

GATES 7/11 ("Gates Unplugged")

Title: "Thoughts about 'our' industry"

→ FTC / DoJ sensitivity

- 70's
- 8008
  - 8085 vs. Z-80
  - Dev. Sys
  - RMX
  - 432

\* BG: "I've written as much code f/ 8008 as anything"

→ Bill first meets ~~Bill~~ Intel: Terry Cundale comes to Albuquerque to ask f/ BASIC on blue box

→ 286 LoadAll

→ "IBM had an entire strategy built around LoadAll 'SysReq' key was to subvert IBM's Hypervisor"

Unix  
Xenix

→ Andy/Bill Lattin tells Gates: (re: Xenix)  
It's "worse than Steve Jobs"

- 80's
- Sw on Silicon
  - UNIX
  - DVI
  - IBM "best customer"
  - RISC debate

→ "One of the great mysteries of the computer industry that UNIX has not taken off" = "Can think of no possible series of actions that would have changed the outcome"

→ IBM: "1/3 of each MS exec summit [in '80's]"

→ "In the final analysis, unclear who divorced who?"

→ "Press was a significant factor... IBM execs just reading the newspaper... as well as Comavino coming into the picture"

→ RISC → ACE: DEC was key

→ Compaq spent 9mos on SPARC after 800/MIPs

- 90's
- More RISC debate
  - Compilers, Binaries
  - Inter. communication
  - IP complexities
  - Common vision
- \* but separate

→ 386 conversion

→ Gates to Compaq: "You just stand for 'clone'" → so go to 386

→ "You can say we created a monster ..."

→ ASG: "You saved our ass"



8054DOC00312

BOX 8054

INTEL CONFIDENTIAL

GOVERNMENT EXHIBIT 940

INT 0315



→ "We hide under ... Business Swiftness"  
Sun/Fujitsu backing anti-copyright → MS  
Lotus v. Borland is poorly written → reverse compilations

→ IP → "My opinion of copyright law will depend on the outcome [of Apple vs. MS appeal]"

- "becoming a major focus"
- amount of thought on patents - \$12m/yr in legal alone
- "purely defensive" - no desire to collect royalties
- "personally very negative on 17yr monopolies on stupid ideas"

• "As long as you prevent free piracy ... [MS is OK]"  
[• "We're 16,000 people... and Intel's even bigger than that"]

→ Communication

- improved about 3yrs ago
- "we've missed more opp'tys than we've captured"

→ Common Vision

→ "a form of convergent evolution"

→ PC as a comm tool: "MS: Intel @ 6.1m: 1.5"  
→ Intel started w/video, evolving to save space

→ "We're more ecumenical about form-factors"

Intel like MS
• Tech driven
• High valuation
• High share
• Hard to work with?
• High mktg budgets
• Dangus of success

→ High valuation

- Trend is toward 14% profit, net 20%
- "we're very market-share oriented, we'll do with prices what we need to then retain market share"
- Expect lower profits

→ High share → allows investment in mkt growth

→ Want to grow consumer > \$1B → "bigger than Random House"

→ Ads: selected the company that did Nike ads

- very image-oriented
- "Compaq is an adversary ... when you buy a computer, we want them to think of Windows"

5

↓

8

7

5

8054DOCC00313  
BOX 8054  
INTEL CONFIDENTIAL

0316  
INT

↳ Going to move away fr a version #'s to model years

↳ Chicago = ? Windows '95 ?

→ 12/24 months  
↳ major improvement  
↳ "cosmetic improvement"

↳ Prediction: 3x 24 mos cycles left in innovation of word processors, spreadsheets  
→ voice, linguistics research, ...

↳ Eric: on-demand download of demo & app upgrade

↳ "in the future, we're just a bits company - our channel is the Information Highway & ...  
"in the interim, we need a few more channels"

5

↳ "We're willing to sacrifice revenue for diffusion"

↳ Dangers of Success

\*

↳ Does Intel need to run all these ads, "have all the SW people."  
↳ "In this industry, you're dead before you know it - need early warning systems"  
↳ "things that are ancillary to the core" ... distract

↳ "Intel gets more \$/PC" [DOS & Windows only]  
↳ Gordon: "but only once!"  
↳ 1/3 \$ f/OSM; 2/3 later

Intel != MS  
• MG  
• Visibility to user  
• \$/PC  
• Fewer products

\*

↳ "You're not a diversified company ... it's scary"



8054DOC00314  
BOX 8054  
INTEL CONFIDENTIAL

4/15

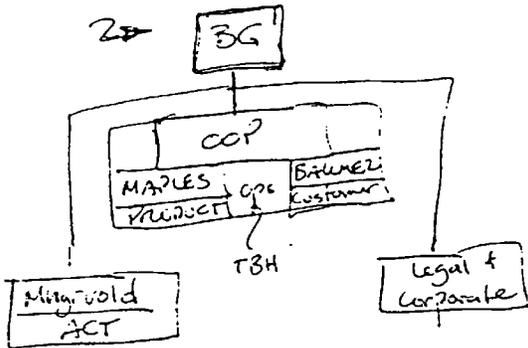
MICROSOFT

20 MS Vision

20 "A computer on every desk and in every home"

20 \$4.3B → \$5.5B next year  
FY '93

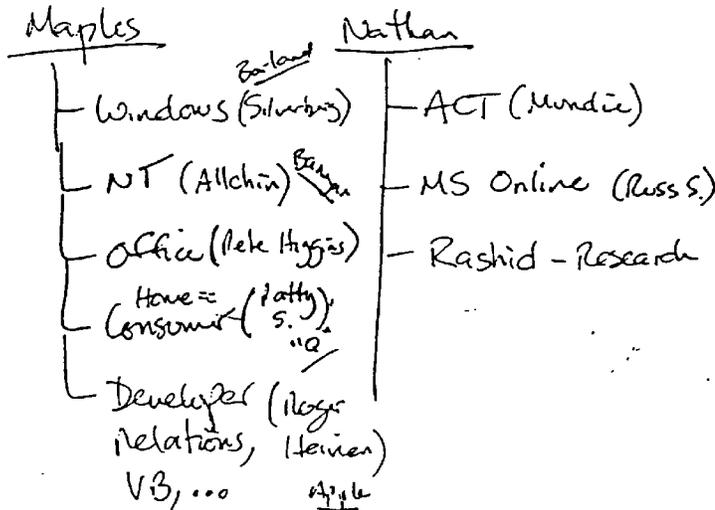
20 R&D - 7% in apps: 10% - but high-cost channel  
systems: 35% - zero-cost channel  
20% cost  
8% support



4K heads on the phone

20 Nathan does stuff that's 3yrs out

→ "everything that's info highway"



INT 0318



8054DOC00315

BOX 8054

INTEL CONFIDENTIAL

Chicago - street date in Jan/Feb

NT: "3 mos after ship of Daytona, people will buy - out it's inevitable"

60M cumulative Windows

### Developers' Relations

"We're open" ... but that's the most abused word in our industry....

NT -> "The Back Office"

SQL Server - RTM @ 11'95

System Mgmt Server ("Hermes")  
-> RTM w/ Daytona

Exchange Server -> Notes competitor  
-> RTM 11'95  
-> SNA Server

Will integrate FS, Mail, Directory

Notes is a pathetic product that sends people down a dead-end  
- problem is data-model -> forms a bag on the side



### Collaborative Computing Strategy

Office: "Novell: a wounded bear ...  
- how will they come back"  
"Frankenburg is a reasonable guy  
- he's a Phillipian kah"

- Combine sending & sharing of information
- Tools f/ BIZ SOLNS
- Messaging in OS via MAPI
- Integrate w/ existing mail & networks

INT 0319



8054DOC00316  
BOX 8054

INTEL CONFIDENTIAL

↳ Consumer Division - Patty Stonesifer

- Games, Entertainment & Kids
- Finance/Transacting & Sports (Money, Baseball)
- Reference - Atlas
- Personal Tools to Publisher
- Works
- Lifestyles

↳ "CD phenomenon is English-speaking"

- ↳ ASIA: 50% of PCs going into home (Korea, China)
  - education / family emphasis
  - Japan → Mac owns it

↳ MS On-line

↳ InfoBahn is 2-way, high-b/w

↳ Modems underutilized

↳ Not email - (low-penetration (but addictive))

↳ but MSO will provide family email  
→ online registration - tells PC config, etc.

<u>MS On-line</u>
→ low mkt penetration
- 40% of PCs have modems
- < 5M online
- hard to use...
→ mission - develop / deploy worldwide
online users to host
branded content
f/ms & 3rd party

INT 0320



8054DOC00317

BOX 8054

INTEL CONFIDENTIAL

↳ Nell

↳ "overmanaged headcount"  
→ milked standard rather than developing it

↳ Met w/ Frankenburg →  
"more constructive"

- Focus, protect share
- Network installed base
- Acquired UNIX
- Low-cost, efficient
- Xitron to E-price
- WordPerfect merger

↳ Lotus

↳ "Believe that Notes will be marginalized"  
→ will have to do the migration work

- ↳ Notes platform
- 1-2-3 migration
- SmartSuite
- Aggressive pricing
- Getting Efficient

↳ Other

↳ OSF was scary for a while  
→ UNIX as a free thing

↳ ASG: why not IBM?

↳ ASG: "don't have value stult for Chicago"

→ Bill Silverburg → EOU

- Mac
- UNIX
- Taligent
- OpenDoc
- Video Games
- OpenDoc
- Consumer Electronics

↳ Taligent

"[Distributed Objects] is a valid approach"

Multi-tasking/Capacity  
new Multimedia Features  
Mobile Features

[total compatibility] ("item zero")

↳ Cairo competitor



↳ OpenDoc

↳ "a conspiracy to undermine Windows"



8054DOC00318

BOX 8054

INTEL CONFIDENTIAL

↳ IBM

↳ "no strategy" (W's - E's)  
    ↑  
    Central

↳ w/ Gerstner - strategy =  
    Power PC + workplace OS

    BG: "how will this work? IBM: Moto as HP: Intel"

↳ Workplace OS: "SAA return"

↳ Workplace OS != OS/2  
    ↳ won't be binary compatible

↳ qip " ... when we were on the OS/2 jihad ... "

    ↳ <sup>IBM</sup> plays IBM to get the Fiesta Bowl

↳ "I don't understand IBM's strategy"

↳ "\$50B in revenue .... no one expects them to  
    make money, so that's \$50B they get to spend"  
    "they can destroy anything they want to"

↳ "NT; we blew it - too big, too slow ....  
    Chicago is our answer to OS/2"

↳ "Having a common enemy creates some of the  
    best relationships in our industry"

↳ "If [IBM] ever spoke with one voice ...  
    [they'd be dangerous]"

↳ Gales: "Inman said"

<ul style="list-style-type: none"> <li>• Strategy: compete in all segments ...</li> <li>• Complicated product segments</li> <li>• PC co. Reigned in</li> <li>• Can IBM's strategy work</li> <li>• Can IBM execute</li> </ul>
--

0322

INT

8054DOC00319  
 BOX 8054  
 INTEL CONFIDENTIAL

↳ Compaq

"Proof that we're [MS] not good at predicting things"

↳ thought they were dead

↳ "all the things they're trying to do ... are dangerous."  
↳ own stuff, ...

- Focused only on x86 systems
- Low-cost mfg
- Wants C&Q brand equity  
↳ avoid commoditization
- attempting to use IP against competitors

↳ HP

↳ very effective vs. NT

↳ DEC

↳ Apple

↳ majority share in K-12, college, etc - "niches"  
↳ not 12% of mass mkt

↳ these are self-sustaining - will keep them a wild card & dangerous

↳ "top of the list of Windows competition"

- EoC
- loyal base
- Education mkt
- Media mkt
- Newton, etc.
- Future uncertain

↳ PowerPC

↳ Freudian slip: "if they had an OS for NT" (↳ PPC)

- Good x86 impl. (604, 620)
- Superior perf.
- Big \$
- Apple gives volume
- IBM strategy unclear

↳ others

↳ AMD, Cyrix, Nexgen, Sun, MicroUnity

0323

INT

8054DOC00320  
BOX 8054  
INTEL CONFIDENTIAL

## Next 2 yrs

- Chi on desk
- NT on server
- Consolidation of com
- Demand elasticity / performance
- Upgrades & new users

## Info Highway

↳ bad term → distance is a fact notion

## Media convergence

↳ "big packets"



- ↳ "CD will be obsolete very quickly"
- ↳ ~~the~~ video → digital videotechnology
- ↳ music → doesn't want it

↳ no one to drive 3Meg CD's except ICS

## Network convergence

↳ bandwidth reservation & connection model

↳ "ATM is a phenomenal technology"



8054DOC00321

BOX 8054

INTEL CONFIDENTIAL

## InfoBahn investment



- Fiber - 30 people
- Pulsar - 60 people
- Online - 50 "

- 600 people - ACT
- 100 " elsewhere
- going up
- R&D
  - > \$100m/yr
  - starting 3 yrs ago
- ACT charter

↳ Design/develop ~~center~~  
SW/HW reference platforms...

□ ↳ MS on InfoBahn

↳ Develop open, powerful SW f/ InfoBahn

↳ OS

↳ HW ref. designs

↳ Authoring tools ↳ eig. SoftImage (FITM)

↳ World-class consumer apps

↳ Foster/encourage, multiply...

↳ Full-svc nets, cable, telco

↳ 1000's of interactive apps, svcs

↳ "Open Tools" to enable broad set of

3rd party development tools f/ InfoBahn

=

↳ "It is pretty chaotic"



↳ "Rule" → one person per meeting f/ hierarchy is enough"

↳ Will use hotels/airplanes for high visibility

↳ Big focus on TCI Trial



↳ Apply existing state-of-the-art Tech

↳ Win/NT tech

↳ next-gen OLE

↳ MPEG/JPEG

↳ next-gen visual technology

↳ tools f/ SoftImage

INT 0325



8054DOC00322

BOX 8054

INTEL CONFIDENTIAL



↳ "Once networks are extremely fast, no reason intelligence can't be central"

↳ central servers, etc.

Nathan → stays in home/desk → bit setup is very important

Gates → centralized, w/ video out, so our net → so desk is never obsolete

↳ Projects

- Amazon - near-term setup - optimized for "broadcast interactivity"
- Iceberg - longer-term, open arch, end-to-end advanced setup; uses mosaic
- Tiger - SW sol'n f/ continuous media VoD
- Pulsar - SW/HW - wallet PC ??

↳ Tiger → "easy to visual"

Intel "on very short notice" == low value-add

INT 0326

## 20 Business Apps

- Video conf / ...
- Information
- Electronic mts
- Directory, Yellow Pages
- Telecomm
- Mail, BBS

INT 0327

8054DOC00324  
 BOX 8054  
 INTEL CONFIDENTIAL

20 new strategy → don't field trial, ~~wait~~ a posture (like Oracle) → wait for concrete stuff / deployments



20 [Info Basis] could do to AT&T what PC did to the mainframe"

- ATM + MS SW → potent vs. AT&T switch biz
- But everyone looks to AT&T for leadership

20 RTW: where's the \$ → branded apps

↳ Gates → "mostly at branded apps, but some at every level, including selling the platform"



20 1000 engineers in India on Compuserve

## 20 Educational Apps

20 New compensation model → fare, satisfaction

20 ASG: What's \$1B business?

- A: has been wrong by Syms (windows, CD-ROM, PDAs)
- "We can afford to be patient"
- ASG: Syms x \$150M/yr ⇒ ~ \$1B R&D
- how do you sustain/patient enough?
- Yes, if core biz is flat



14/15

↳ "Intel is duplicating \$30M of [MS'] \$170M investment → in IAL: 'Intel Portland'"

↳ '94 - CD, online, Internet

'95 - Trials

'95 - VoiceView - SVD

'96 - PC has MPEG/H.320

'96 - Digital Movie Player

'96 - ISDN video

'96 - "Highway rollout begins"

2000 - 20 million homes connected

↳ Most negative scenario

↳ P7 features patented a la '338  
↳ someone else cross-licenses

INT 0328

↳ Thoughts → Industry (Issues)

- IP tie-up
- Highway,
- New users/upgrades
- Demand elasticity
- New form factors

↳ esp. f/performance

↳ "a plateau for a  
few years will be  
very damaging"



↳ Intel

- Transition to P7
- Role on Info Bahn
- Partnering
- Core Competencies



8054DOC00325

BOX 8054

INTEL CONFIDENTIAL

15/15

- "A huge discontinuity looms on transition to P7"
  - ↳ some say we should just run x86
  - yes, if we can get ~~the~~ w/in 25% of PowerPC

- InfoBahn role

- ↳ "Should be willing to think very broadly"

- ↳ Form factors

DoJ...

"If she understood the presentation I just made... we'd have no problem... this business is-unbelievably competitive"

"This anti-trust thing will blow over"

"We haven't changed our business practices at all"

↳ may change e-mail retention policies.

"~~It~~ office the current level of competition is healthy"

INT 0329

8054DOC00326

BOX 8054

INTEL CONFIDENTIAL