

SUN MICROSYSTEMS

Moderator: Scott McNealy
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10:00 am CT

Operator: Ladies and gentlemen please welcome Chairman and Chief Executive Officer, Scott McNealy.

Scott McNealy: You thought it was him didn't you? It was really me. That's not Photoshop, really. Actually, with no hockey, I kind of have to like pretend.

That really looks like me doesn't it?

You need a really good camera to catch the full shot there. With NHL standing for "no hockey league," I have to kind of get into baseball a little bit here. So we thought we'd have a little baseball team and I know you're all excited about your new team. What are they 500? Below? Above? Oh, okay. Good for them.

Well, so to commemorate all of that, you all know we're doing the grid and we were trying to get people to try the grid out. It's a little new concept to actually use a public utility, you know, like electricity. So, to help you all we're going to give you a chance to win 100 free hours - 100 free CPU hours on our grid. So the way I thought I would do that is that I would get my little

trusty baseball bat. And we have the Sun grid balls here, so if you catch this – now, don't hurt anybody near you.

And all of a sudden employees in the front row, if I top it, it's not a good thing for you. But you give this and a business card to a Sun employee before you leave and we'll send you a gift certificate for 100 CPU hours for free. So there you have it.

So they're not really – they're pretty hard but not super hard. So is there anybody up there? Can I try and get it in the upper...? So I haven't done this a lot.

This is fun.

Where did it go?

Oh, here's a little one. This is for five hours.

How many more have we got here?

Popup.

Last one? Last one.

There you go.

Thank you.

Sorry, (Johnny). I only popped one. He was the one explaining to me when you pop it, it's not a good thing.

All right. So that's the fun part. Now you've got to sit through my speech.

Lots to talk about here in a very short period of time. So let me just crank through it and we'll get the slides going.

Here we go.

So this is in a series of our network computing events, NC '05, Q3 we really went up to New York and made the statement we're going to take back Wall Street. Launched the Opteron product and we've really done quite well. And I've announced that we're growing very nicely in that particular market.

Then in Q4 we went out and made a lot of noise about the whole Solaris thing. Open sourcing Solaris, all the rest of it. We got our 1.3 million licenses out there right now in the marketplace. Pretty exciting. And we've changed the world. I would not want to be Red Hat right now, for instance.

And then we announced the grid. And the dollar per CPR, the dollar per gigabyte month and have told people we all want to strive and get to. So pretty interesting set of innovations.

Now, we're coming to Washington. And we thought what better place to make a statement about what we can do and bring these technologies to governments. Now, we've always been, you know, fairly well known in the Defense Department, in the intelligence communities, in law enforcement, homeland security. That's kind of been our bedrock in the government business, but we'd really like to expand this into the egovernment kinds of activities. The civilian agencies, if you will. And at the state and federal as well as the local level, we have such a huge opportunity. And this is a global opportunity.

Now, governments have a lot of issues. A lot of challenges. A lot of constraints in the way they buy things but the privacy and security issues are right up there on top. Information sharing, both at the civilian as well as the defense level is a big issue.

Since the homeland security initiatives have happened, I think a lot of us have seen a lot of the government agencies scratching their heads and trying to figure out, all right, I've been told to communicate, to collaborate, to interoperate. How do we go do that? So that's a big issue.

Another one that governments are quite focused on is this whole telework issue. How do you – the traffic here is impressive.

I come from California and you know, we got nothing on you in terms of traffic.

And the opportunity to allow people to use the network to commute during rush hour is a big opportunity and there's a lot of government mandates and there's going to be a lot of money spent for good reason to try and resolve some of those kinds of issues.

And we're all dealing with the healthcare issue. And a lot of it is the paperwork that's involved. It's a stunning opportunity for mistakes as well as for costs.

Anyhow those are just some of the challenges that we see and hear. And we believe we have some fairly interesting technology that you're going to see here.

Now we've got some nice wins. These are just some of the wins we've had in the last six to nine months with some names you might recognize and

certainly some very, very nice public sector wins in the marketplace. And we feel the momentum building very, very nicely as our product line has improved a lot since the post bubble era. We kept investing in R&D and feel very, very good about where we're headed.

Let me do a little bit of a history lesson. Just to let people understand where we're headed as a company. You know the first eight years or so we did workstations, technical workstations. It was a nice business. We grew nicely to a billion dollars.

But that's a limited market, so we took the monitor off and started selling them as servers. And that was a nice business for another eight years or so and that's where we actually got introduced to the enterprise in a much broader way.

Well, about 10 years ago we launched Java. And within a couple of years it became, if you will, one of the key technologies that really spawned the whole dot-com internet era. And remember we were the dot in dot com and then we switched back to the "o" in old economy.

After the bubble burst. Beware of your marketing messages. Sometimes they're too well known.

But that actually is still a very, very viable and important and growing space for us as you'll hear from eBay later. These so called—not everyone was toothpast.com.

But now we're making a transition to the utility computing model. To the Sun grid as a – by the way none of these ever went away. We still do workstations. We still do servers. And we still do Java web services.

But we're expanding our portfolio. Broadening and building on the creative workstations that we built and the servers to serve it all up and the web services stack that ran on those servers and now we're providing this utility compute model. And we think that will be a very nice decade of utility computing. It's going to take a long time for people to move to this new model. Longer than it should, but we're very, very excited about it.

So the fourth big era. And this new era is – I mean if you go read a book about utilities, scale matters. Scale matters massively. You can't deliver water by digging a well in everybody's back yard. It just doesn't work. You want to have very large, physical plant. Like one large nuclear facility as opposed to a nuclear power plant in everybody's basement.

It doesn't work. You have a large central office instead of a telephone switch on every floor. That's the model we're moving to. And the – you don't want to think about somebody who's really good on the LAN, you want somebody who's very good on the WAN. It becomes a WAN based kind of architecture. Scale matters enormously.

Now communities matter enormously because of that scale. No single company, no single person, no single engineer, no single intellectual property base is going to be able to go make all of this happen. And it's only fitting here in Washington D.C. that I be a little Al Gore-ish and say that we invented community development.

It's not entire – it's almost justifiable actually to say we did that. We're certainly the number one enterprise donator of open source code to the community. We've been doing it since before the company got founded. In fact, Bill Joy was easily a pioneer of open source with the Berkley software distribution at the University of California at Berkley, which by the way is the other top two open source donator to the community. So with Bill Joy and

Berkley and Sun, you have really the two companies really dominate the open source community donations in the marketplace. But we've been doing open source since forever.

In fact, if you think about the network wars, we took open source TCP IP, 23 years ago and went up against ITX from Novell, LAN manager from Microsoft, Decnet, IBM was doing token ring. Apollo. Remember them? They were doing domain. We kicked – I can't say that word. My kids are watching. We kicked – we kicked – we beat them.

We beat them with a community around IP and it's fascinating to think that those technologies were actually competing and we did it with NFS. A community around NFS. By opening that up. And we did it with the Unix community development. The Java community process with nearly 1,000 companies all participating from smart card to super computer to the Mars landing vehicle.

These communities really do matter and it's why we have one of two web services stacks left on the planet, being Java web services. The other being dot net. And it really is, you know, kind of mankind versus dot net here as we've got the open – and we're winning.

We've got over 2 billion Java devices out there. And with open Solaris, with openoffice.org, with the Java desktop system all built on open software, you're going to see us continue to bring open – wouldn't it be cool if we like brought open source to the database world in a big time way.

We're not talking about that today but just stay tuned.

Communities do matter and when it's mankind versus anybody, mankind eventually wins.

R&D matters. I mentioned that we continue to invest in our \$2 billion or so R&D budget even during the bubble – even when I got a lot of unsolicited free advice from people all over. You know, like, got performance evaluations regularly in the media. I never met a customer who said, stop innovating. Don't do that. That new stuff, we just don't like – give us the old Sparc station one.

Nobody has asked for the Sparc station one. I mean, you might want a brand new '57 Chevy but nobody wants an old Sparc station.

So we kept innovating. We kept driving that. And in fact, as we move to the utility model and as you build your own data centers, your own grids, I would suggest you build your own if you're spending more than \$2 billion a year on R&D to build those grids. If not, maybe you might want to use ours. Something to think about.

Just a little food for thought as people have often asked me, who's your biggest competitor? It's often the CIO who's building their own. And our opportunity here is to turn the chief infrastructure and integration officer into the chief information officer and move the world forward. R&D will matter in this new world of the grid.

Any color car you want as long as it's black. Or in our case, Sun purple. That's where we're headed. You know when you go to the wall, it's 110 volt whether you've got a 200 volt appliance or not, it's still 110 volt and that's what you get. And that's what you want and that's what you expect.

When you go to the tap, you want H2O and only H2O. I mean, occasionally you might like a beer to come out of there but, you know... That's what comes out of the tap and that standardization is very critical and we're driving that.

The only way you're going to get the cost and predictability and the scalability, the reliability, the safety that you need is if we all go down the same common experience curve on these technologies.

Everybody says, well doesn't that make it a commodity? Well, kilowatt hours are a commodity but having been on the GE board, let me tell you the power turbines that drove that electricity, they were not a commodity and GE probably made more money over the last 15 years in that power business than just about any single business unit they had in the industrial space. So pretty interesting changes in our industry from that perspective.

I don't need to you know, need I say choice point or you know BofA or Nexus-Lexus or whatever these are almost becoming verbs again. We don't want to have a choice point on our hands. I think it's fascinating that everybody is blaming the companies not the crooks. But let's not go there. It's just not politically, you know, opportunistic to blame the crook. They were probably a victim of childhood or something, I don't know.

But we understand that this is becoming a huge issue. And if you've ever had your identity stolen and had to deal with the mess that that causes or if you've ever been a leader of an organization and had to deal with the PR nightmare of these privacy or security issues or a safety issue. And these are very real.

Whether it's on the defense and law enforcement side or even just on the private sector side. There's real life, life and death kinds of activities that have to be understood. We have invested very heavily, very aggressively in this whole security issues around Java cards, the thin client Sun Ray, the Java virtual machine. Name one Java virus with two billion devices. And then trusted Solaris.

And choice matters. What is choice all about? It's open interfaces. Why does it matter? Let me just explain it real quickly this way. The sales rep for technology will try to lower your barriers to entry. Make it real easy. You know, the first hit of heroin is free. Real easy. Your job as a purchaser is to lower the barriers to exit. You know what? Our sales folks do a great job. You don't do such a great job on eliminating the barriers to exit.

Any of you run a mainframe? Get off of it this afternoon. Just unplug it and switch. There's lots of other computers out there. Just switch.

You got a PC running Windows? Switch. There's lots of other desktops. Just switch. Tonight. Go home tonight and switch. You'll understand what I mean by barriers to exit.

Choice matters and you're offered that choice when we get to standardization.

Simplicity matters. You'll see Sun driving simplicity through our reference architectures. Through our Java enterprise system licensing models and integration models. Through Solaris running on multiple platforms. And you'll see it through our grid pricing models and with the new technologies. We're talking about today with Sun grid connection and update. We're going to simplify this in a significant way.

Responsibility matters. And it's not just enough to say upgrade more often and faster. Security patch your machine often and faster. That's not the IT organization being super responsible in our view. That's why we're automating and providing a subscription to allow this to happen instantaneously and automatically and aggressively.

We also think that there's an opportunity to be green. To be ecologically correct with thin clients, with network computing, with work from home, with

mobile office, with mobility in some very positive ways and to do this in a secure, safe, private way that protects people's identity yet gives them access wherever they are to what they need.

And then, as I said, it isn't all going to be done by one company. Partnerships matter. Huge. Sun is the most partnered company because all our interfaces are open. And we've got a lot of great government partners. GTSI does a lot of great work with us in the RFID space. Tadpole is driving some outstanding new mobile computing solutions here with thin client computing. Boeing is using Juxta for the future combat systems for the Army. Some pretty neat technology there. And the Air Force has just set up a Java center of excellence. You see a lot of great partners here in the government space.

One I'd like to highlight here, I'd like (Jose Jimenez) to come on up. He's – come on up and say hi to all of us. We're jointly delivering some – the music is key.

(Jose Jimenez): I was waiting for the music. How are you doing?

Scott McNealy: Doing great. So just thought I'd give you a chance to tell us a little bit. You guys are top three integrators in the world. But you're basically the number one integrator to the U.S. government. Is that a fair statement?

(Jose Jimenez): Fair statement. By the way, when I saw you with the baseball thing, the first thing I thought was the guy from Saturday Night Live baseball has been very, very good to me.

Scott McNealy: He can do some stuff I can't do. Go for it Jose.

(Jose Jimenez): And I'm not Bill Davis' little brother.

Scott McNealy: That's right. So we are one of your top three partners here going into the government space. How are we doing? What's the market like for the two companies? And how are we doing with you guys?

(Jose Jimenez): Well, you know, the market is going through impressive (unintelligible) change especially in the intelligence, law enforcement, homeland security...

Scott McNealy: Post 911 is just a

(Jose Jimenez): Post 911. You know, you talking about collaboration, data sharing, and breaking down barriers.

Scott McNealy: This is a strange new vocabulary for the three letter agencies and the DOD and all the rest of them.

(Jose Jimenez): Yeah. You can make it, you know, the vote du jour but the critical thing is that we're breaking down the stovepipes and the community is going through a significant transformation and you have to use systems like identity management, the snap architecture, secure network access. The platform, trusted Solaris are critical in order to be able to operate in an environment like what we're transitioning to where you're doing the horizontal look and analysis in the community.

Scott McNealy: So Java card authentication, the thin client snap architectures are all very critical.

(Jose Jimenez): Yeah. If you look at how the community is evolving, now they're forming teams, analytical teams. And they'll go work one target. And today they'll form this target. Tomorrow that group will break up and form another analytical group to go out for a different target. What the analyst want is the ability to walk into their workstation, have all their files, their previous things

that they've worked on, access to them. And they may be in a different building. You don't have time to go to move and change of your network and take everything to a new building, a new facility.

Scott McNealy: You know it's not just government. We have over half our employees are unassigned as we call it. They don't have their own office. I call them homeless but that's not politically correct either so marketing has an unassigned or hoteling and we self assemble on a regular basis that way also. Just as the government.

(Jose Jimenez): Yeah. Minor detail in our community. You have to do it in either a law enforcement sensitive or a top secret environment, which makes it a little bit more challenging.

Scott McNealy: So we've got to build a trusted grid with you guys.

(Jose Jimenez): Exactly.

Scott McNealy: So what are the top two or three things you'd like to see us do to work with you more aggressively in the market?

(Jose Jimenez): As we evolve to the thin client architecture, taking a lot of those analytical applications and transitioning from thick environment to the thin environment is something that we need to work on. Continue working on the identity management. And evolving a secure operating system like you have with trusted Solaris over time and continue to develop and evolve that. I think it's critical to our continued success.

Scott McNealy: Great. Well we really respect the partnership we have with you guys. In fact, we run a lot of our shop on your technology and expertise.

(Jose Jimenez): Appreciate it. Thanks. Take care.

Scott McNealy: We have a long list of partners including, you know, one of the other – we do really well with two out of the three top integrators. We struggle with the third one. You know, why do we struggle? Well, you know. You know how when you take your car keys and you give them to that kid at the restaurant who has a little beer on his breath? And the guy does a nutraslam and takes your top off your car? That's kind of how we feel when IBM Global Services gets the keys to our servers.

But we feel very comfortable with EDS and CSE. Very, very good partnerships there.

We have a great partnership with AMD. Not many people know but last quarter I had Hector Louise he was on stage with me at an analyst event and he acknowledged that we're his number one customer for the Opteron chip. So we've gone from dead last in 32-bit Xeon Intel space to number one in the 64-bit Opteron space.

And if you want some real go fast one to four way now going to two to eight way with our dual core Opteron and you'll see even up to sixteen way Opteron before we're done here.

Here's my buddy. Who's better dressed? Don't answer that.

I could buy my house with the cost of his outfit.

But so anyhow this is a great partnership. And we run Sun on Oracle and they run Oracle on Sun and it's been a great and wonderful long-term partnership. We have – this is not a Photoshop document. The one up front was. That

really wasn't my body but this is all like a real picture and there's no knife in his right hand.

And in fact, we've got about a year of partnership and energy that we will on May 13 be doing a joint announcement on, so watch for that webcast and announcement. We will be doing that out, probably out in California. Steve and myself will talk about the areas of collaboration that we've put together over the last year and a month or so. So that's going well.

So this is what we're doing. We're going from custom to standard to utilized. It's a long march from build your own to best of breed to buy the truck to use the truck kind of environment. And it's where we all have to move to. Someday I'm actually going to walk into a data center and say that looks just like the other data center I was in. I haven't done that yet. Because everything looks like that car on the left. I've never seen one like that before. We'll get there and this is the way to bring the infrastructure cost down.

Now lots of people are doing this. All of the service providers are providing a grid-like technology. Whether it's Seibel on demand or salesforce.com or what the cable or telcos are providing. Everybody is providing services. We went to Hewitt for the bulk of our IT HR applications are now served up as standard Hewitt services.

You know what? People are people. 401Ks are 401Ks. Hiring and firing and promoting and all of the rest of it is kind of the same everywhere. It's really hard to totally differentiate your set of humans from another set of humans around HR applications. So we said, let's go standard.

I don't know why my email isn't Scott.McNealy.Sun@yahoo.com. And why yours isn't a similar configuration. Why do we all have to run our own email?

It's just – we'll get there with service provider environments.

Now one of the great success stories of all in terms of service providers, I'd like to bring Paul Kilmartin up from eBay, the Fellow and Director of Availability and Performance Engineering. Come on up Paul.

Now what's fascinating is, you know, eBay was not even a brand 10 years ago. And you think about the kind of – the brand coverage you have it's like a verb. Why don't you just eBay it?

It's really become – well, how big is your operation?

Paul Kilmartin: I was going to say I'd like to help you out with your message today but we built our grid and we built our own community. So I'm not sure we... We have 147 million registered users today. We're transacting business at the rate of \$1,344 a second. So, you know when I got there in 1999 we were doing about 600 million gross merchandise volume in a particular quarter. Last quarter we did over 10.2 billion in gross merchandise volume.

So it's about orders of magnitude with us. And we spend our time building the grids we have in order to provide that service. Now we spent a lot of time worrying about the next order of magnitude.

Scott McNealy: But what does keep you up at night? What are you worried about? What are you focused on as you build out this architecture?

Paul Kilmartin: Well, you know, it's funny. I sleep pretty well these days.

That wasn't always true. When I first got there in 1999 my pager went off all the time and you know, things are fairly stable and robust and our availability is at an all time high. And we spend time now having learned the lessons of

the past realizing that nothing – no solution lasts forever, as you were talking about some of your history.

We try to figure out how long the lifespan of whatever solutions we're working on and try to get ahead and work on the next one from an R&D perspective.

Scott McNealy: How are we doing for you?

Paul Kilmartin: You know, it's been a great partnership. I'd like to believe that we've helped influence your company. And I certainly believe you guys have helped influence our designs, our structures. We're running our grid search engine, 268 million searches a day, all running on Sun gear. We're real excited about the Opteron space. We're real excited about Solaris 10. We don't have a lot of stuff out there yet but we're hopeful.

Scott McNealy: Just so you know, I've got a little note here. eBay runs Sun. They run the V120, the V210s, the 240s, the 440, the 480s, the 490, the 880s, the 1280s, the 2900s, our Java development environment, Solaris, the storage – that's the 9960, 9970, 9980, and we got Sun service folks onsite. You got FP12Ks, 4800, 6800s, and 4500s.

That's my kind of customer. So.

Paul Kilmartin: I've got guys ultra 10s with on their desk. So you left out a couple there.

Scott McNealy: So any how – what is – other people are going to be scaling. You've got a lot of government users who have actually more than 147 million potential users. What are the tricks to scaling and driving an architecture? And they may have to build their own custom grid because your kind of a grid is not necessarily a public grid that people would use.

Paul Kilmartin: Right. Well, I mean, it's about a lot of things you talked about. It's about keeping things simple. Trying to solve problems the way somebody else has solved them. We're - in our totality we're interesting and unique but we like to boil down our problems into much, much smaller problems that the general market has handled.

And while I don't have problems sleeping at night these days, it's because we use tried and true solutions that are market leaders where we need to use them. And when you step back and you say, oh my God, how immense. But if you drill all the way down, you say, I've seen that a lot of places.

So I think it's all about using building blocks of success and trying not - you know, let the innovators of the world go out there and solve certain kind of problems and when those situations are well baked, they become part of a larger grid that can work out.

Scott McNealy: So one last question, not terribly technical. But what's the craziest thing you've ever seen on eBay?

Paul Kilmartin: Well, you know, the...

Scott McNealy: That you can talk about. We are on a webcast.

Paul Kilmartin: We have a whole lot of trusted safety folks who pull things off. Most of the community is basically good but we have a few items every now and then get a little crazy. And so before they validate the items we get our hands on a few. And your kids are watching so I can't use the exact term I was going to use but we had a guy advertise once that he's come out and beat you up. Beat up anybody for the highest bidder.

Scott McNealy: Really?

Paul Kilmartin: So yeah.

Scott McNealy: That's an IQ test. Bid me. Bid me.

Paul Kilmartin: Well, he had some bids. But it dropped off. And we have some unusual things where people try to get away with stuff. Somebody once auctioned off a class A internet address, 10.0.0.0.

But we got that one down.

Scott McNealy: Okay. Well thanks man. I appreciate it.

Paul Kilmartin: Thank you very much.

Scott McNealy: Have a good day.

So there you have another really great partner. Anyhow the grid is evolving and you're going to hear a lot about that. I've gone a little longer than I should have but I did want to – you're going to see lots of new services on the grid. Some free. Some for a fee. And all quite innovative but very retro because the only way we're going to scale the network computing environment is to go forward with the grid.

So now I'd like to invite up Anil Gadre, the Executive Vice President and Chief Marketing Officer of Sun Microsystems. Come on up Anil.

Scott McNealy: So what is next man?

Anil Gadre: What is next is we are actually going to join our CIO by satellite link.

Scott McNealy: Bill's in Californian.

Anil Gadre: Well, there he is. Bill?

Bill where exactly are you?

Scott McNealy: How's the weather at home Bill?

Bill Vass: Well, actually it's raining here.

Anil Gadre: So where are you Bill?

Scott McNealy: It doesn't rain in California this time of year.

Bill Vass: Well I'm up in Seattle right now. In Redmond.

Scott McNealy: And excuse me? It's not coming through very well. Where are you? What's that over your shoulder man?

Bill Vass: You're collecting some Microsoft T-shirts to wear at your staff meeting.

Scott McNealy: What's that over your shoulder? What's that over your right shoulder? There's a monitor up there? Where are you?

Bill Vass: Well, I'm currently at Microsoft at their CIO summit to talk about interoperability. And believe it or not they've got a lot sun gear running in their EBC, you'd be amazed.

Scott McNealy: Cool. You're not interviewing or anything up there?

Bill Vass: Oh, no.

Scott McNealy: Good. I'll turn it over to Anil. Thank you.