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## LEADING VISION

### Mergers & Acquisitions: Strategies and Outcomes

How can you ensure that a merger or acquisition is successful? Strategic assessment of long-term objectives, resource integration, and clear communications are key best practices. Brian Sutphin, Sun EVP of Corporate Development and Alliances, explains.

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## EXPERT INSIGHT

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Wireless broadband networks operated by municipal governments are helping to broaden Internet access in cities around the U.S. Take a look at the goals, challenges, and future of wireless municipalities in this informative Q&A with Jasbir Singh, founder and CEO of Pronto Networks.

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## The Democratizing Power of the Web

By Jonathan Schwartz

One of the most interesting trends to watch in 2007 is the continued democratizing power of the Web. You can see it everywhere. One of America's finest institutions of learning, Yale University, is posting its curriculum online for anyone to freely access. Education, broadly distributed, for free. It's great for our collective global intelligence.

And Yale is not the only one — Stanford University, the University of California, the University of Wisconsin, and others are participating in the Google Library Project to provide the entirety of their library's contents to everyone, everywhere via the Web.

Whether or not you are interested in online education, what's really happening here is that these universities are reaching new "audiences" — students and academics in this case. Who's going to take these courses? Those who couldn't afford to attend, or are located in far regions of the globe, or maybe just didn't have the grades. Either way, what's important is that the universities aren't cannibalizing their existing student population, but expanding it (and their reputations) — to billions of people through the Internet.

What does this have to do with business? Everything

While businesses will benefit from a more educated global population, the real story here is one of technology. This is just one more example of how the Web — access to it, pervasive use, and the growing number of applications, devices, and people participating on it — is changing our lives, forever. The broad access to an Ivy League education, for free, is compelling. But what's significant is that the barrier to entry is evaporating, for the better.

### Falling Barriers, Changing Opportunities

In our lifetime, the Internet has evolved from a radical concept to everyday reality. Now, it's pervasive in all of our lives — and our businesses. The developments in processing capacity have skyrocketed, while advancements in hardware dramatically reduced the size of devices, all while software evolved to connect it all. This evolution has brought us to an interesting juncture in the pathways of technology.

The fundamental business model has changed. Remember the days of buying software from a retail store, or from a sales representative? Now, software is available everywhere for free — it's the service, security, upgrades, maintenance and support at the center of the point of purchase. Keeping your business running at all times so you can deliver to customers is the point of value.

The barriers to creating a new business or service running on the Web are incredibly low, almost zero. All anyone needs is a laptop and a network connection to start a business. It's changing the landscape of business and the trend will continue as far as we can see.

Free software, free education. What's next? Free hardware? Yes. It's already starting to happen. Telecommunications carriers make very little, in fact many of them lose money, on the sale of each new phone. Why? They are focused on selling valuable services and using the Internet for the software upgrades — all while giving the hardware (the phone itself) away for free. Ultimately, this consumer device trend will make its way to datacenter technologies as well.



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Helping you, our customers and partners, deliver better, more efficient services to your own customers over the Web is where Sun is focused. It's also where I see more and more nascent companies entering the market, some delivering really interesting new services to consumers and businesses alike. Not all will become wildly successful. But those that use the democratizing power of the Internet wisely — to capture new audiences and new market opportunities — will thrive.

So, what will you do differently in 2007? And how can we help?

Jonathan Schwartz  
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## Mergers & Acquisitions: Strategies and Outcomes



Sun Executive Vice President of Corporate Development and Alliances Brian Sutphin shares his views on inorganic growth strategies, including mergers, acquisitions, and strategic partnerships. With the one-year anniversary of two of Sun's biggest acquisitions just passed, Sutphin offers his view from the trenches.

### **Q: Why do companies pursue mergers and acquisitions?**

**Sutphin:** Primarily for growth. Some companies rely almost exclusively on acquisitions for growth and others not at all. Sun is somewhere in between. For decades, Sun has invested heavily in R&D and technology innovation – creating a broad and deep product portfolio that includes technologies such as Java, Solaris, and SPARC. Internal development is important, but it's not enough.

Acquisitions are one means of bringing to a company the innovation that, in the words of a Sun co-founder, “happens elsewhere.” But it's important to emphasize that acquisitions complement Sun's organic efforts, they are not a substitute for them. They are also a great way of adding new talent to the company.

### **Q: How do you determine if a merger or acquisition is in line with your company strategy?**

**Sutphin:** At Sun we follow a corporate operating system — an ongoing, regular, planning cycle that produces the strategic plan by which we run the company. For the most part, our inorganic growth activities, including acquisitions, are directed by the output of that planning process.

### **Q: What criteria do you use for the companies you look at?**

**Sutphin:** That depends on the underlying rationale for the acquisition. For example, if we're looking to round out our product line, we'll focus on the quality of the development team and the fit and completeness of their products. If our goal is the expansion of our business into new markets, we'll emphasize the company's sales, services and overall go-to-market capabilities. One criterion that applies to every acquisition, however, is the quality of the people.

### **Q: 2005 was a big year for Sun in terms of acquisitions. What was the impetus behind the activity? What have these companies brought to Sun?**

**Sutphin:** We did two big acquisitions in 2005 — StorageTek (STK) and SeeBeyond. Both acquisitions were important for us, and filled significant gaps in our storage and software businesses.

STK was transformative for our storage business. It gave us the industry-leading product line in tape automation — the product of 35 years of R&D investment. STK was an intensely customer-focused company, which is readily apparent in the long-standing blue chip customer base they brought to Sun. Equally important was STK's strength in storage sales and services, both in number and expertise. In fact, given their scale, we did a reverse integration of sorts by integrating the Sun storage sales and services people into the STK team, creating in the process a global storage sales practice now headed by a former STK executive.

Another benefit of the acquisition was the ability it gives us to integrate technologies and practices across our entire product line. For example, we can now combine STK's strong capabilities in data archiving with our identity management products to better address the regulatory compliance market opportunity.

The other big acquisition we did last year was SeeBeyond, which gives us a much-needed capability to integrate disparate business processes and information into one common framework — our Java Enterprise System. SeeBeyond had developed its products using open, J2EE standards, which made for a very smooth technical

integration with the existing Sun product line. They gave us a talented, experienced development team, and, as with StorageTek, they brought strong software sales expertise. We've combined the SeeBeyond and existing Sun software sales teams into one global practice headed by a former SeeBeyond executive.

**Q: How does Sun manage the integration process?**

**Sutphin:** Successful integrations require strong leadership from the sponsoring business group. For each acquisition, we designate a lead integration executive from within the business. That executive is supported by a small, dedicated corporate team that develops and communicates integration best practices and executes the day-to-day integration activities. In addition, we staff our integration teams with representatives from all relevant functional organizations, such as HR, finance, sales, legal, WWOPs (worldwide operations), and marketing.

We assign integration roles early in the process in order to have integration leadership closely tied into both strategic and tactical objectives. We review integration status monthly, sometimes as frequently as weekly, at Jonathan's staff meeting. These discussions are extremely valuable in providing executive management visibility into the overall integration status, and have been the ideal forum for timely decision-making on important integration issues.

**Q: How quickly should an acquisition pay off to be considered successful?**

**Sutphin:** It depends on the purpose and nature of the acquisition. For example, over four years ago we acquired Afara Websystems, a company that was developing a multicore SPARC microprocessor and which became the foundation of our Niagara product line. Given the length of microprocessor product development cycles, it took over three years to bring the first products based on the Afara chip designs to market. The acquisition has been very successful, but the timeframe for realizing returns has been several years.

On the other hand, an acquisition of a more complete, existing business such as StorageTek carries an expectation of a much shorter-term financial return.

**Q: How do you handle the negative impact that often comes with M&A activities, such as layoffs and declining morale, and still retain key employees?**

**Sutphin:** We attempt to communicate our strategy for the acquisition up front and create a common vision with the acquired company of how the combined companies can be more successful in addressing defined market opportunities. If that common vision exists and there's a shared sense that both companies can be more successful working together than separately, that enthusiasm helps carry the effort through the stress of whatever post-closing organizational realignment or reductions might occur. However, if it doesn't appear that the people in the company we're looking at fundamentally believe in the combined company value proposition, the acquisition would have little chance of success, in which case we end discussions.

**Q: What about the need to let people go and managing the apprehension leading up to that?**

**Sutphin:** Prior to announcing an acquisition, we meet with the management team of the acquired company, review positions that will be available, and jointly decide on the best candidates for those positions — from both companies. Then, immediately after the announcement, we sit down with as many employees as possible to discuss their roles post-close and, in many cases, extend employment offers subject to the acquisition closing. Engaging openly and directly with employees early on brings them into the process and lets them know they have a fair shot at available positions. Above all, early and regular communication is the single most effective tool for managing uncertainty and apprehension.

**Q: What has been the impact of these acquisitions on Sun's bottom line and culture?**

**Sutphin:** Very positive. When you look at the financial impact of a handful of past acquisitions, it's quite staggering. The Cray acquisition became our high-end and midrange SPARC server line. Our x64 server line is based on the Kealia acquisition that brought Andy Bechtolsheim back to Sun. Our new CMT (chip multithreading) server line is based on microprocessor designs acquired from Afara Websystems. The addition of StorageTek has had a huge impact on our storage product line. Procom gave us a highly competitive entry into the NAS (network attached storage) market. Waveset brought us industry leadership in identity management, SeeBeyond valuable business integration capability. Not all acquisitions are successful, of course, but it's difficult to imagine what Sun would look like today had we not done even the half-dozen acquisitions just mentioned.

There are also huge indirect impacts from our acquisitions – the talent they bring into the company. Probably few people remember a software acquisition we did years ago, Lighthouse Design, but that’s what brought Jonathan Schwartz to Sun. There are many examples throughout the company of leaders, present and future, that came to Sun via acquisitions.

**Q: What about cultural impacts?**

**Sutphin:** Acquisitions, through their employees, have a significant impact on corporate culture. As I mentioned, we set the quality bar high for the people in companies we acquire. These employees tend to share Sun values of innovation, collaboration, integrity, and customer focus, which reinforces our cultural norms. Often, however, they bring something new or different — a unique perspective on the market or an industry best practice – that helps refresh the values and practices that influence company culture.

Take STK as an example. Decision-making at Sun welcomes, even encourages, vigorous debate. STK was almost the opposite. Decisions tended to be made with little debate, passed down, and executed against. When we first put the Sun and STK teams together, there was a bit of a clash, with the Sun employees wondering why the former STK employees seemed to not want to voice an opinion and the STK employees wondering when we would actually get to the task at hand! However, over time we’re converging towards the middle, and it seems to be working better for everyone. STK employees can weigh in on important decisions, and Sun employees see decisions being made faster.

**Q: The StorageTek acquisition anniversary just passed. Do you have success milestones and have you met them?**

**Sutphin:** The primary milestones are financial, specifically revenue and cost synergies. We’ve met those milestones, and the financial impact is incorporated into Sun’s overall financials.

**Q: What M&A trends do you see in the industry?**

**Sutphin:** Consolidation. About a year ago, I saw a report that listed standalone software companies with revenues over a billion dollars. Recently, I saw an update of the same list, and about half of the companies were gone — all acquired.

**Q: How have customers responded to Sun’s acquisitions?**

**Sutphin:** Very favorably. But this shouldn’t be surprising, since one of the main reasons we acquire companies is to better serve customers.

Also, particularly in the case of smaller, private company acquisitions, their existing customers tend to feel more stability in working with a bigger, more established company. Even in the case of larger acquisitions like STK, where we have common customers, customers tend to prefer consolidating their IT requirements with a smaller number of providers – the “one throat to choke” principle.

**Q: What’s next for Sun in the coming year?**

**Sutphin:** We’ll continue to look at inorganic growth opportunities, both within and outside of our existing product and services footprint, in order to grow shareholder value.

**About Brian Sutphin**

Brian Sutphin is Sun’s executive vice president, Corporate Development and Alliances. In this position, Sutphin heads Sun’s overall inorganic growth efforts, focusing on mergers and acquisitions, strategic alliances and technology licensing. Under his leadership, the corporate development organization has completed a number of key acquisitions that have brought world-class people and industry-leading products and technologies to Sun including StorageTek, See Beyond, SevenSpace, Waveset Technologies, Kealia, Pirus Networks and Afara Websystems.

Prior to joining Sun in 1994, Sutphin was an attorney in private practice with expertise in business transactions, M&A and corporate law. He received an undergraduate degree in economics from the University of Wisconsin-Madison and a law degree from Stanford University.

## Building the Wireless Municipality



Founded in 2002 by Jasbir Singh, Pronto Networks helps cities bring broadband wireless access to their residents by enabling network operators to deploy and manage large, public hotspot networks. Sun recently spoke with Singh about municipal wireless projects and the role of Sun technology in those projects.

**Q: Why are municipalities providing wireless access? Why not leave it to private providers?**

**Singh:** There are plenty of for-profit companies that do a great job of serving their markets. But close to 2000 cities in the United States also operate their own utilities, and if the city can run water or power more cost-effectively, it makes sense they can provide wireless access as well. Many cities take this step because they have no other choice – they only have dial-up, or some very expensive form of broadband.

Some of the earliest adopters were cities that had no prior connectivity. For example, Chaska, Minnesota, is a city with about 15,000 homes, and no private providers were offering service in the area. Now that the city offers service, broadband penetration in Chaska is close to 40 percent. Typically 15 percent market share is considered successful – anything more than that is wonderful, and 40 percent is almost unheard of.

Other cities, like Corpus Christi, Texas, start these projects because they want to automate certain tasks using wireless technology. Corpus Christi already ran its own utilities, and city officials wanted to automate information collection from water meters, energy meters, and parking meters. They realized that a wireless mesh could both meet this need and enable wireless access for residents.

**Q: What are some of the challenges cities face during wireless projects?**

**Singh:** I think the biggest challenge is the false expectation that one type of network or technology will address all of a city's problems. They need to strategize beforehand about the technologies they'll use to provide the service. For example, in most cases Wi-Fi mesh — networks in which several wireless nodes are connected to each other to help prevent service interruptions – doesn't succeed on its own. The mesh devices are usually outdoors, on lampposts and buildings, and sometimes they don't penetrate cleanly inside buildings. So they should plan for some kind of radio bridge to make the connection between indoor laptops and the Wi-Fi system.

Also, questions of how to provide different service levels appropriate to different populations are typically an afterthought. They shouldn't be.

**Q: How can cities address these challenges?**

**Singh:** They should consider a variety of creative business models. Typically, people think that once you turn on the wireless network, residents either pay for it or use it as a free service. But reality isn't so black and white. Most cities have some sort of digital divide, so in poorer neighborhoods they might want to offer free or discounted access. For universities or students, they might want to offer free access or "skinny pipe" limited service for some period of time. And then, of course, some residents or small businesses might pay for better quality of service.

Through the Pronto platform, cities can get a "drinking fountain" sort of setup, meaning that everyone gets a drink at a certain level. Some users could then pay to scale up their bandwidth for things like videoconferencing, and students, say, could sign on free for two hours a day. Cities can even augment their income with advertising-supported access, where they offer in-line advertisements on the Web pages users visit – if you fire up a browser and go to a golf site, you might see ads for golf products. The city makes some revenue from that, and that income can help subsidize free and discounted access elsewhere.

**Q: How does the role of government differ from the role of business in municipal wireless projects?**

**Singh:** The government's role is primarily regulatory. City governments are responsible for authorizing right-of-way for the lampposts or on top of buildings, where the network elements will be deployed. They can also guarantee a minimum number of subscribers. If a city has 2000 employees, for example, they could guarantee that minimum number of subscribers to the carrier. It makes the business model easy for that network operator. And, of course, the city can encourage local residents to subscribe, too.

**Q: How does municipal wireless access affect communities?**

**Singh:** Obviously, these networks are incredibly helpful in areas that previously had no connectivity at all. They can also shift the way people think about connectivity. For example, we have a network running in Tempe, Arizona. Tempe is a big university town – Arizona State University has more than 60,000 students. Before the city deployed its wireless network, students were limited to using Ethernet connections in their rooms or libraries. But the network lets them work from anywhere on campus, not just in buildings with connectivity. And they've become the network's primary users.

We've also found that once students get used to using wireless networks, they pass that mindset along to other residents in the community. It's a catalyst effect.

We see less of an impact on businesses, as most already have connectivity if it's available. But wireless access is a great thing for merchants at events like county fairs and weekly farmer's markets – open-air events without a permanent location. These vendors typically had no way of collecting credit card payments, but with Wi-Fi, they can use Wi-Fi-enabled credit card machines.

**Q: What is Pronto's role in building broadband wireless networks?**

**Singh:** Pronto is involved in every part of building a wireless network except the radio — from designing the right kind of network, to providing complete back-office support, to making sure the services are up and running. We originally started with Wi-Fi as the primary hotspot technology, but as we've grown through venture backing, we've moved into working with large service providers and carriers on deploying both Wi-Fi and WiMAX. Today, Pronto provides what we call service and subscriber management solutions. Municipal networks fall into that category, but we can actually build out broadband networks for enterprises as well.

Sun helps with these services in three ways. First and foremost, Sun is a retail partner, and our products are rebranded under the Sun name. Second, our software runs on Sun hardware. And third, Sun Labs performs our scalability analysis, so we can say with confidence that our systems can scale from a few subscribers to tens of millions.

The municipal market is our focus, but we're very excited about another market segment as well. With help from Sun, we've had success in providing wireless networks for large enterprises – especially companies with many locations and large campuses around the world. We set up the networks at no up-front cost. Usage fees are based on number of employees, so they can get wireless access for everyone without the capital costs of building out their network. We have carriers we work with, and we also select the right hardware for the enterprise and bring in a systems integrator to do the installation.

“We're still in the Wild West of the municipal wireless movement. Not every city knows what they want to achieve.”

**Q: Will all cities have municipal wireless networks in the future?**

**Singh:** That's a tough one. I think, in a sense, we're still in the Wild West of the municipal wireless movement. Not every city knows what they want to achieve. It has also become very political – a “me too” environment. No one wants to be left behind. I see it becoming a more mature market over time, in the sense that systems integrators will build and operate the networks, and they will operate like any other business.

**About Jasbir Singh**

As president and CEO of Pronto Networks, Singh has more than 18 years of high tech and telecommunications expertise. He started his career as an engineering manager at C-DoT, in charge of SS7 and ISDN groups where he helped design and develop SS7 subsystems in India's first digital switching system, which now serves close to 40 percent of all capacity in that country today.

Singh was co-founder and chief technical officer of Yack Inc., and is the chairman of Launchpad Software Inc. and Cybermine Internet Incubator.