at night right now and hardware isn't one of them."

In fact, if you talk to a CIO today, you'll find that the single thing they want to talk to you about is identity management. Why? Because it comes from a memo that the CIO got from the CEO that says, "How are we doing on Sarbanes-Oxley compliance?"

In fact, I was talking to the CIO of a large global financial institution who told me that of the 63 funded projects they had, 61 were compliance related. It dominates the IT dialogue today and ultimately resolves to who has access to what, which is a problem with identity - managing identity, managing provisioning and access.

So our clients solutions team is now able to engage in a fundamentally different way. On top of that, the evolution of Web services has continued, and will continue, unabated, and not just now with the presentation of standard E-commerce or E-business services, but with the introduction of new devices into the network. RFID is not all about the technology, the technology has been around for awhile, but now the question is: "How do I actually propagate RFID and the information coming out of my supply chain back into my business systems?" We're able to engage in a fundamentally different way there.

What we're doing around manageability is basically helping people run their infrastructures in a much more optimal and efficient way, driving utilization as well as availability, using the next generation's predictive and preemptive technologies from Sun.

On top of that, we engaged data centers, not just in selling hardware into them but in telling folks how to architect them, how to build a service-oriented data center, how to really take advantage of consolidation, whether it's off of mainframes, off of diverse UNIX systems, or even off of our own systems to consolidate using Solaris 10 on a smaller number of storage systems.

Storage and data management is, in addition to identity management, probably one of the most critical issues for a business today because, in addition to who's got access to what, you've got the problem of what did they say, what did they do, what's the document they produced, what's the paper trail, and what's the audit trail. The storage industry, I think, is going to grow at a much, much, more rapid clip than the computing industry, partially because the demands and partially due to legislative compliance really driving folks to archive much, much, more of what they're doing.

And then finally, I think there's no CIO out there that will admit to you that they are done thinking about clients. They're all trying to think about how to get the diversity out of the system, how to get the expense out of the system, and how to get the security and risk out of the system?

These are the fundamental ways that Sun talks to the marketplace in front of business problems and then brings them back into our product tree.

And just to give you a rough number, there's about 5,000 folks in the client solutions organization at Sun and about 5,000 folks who manage customer relations.

So we now have an equitable balance between those who are able to understand the needs of a given industry with those who are able to understand a specific technology challenge or market challenge.

It's a fundamentally different sales force today than it was a few years ago.

Now, for all of these folks to engage a customer base, we obviously are looking at how we architect this in terms of, "Well, we don't want to go build a bunch of custom solutions that are one off." That wouldn't actually scale.

What we're looking to do is instead is provide repeatable methodologies and architecture, so I won't ask you to repeat after me. The scale is all reliable repeatability, but if I did ask, you would prove my point: I can ask you to repeat something simple and repeatable because in fact it is simple and repeatable.

With the blueprints and reference methodologies available from Sun, not only to our client solution professionals but also our partners, we can get through these problems much, much, more rapidly. There's probably not going to be a ton of competitive advantage derived from how you implemented your Web services stack or from how you even implemented your identity management processes.

The competitive advantage is going to come from how quickly and efficiently you did it and that's exactly what we're driving after.

Because we have these repeatable methodologies, we can now engage our partners in a fundamentally different way. We can go to them with, "We're done. We've got repeatable methodologies that we've seen from having canvassed the marketplace on how to solve core problems," and then going to our partners to say, "Now we'd like to scale with you."

We can co-evolve the technologies with the business and market opportunities that you see.

So partially, what you've seen over the past few years is Sun really becoming much, much, more market-in, rather than product-out. One good example of this is if you've

been following what we've been doing over the past six months or so—our approach and focus on Wall Street.

Now why have we been so focused on Wall Street? Well, for the most part, and I think it's a Yogi Berra quote, but I'll get wrong, "You rob the banks because that's where the money is."

There you go. And the point is this: of the 170 or so organizations in the world that spend more than \$1 billion a year on IT, most of them are in the financial services marketplace. These are the folks who not only believe IT matters, but also know that IT is almost their exclusive competitive weapon.

To go sit with Wall Street and listen to and understand what they're doing gives you a really good clue—and not just of what eBay is going to do because that's how the trend works—about how what happens on Wall Street often ends up at eBay; what often ends up at eBay ultimately gets deployed in JC Penney. There's definitely a Wall Street to main street connection.

When we spent some time on Wall Street over the past couple of years, we saw some interesting things happening.

First and foremost, they were done with this mode of customizing all their systems. They wanted to move to standards. They were all building grids and now, if they're all building grids, that means you can actually begin the process of saying, "Why have you built a grid. Why don't you let us build a grid?"

Now you could question, "Well who's building a grid?" I will assure you the consolidation is well under way in the financial services marketplace. It is also well under way in the oil and gas marketplace and in the movie industry as they render films.

The concept of the consolidated grid, again, is the tell-tale point in time where you can begin to aggregate demand because none of these companies actually believe that their grid is going to be that much better than anyone else's grid.

To that end, if someone can provide it for them at \$1 an hour, they're more than happy to get it.

So what we're unveiling today is a fundamentally different way of thinking about computing. For \$1 an hour you buy not only the latest and greatest system from Sun, 1 Gig of RAM, twenty Gigs of storage and no minimum commitment, but also an operating system that's available in the open source community that comes with an indemnity and patent protection.

\$1 per CPU hour buys you that system, not the parts to go into the system, but the system.

So what I'd like to do today is actually turn on the grid and that's what this device is. I've been warned not to touch any of the metallic parts, so I'm just going to hold the black part here and this is in fact the unveiling of the Sun grid.

There you go.

So now there are some interesting questions that are being raised by some of our customers, which are "What does a buck a CPU hour buy me? How do I get access to it? And how can I start to think about how I would get my folks to use it?"

What I'd like to do is just give you a quick demonstration of how easy it's going to be for a customer, no matter how small—you could be an academic in a research facility at a university who wants to model a protein or you can be a researcher at an oil and gas services company who wants to go run a big script. Either way, you can come get access to cheap and no minimum commitment computing utilities.

If I could get you to look over here, this is the landing page and if you want to get information about the grid it's just [sun.com/sungrid](http://sun.com/sungrid). I'd like to show you what the user interface looks like on "How You Get Access." Now, I've already signed up for an account here and so what we're going to be seeing is my log-in. I'm going to obscure that so you can't grab my credit card number.

You'll see that I have an account balance of zero, which means I can't actually do anything.

So the first thing I'm going to do is buy some time. How do I buy time? I'm going to click "Buy Some Grid Time" and it's going to open a panel and I'm going to tell it I want \$100 worth of computing time. Now, my credit card is entered in here. I've elected to use my American Express card and I'm going to go ahead and click the "Submit" button.

Now what you're going to go see over here is \$100 shows up. Now I have \$100 worth of computing time. One of the things that I could do with that computing time is render a movie, or a reservoir simulation. I'm actually going to run script, which is one of the standard grid engines out there.

By the way, if you look out into the industry, you'll see a pretty thick catalogue of applications that are already grid specific. You're not going to see ERP applications like SAP. That's not necessarily their design center and it's very important for you to

understand that there is a spectrum of applications, some of which are ideal for a grid, rendering a movie, doing a simulation, doing a Monte Carlo analysis, some of which makes no sense right now, and running your payroll.

So I'm going to go ahead and run this protein renderer and what we're going to see is my job, which has been scheduled now, start running. Having ran for a couple of seconds here, we're going to be able to view the output of that job.

You can see it has actually run that across a pretty broad number of CPUs, which is why I just paid \$13 for the privilege. This is the protein I just modeled. Now, how many people actually model proteins? Go into a big pharma and go talk to folks. There's a lot. How many folks run Monte Carlo simulations? A ton. Run reservoir simulations in oil and gas? A ton.

They've been underserved because how did you get access to the computing? You went to the data center and you lobbied to allow your job to run, or worse yet, you hired folks to build your own grid.

Look at the number of different applications that are available now. I'm actually going to open up another page. These are actually the hosts that are available—and probably more data than you wanted—to come run jobs. What I can actually do is render a little bit of a bigger job and you'll begin to see how a job is actually propagated across the farm.

I'm going to log back in here and actually initiate a movie so the lights, that you see here over on the left, indicate whether or not the status of a machine is dormant or actually running. So, when I click on "Run," this is actually going to fire off about a half an hour of rendering across about 100 different systems.

The first thing that you'll see is one of the lights here on the left turn blue and then a lot of them will turn blue. All of these blue lights are now systems that are being actively used to render this movie and I'm not going to wait the minute and a half to show you what that actually looks like, but that is the process. That is the anthropology as well as the technology that's necessary for people to go run this.

If I can go back to the slides to understand how this will all work, the issue isn't whether the technology is available—it's done; it's available today. The issue is whether you can actually convince a data center employee or a data center executive that they want to be using a fundamentally different model.

Now, I was with a journalist earlier in the week who asked me an interesting question: "When do you think people will be ready to use this model?" My response was, "Do you

use Google, eBay, Amazon.com, Yahoo!, Open Table?” Consumers are already there. They don’t deploy their own technology under their desks to go make dinner reservations or to run an auction, they’re already using someone else’s infrastructure.

The laggards in the industry have been the enterprise. So what we’re presenting today is that the technology and real business model end. Now, support from Sun will allow you to go take advantage of a far more efficient means of actually building out a data center.

We’re not just going to do this with computing power. In fact, if you looked at what we initially presented, it comes with a Gig of RAM and twenty Gigs of cash. The issue now is how do you provide persistent storage, given that Google provides a Gig or ten Gigs free for a consumer grid storage. Then the issue is when enterprises will begin to store, whether it’s the data sets that are used in their grid, or critical business information.

Now why would they want to put it in a grid? Well the same reason why they would want to put their money in a bank, rather than putting it under their mattress.

In an aggregated, secured and protected place it is going to be much safer for them in the long run.

This is a fundamentally different way of thinking about the marketplace and, to that point, if you believe that the hallmark of a utility is the transparent price, the thing that is just as fascinating about the evolution of utilities is that they all spring commodity exchanges.

There are bandwidth exchanges today. You can trade in pork bellies; you can trade in barrels of oil; you can trade in gasoline and water futures and power futures, so wouldn’t it be interesting if some of the more farsighted exchanges began thinking about creating a CPU exchange—a computing exchange and a storage exchange?

I would stay tuned for Thursday when some very leading organization along with Sun will be announcing an interesting trend and its very general direction, but you should all come back on Thursday.

This is interesting to us because, again, it allows us to now drive the dialogue in the industry that isn’t just about bits and bytes and fees and fees. It’s about changing the way you think about consuming computing. From where we sit, this is now checked off. We have a utility. It’s available and we’re available to work with customers around the world to help them take advantage of the infrastructure that we’ve built.

We have thousands of CPUs that are now lit up. You got a quick sense of that graph showing where those data centers are. We’ll be working with our partners across the

world to make it the largest and most high performance, as well as secure, grid the world has ever seen.

But now let's take step back and talk about these standards and the move to consolidate infrastructure. If you look at how pricing in the software industry works, remember that I told you that transparency is really the core of what Sun is trying to drive here. Transparency can be our competitive weapon, where opacity has to be other people's competitive weapons.

If you look at pricing in the software industry, it's anything but transparent—it's completely opaque. If you want to buy any of these products, you have to figure out what the meter is. You have to employ a lawyer to go count it for you and verify that in fact you're using this many identity, or directory, entries. Then once a year you get a visit from a sales rep who says, "How many of those are you running?" Then you have to get your folks out to actually go do the count. It's neither very efficient nor very transparent.

Now compare that to the electricity industry where the sales rep, being the meter reader, comes to your house, looks at the meter and moves on.

When we thought about trying to drive transparency into the software industry, we used the meter we thought everyone already audited because they do. It's the number of people they employ: full-time employees, not contractors, not half-time employees—full-time employees.

What we're announcing today, first and foremost, is that we have broadly extended the definition of the Java enterprise system to include provisioning technologies, identity management technologies, so that this whole stack of system software is now available for \$140 per employee year.

That price will change, effective April 1, and so between now and then folks have an opportunity under a promotion we're running to still be covered under the existing \$100 per employee year.

But the real question that we found when talking to customers, as well as a bunch of the analysts that we worked with, was that customers found the barrier to entry too high in the sense that they really needed to drive broad scale cultural change.

We needed to decide whether the whole company was going to run on this stack of software, which is a pretty big change to make.

What we're also announcing today is that the Java enterprise system is expanding to

suites, lowering the barriers to enter, so if someone is only interested in solving their identity management problems, but they're not interested in totally reforming their Web services infrastructure, then we can sell them just the identity management suite.

And at \$50 per employee year, they'll have the same infinite right to use and the same opportunity without having to worry about auditing or where they're using the technology.

Again, at least with respect to the extra net users, they don't have to worry about auditing them either because our model presumes the software is yours—you do with it as you see fit. Google doesn't charge you based on the number of searches you do. You've got an infinite right to use the system.

So, thinking cleverly, if you to buy two of these suites, you obviously have a pretty big incentive to sign up for the platforms. But, if you think of each of these five suites identified here, it also allows us to hit at different audiences. It turns out that people responsible for identity management within an organization are the people who are worried about legislative compliance. By the way, they're also worried about information lifecycle management in the storage industry. They're not talking to the folks who are buying application servers and business integration software. They're disparate audiences. This gives us a means of identifying with them and solving their problems specifically.

This gives us an even more aggressive strategy to go drive into the world-class standards around which people can be consolidating.

So if you think about where the business is going, it's a pretty simple bet - you can't bet against the network. I think time and time again it's been proven that the network is ultimately going to be populated by a broader diversity and a greater number of interesting devices that are going to perform different functions for different people.

What we've got to do is drive our R&D to make sure that the entirety of that spectrum of devices on the right is open to service from the infrastructure that Sun is innovating on the left. The way that we do that is by leveraging Java—Java to drive the standards, to enable the transparent pricing and, moreover, to enable the service ubiquity that ultimately brings the price of computing down so far that the digital divide will become as meaningless as the power divide.

That allows us to wrap together what we see as the three phases of technology adoption . We must have leading edge, world-class components that go into the grids that people are going to operate.

We have to give them both professional and technological assistance to help them move from the way they are currently running their business to a way that will allow them to take advantage of the grid and then finally give them every incentive and opportunity to leverage the grid at \$1 a CPU hour to solve computing needs that are costing them an outrageous fortune today.

And so our invitation to you and our customer base, more broadly, is this: now is the time to benchmark your spending.

I was having breakfast with another CIO from a large financial institution and he said, “You know, I just really want to thank you because what you’ve allowed me to do is go back to my head of IT and ask some really uncomfortable questions about benchmarking how much we were spending. Are we spending more than \$100 per employee with an infinite right to use? Are we spending more than \$1 per CPU hour?”

We’re coming up with some pretty interesting answers. What’s hard about those questions is that you have to really begin to look at what’s the total cost envelope. You can’t just look at how much did the computer cost you. When IBM talks about their grid, they’re talking about a two-year-old zeon technology. We’re talking about the latest generation 64-bit platform. You can’t just talk about the hardware; you have to talk about the operating system on top of it.

We deliver our grid with an operating system. Most enterprises have to pay for those operating systems. What customers won’t have to pay for in our grid is the real estate, the power, the human beings who are managing it and all the technology that goes into actually making the grid useful. That’s all covered under what we’re saying is \$1 per CPU hour.

We think this is a process that some customers are going to take to pretty easily. People who are already building grids are pretty familiar with what the model is. We’re more than interested in coming and sitting down with these people to help them understand how to take advantage of a grid. It’ll be perfect for some workloads; it won’t work well with others. We can certainly give you the benefit of our wisdom. Moreover, as we announce the retail availability of the grid in the upcoming quarters, by all means take that \$1, though it’s going to be tough to feed it through the PCM PIA slot in your computer, and try out the grid. For businesses that are actually using Monte Carlo simulations and oil well simulations, it’s obviously going to be a lot easier for them to do than for someone in the retail audience to do so.

If you think back, Scott and I were doing a customer visit earlier in the week and we sat with a CEO and a CIO and we reminded them that 12 years ago—not far back in history—if you had asked an employee of the company, “Do you need the intranet more

or the Internet more?” what they would say is, “Well I have all the applications I need. They’re right at my desk right now. And what do I use the Internet for? I don’t think I do. Oh yeah, I hear we might be getting email soon.”

Now spool forward to today. I guarantee you, if I turned off the WiFi in this building there’d be a lot of you that would be pretty upset right now. Moreover, for our customer base, they are dominantly dependent upon the Internet over the intranet.

To us, this is just a logical extension, not just of consumer services, but a logical extension of what enterprise infrastructure will ultimately become—a pervasive grid. And again, as Scott pointed out, it’s only the 24th year in which we’ve been saying, “The network is in fact the computer.”

Thank you all very much.

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