APPLE CONFERENCE
AUGUST 7, 1996

GILBERT AMELIO: Good morning.

[Applause.]

GA: Thank you very much.

[Applause.]

GA: Wow! Thank you very much. Colin has done a great job of lining up the agenda this morning. Following me we're going to hear from a couple of Netscape guys; Jim Barksdale and Mark Andreesen and then you're going to hear from Guy.

Those Netscape guys are really very nice. I was just back there talking to Jim and Mark. And Jim said to me, "You know, Gil, just go out there and just tell them what's on your mind and what you're thinking and don't worry about exactly what you say and how you say it because if you get something wrong, I'll fix it."

[Laughter.]

So I'm going to just relax and have some fun here with you, and we've got some wonderful demos we're going to show you in a few minutes. But let me start off with the business stuff and take care of that.

I was thinking about how I would characterize where we are right now in the evolution of Apple Computer. And what I would say is we're clearly in transition. But right at this moment we're transitioning from a dialogue that has centered on survival to a dialogue that is going to center on excitement. And it feels really good to do that.

We've been busy these last six months, and I'm sure that you've noticed that. We built the management team, we got a strategic direction articulated and have begun implementing it. We went out and raised some money. And no one asks me any more whether we have enough cash to get by: With about 1.4 billion dollars in the bank, I think we can eke through.

And so Apple's survival is no longer in question. That's not the issue. The issue now is, how exciting is it going to be? How exciting can we make it? And in the next few minutes I'm going to talk a little bit about some of those things.

What do I see as the keys to success in this transition? I think there are four key points. Innovation. We have always been an innovative company. We have to continue to fall back on the

fundamental strength of this company, which is the ability to innovate with new and great technology.

The second key to the successful transition is loyal customers. You folks. And I will include in that list some absolutely tremendous developers out there who are also customers, who do wonderful things with the machine and help us look great. Because without them the operating system is nice, but you get tired of using it if there are no applications. It's sort of stating the obvious to say that what they do is pretty darn important.

Professional management is Item No. 3. You know, frankly we're just too big to shoot from the hip or to just sort of muddle through. We can do a lot better than that. And there are some professional techniques that I'm trying to put in the company that will allow us to be successful but without restricting the other good things about the company, namely the innovation and the spontaneity and so forth. And it's going to take a little while to get that done but we're already beginning to see results.

And the last point that will get us through is value delivery, delivering real value to our customers. In fact, I would say that one of my philosophies, is in my answer when people ask me, "Well, gee, what do you do when you're trying to fix a business or get it turned around or what have you?" I say, well, there is a lot of mechanical stuff you do. But the fundamental issue is, and the question I keep asking is, "Are we delivering real value to our customers?" Because if we are we'll be okay. And that's something that we want to focus on.

So that means in effect we have a contract with you, a contract which says, "You are wonderfully loyal customers. Our responsibility is to continue to earn that loyalty, to earn our ability to continue to deliver you great stuff.

What are some of the things we have to do right away? I guess top of my list right now for the short term is fixing the quality issues. Our quality is not bad, but it could be a lot better with the exception of the PowerBook, where we have some real problems. And we will get that fixed. We are finally ramping back on the rework units, and you will see a big change in that by the time the month is up. But that has been a real frustrating problem. I didn't feel we had any choice but to just say--like the bulletin said--we're aware of the problem, and we're going to rework all that stuff.

But at a more subtle level we still have issues related to quality that I'm not happy about. And we're putting a lot more emphasis in the company on that because I feel like that again is part of the value equation that we need to deliver to you.

The second thing, of course, we have to do in the area of value is to make sure we're putting features in our machines that

customers love. So the discussion we're having today internally is, when we're thinking about doing neat new stuff and one of the engineers comes and says, "I want to do something great. look at my great idea," I ask them, "What do the customers think about it?" And, of course, this is a novel question.

[Laughter.]

But after they get over the initial shock they actually find that there might be some value in asking that question. And so we're going to try to do a lot more of that, a lot more listening to what you've got to say. You know the cliche, "Keep sending the cards and letters"? Well, I would estimate that in the last six months that I've gotten--from mostly people like you--about 10,000 letters, and I've read them all.

And there's an interesting thing about reading 10,000 letters, and that is that your brain begins to integrate a picture which is sort of the collection of all of those messages. And I'm trying to pay attention to what I think you're saying.

It's not that I'm focusing on any one letter or any one communication, although some of them have offered really very good diagnostic analyses of where we are. But I think the real power is in the sum of all of the feedback. So that's something that I'mgoing to continue to do until I feel like, okay, it's now getting redundant. It's been an effort to keep up with the volume, candidly, but it's something that I'm committed to doing because I think it's the right thing to do.

And I think the third thing in value delivery is that we have to continue to work with and inspire our developers. I mentioned the value that developers deliver a moment ago. But I can't emphasize enough their importance. Fortunately for us we have some absolutely great developers out there who love our platform and who are doing wonderful, exciting things with it. And you're going to see a little bit of it in a few minutes. You will see more down at the booth and, of course, you're going to see a lot more in the marketplace, than what we're able to show you in these next few minutes.

So the question, you might say, is, "Well, gee, you know, all of that is great. But just what are you going to do and how are you going to do it? Let me just make a few observations. First I'll sort of state the obvious. We're both a hardware and a software company.

Now, among the various comments that I've gotten in these letters that I mentioned was, "Why don't you guys just become a software company?" You know, be more like Microsoft than you are." And then, of course, the other comments I get are exactly the opposite: "Why don't you guys go out of the operating system business and just build hardware, and you can make

money that way."

Well, the reality is that neither of those extremes will work. I can't see how we can deliver the value that I believe we must to you, our customers, without actually making sure we have a position on both sides there. It sounds simple, but when you sit down and literally try to come up with a business model it just doesn't work. So we're going to continue to do that. We're going to try to do it a lot smarter than we've done it, but that's going to continue to be the focus of the company.

So, having said that, what are we going to do specifically? On the hardware side we've got a few things we want to focus on. First and foremost is we want fewer core products. What you're going to see over time is that we're going to simplify the product line. I might actually be able to remember what all the models mean.

[Applause.]

Now, when I say "core products," I want to be very clear about what I mean. What I mean is the guts of the machine. So at the heart of the machine we're going to have a lot fewer things. Now, on the outside of the machine we may actually have more things. But that's okay. I mean, that's how you wrap it up, that's how you package it. So you might see more of that kind of external variety but in terms of the guts, the basic core, there's going to be a lot fewer models.

The way we're going to do that is, I think, pretty simple. We're going to "end-of-life" products that are now starting to age. As we introduce new products you will see us introducing fewer, with more focus. That whole transition is going to take a little bit of time, but not terribly long. I mean, a year from now there's going to be a dramatic difference in where we stand. And I think that will be very, very obvious. Especially as we move through the next six months and start to move into the new year we've got a bunch of stuff coming. And that will be really clear, I think, at that time. So that's one of the things we're going to do.

The second thing is we're going to continue to focus on cost performance. You know, I say that quickly but I want to just elaborate just a little bit because I think it's really important. As you know, I have a PhD in physics and for a long time I was sort of a practicing scientist and engineer. And I did most of that in the chip business, although I did work in telecommunications as well.

But the reason I bring that up is there was a metric that those of us in the early days of the integrated circuit work used to measure--in fact, it's still a figure of merit. And the figure of merit is the speed/power product, which says that a measure of the quality of a technology is, "how fast is it for the amount of power you have to put into it?" And the better you are at that

ratio, the better you can classify the technology in delivering. So I hope that feels intuitive and sort of obvious for you.

Well, I think at the system level the equivalent of that is cost/performance; that is, how much performance can we get out of this for how many dollars we have to pay for it. And that's what I think you folks really care about. Now, if we really wanted to we can make a very cheap computer. We can take a bunch of stuff out; we take the memory out, take communications out, take the SCSI out; you know, sort of like the Windows guys do, you know?

[Laughter and applause.]

We can take all that out and we can put a list price down for a really cheap machine. But you're smarter than that. I mean, you recognize that what really matters is, "how much do I get for what I have to pay for?" So our focus is not just low cost; our focus is cost performance. We want to make sure that that ratio is getting better each time we move forward. And that's one of our definitions of how we're going to deliver value to you.

Another area that I think is critical in the hardware that you're going to see is a change of emphasis in industrial design. And we're going to show a little bit of it to you in a few minutes. But believe me, it's just a smattering of what we're working on. I feel that really good industrial design is something that has been lacking in the personal computer business. And it's not just a Macintosh thing; it's the whole industry. We really haven't focused on that. I think we can deliver a lot of value to our customers by focusing on doing innovative industrial design depending on the needs that we're trying to respond to, whether it's a small footprint, whether it's light weight, whether it has other utilitarian features but is also elegant in its appearance. That's going to be a critical part of this. So you're going to see some new stuff, and let me just leave it at that.

Based on your cards and letters you want more of a lot of things. You want more memory--and that's why I talk about cost performance. I looked at the data for 1995. In 1995, of all the people who bought computers, 56 percent of them went out and bought more memory. Now, I think there's a clue there.

[Laughter and applause.]

So we're going to add more memory. The new products that we're just beginning to introduce like the 6400, which is being introduced here, are just the first step. We're going to put more memory in these boxes. We're going to start at about 16 megabytes for the Performa type models and go up to 32 megabytes or even more as a standard for some of the Power Macs. So you're going to see us putting more memory in.

We're going to put in more communications. I made a very simple statement to the people. I said, "I don't want us to ship any Macintoshes that don't have communications capability built into them." Now, we want to make sure we do that in a smart way so that we give you all the options and flexibility you really want. But nonetheless we need to have that capability in there. And so forth. That's the sort of thing that we're going to continue to do. So that's sort of the hardware side of the picture. And I think it's a good road map. We've got a lot of work to do but I think the road map is okay.

On the software side it's probably a little bit more complicated and critical. We now have an operating system that has, I don't know, three or four million lines of code; some big, big number. You know, this is for a personal computer that sells for, let's say, $2,000. It's kind of awesome when you think about it because the complexity of that operating system today is of the same order of magnitude as the complexity of the network management software that runs the telephone system for the United States. I mean, they're in the same league. So I mean, that's the level of complexity we've reached. And with all the new things we want to do, and the things we have to do, of course, that complexity is going to go up.

So the challenge we've got and the difficult part of it is, are we going to get eaten alive with chaos theory? I know there's a lot of you out there who saw Jurassic Park, right? And you remember the chaos they were in. There's a real message there which says if you get something sufficiently complicated you never can quite get it optimized--and so the fear I have is that if we stay on exactly the course we've been on and keep adding stuff and adding stuff and adding stuff in the way we have done it so far, that we're going to reach a level of complexity where it's unsustainable; where you won't be happy with the quality of the product and we will never quite get all the bugs out and get it resolved.

So the question I've been asking myself over the last six months is how do I deal with that? Because we don't want to stop improving and adding value to the system. And I don't think there's any choice but to begin to move in the direction of component software. I think what we have to do is we have to break down these things to bite size modules that we can do quality checks on, that have very careful rules written about how they interact with other modules like that, and then deal with the complexity in that way. You know, Cyber Dog is an example of that, which was implemented with OpenDoc.

And so I said at the developers conference--and I guess I'm going to keep saying that I think that OpenDoc, which is what we have, is a very good object-based architecture. It has a few minor disadvantages, which we need to work on improving. But fundamentally it's the best thing that's available today out there

by almost any metric you want to use as a framework. So we've got to move in that direction. OpenDoc is going to be an increasingly important part of what we do. Component software is going to be an increasingly important part of what we do.

You might say, "Gee, that's great, Gil. But I don't ever see that stuff. I mean, I just see the OS." Well, it's going to make for one very important change; the neat thing about componentizing the operating system is that now you don't have to wait for the next major release to get some neat new stuff, because you can now--if you get the new feature capability--you can release this stuff more or less continuously. And so you go from this model of once every few years having this mega event that everyone holds their breath for and worries whether it's going to happen--if it happens is it going to work, and all that stuff--to a model which is oriented toward continuous improvement.

Now, to be sure, we need to work with our developers to make sure that they can synchronize with what we're doing and they can take advantage of the capabilities. So clearly there's work to be done there. But I think the model makes a heck of a lot more sense than the other model, which is the mega event model. And so we're going to move in that direction. We're going to change the way we develop and release operating system software to this continuous model.

So the first visible result of this is going to be in roughly the first of the year or shortly thereafter we're going to deliver and upgrade to a 753, which we internally call Harmony. And Harmony is going to have a number of things from Copland that are already done but are just waiting for the rest of the things to get done in Copland before we can ship it. So the stuff has been sitting on the shelf and we're saying, it's not like wine; it doesn't age very well, you know?

[Laughter.]

So we feel why don't we get some of this stuff out in the hands of our users. And you're going to see us start doing that. As we move into the modern operating system architecture--and we had intended Copland to be the first step in that--what we're really going to do is, you know, Copland will appear but it's going to appear over a series of releases. The end point will be the same or even better. But the way we're going to do it is different. We're just not going to have this big event; we're going to rather roll it out as we can. So that's the strategy there that's important. That's one of the byproducts of going in a component-like direction.

There's one other point I want to mention, and that is that we see a trend--and maybe pioneered by us--of carrying more value for the customer in high level API's. Things like QuicktTime are a good example of that. By developing stuff at that level and doing more and more of it, we think we can be adding a lot more value

to the system rather than try to build it in at a lower level. We'll try to keep the lower level stuff fairly simple--at least, as simple as you can get it--but carry a lot more value up here. So a lot of our innovation is going to be delivered at sort of that high level API area. And so watch for that as we go forward.

So these are weapons, if you will. I mean, these are the tools that we're going to use, and our focus is, I think, very clear. We've said it over and over, and I'll say it again. We're going to focus on the Internet, we're going to focus on multimedia. Those are our twin thrusts, the two things that we want to focus on.

In multimedia something we call the QuickTime Media Layer, which is a suite of technology built around QuickTime is the beginning of that. But we're going to develop that suite further so that it continues to be the best out there. It will continue to be the pace-setter for multimedia. So QTML, as we call it inside, is going to be the way we deliver multimedia capability to you. The latest release, the 2.5, has got some very good new features in it that address some of the concerns, for example, that the professional community had about time synchronization and so forth that were a little less than perfect. So we're addressing that. And other subtle kinds of features will be coming along that will make this even more valuable than it has been all along.

The Internet, I guess there are two or three things that we're focusing on there. CyberDog, of course, I mentioned earlier. But what I think some of the--at least some of the press perhaps or some of our competitors have missed is they think of CyberDog as a glorified browser, and it's really a lot more than that. It's really a core technology that transforms your machine into an Internet-friendly engine, and it allows you to create documents with Internet calls in them in a way that is completely seamless. And that's going to be critical as we go forward. So that's the--Cyber Dog technology is the core way of getting at that.

There's another technology we've got that I think is going to be extremely important, that doesn't get a whole lot of play because it's fairly subtle and not easy to explain. But watch for it. It's something called "MCF." That stands for Meta Content Format. And what that is all about is a way of dealing with knowledge or data that resides in databases and has the ability to take dissimilar databases and integrate them in effect in the way that you deal with them and the way you manage them from the user's point of view. So you ask a question and it will enable you to go out there and look at a number of different databases so long as they're compliant with this standard. And it will feel to you as if it was just one large database. That's very powerful. It's sort of doing for databases what HTML did for text. It's giving it a structure and it's giving it a framework in which to operate. It's going to be very, very important. And I would say it's going to be of the class of technology that HTML and Java and so forth is. In my view it's going to become that important because the management

of knowledge is really the critical element here. And ultimately that's where this industry is going. That's going to be a critical step for us. Our people in the labs have just done some great work in that area.

I guess the last area is that we have to be sure that we do in fact integrate browser technology into our CyberDog and Internet offerings. And we want that to be the best. We have a browser now but I don't think it's the best browser. We want the best browser in there. And so we're doing some things to try to make that happen. And I predict that it will. So you watch for that as well.

Well, regardless of some of this thrust that I've talked about, I want to give you a little list of the foundation values that we're building here. That is, when you use our machines in the future, what do we want you to resonate with? Tthere are six points--we spent about three months thinking about this with a good team of people. And the list sort of belies the amount of work that went behind it.

But let me just tell you what it is. We feel like there's six basic ways that we can deliver the value to you: Simplicity--ease of use and the notion of transparency between a creator and the creator's work, so the machine doesn't get in the way. That's what that is all about.

Capability, of course, is power and performance, cost performance. Quality is number three. Number four is appeal. Appeal. We just want you to love your machine. We want you to love the Mac; the way it looks, the way it feels, the way you carry it, what it says about what kind of work you do and who you are. We think that's important.

We want it to be a safe investment. We want you to feel comfortable that when you make an investment in our machine that you know it's a safe investment. It's one that is going to continue to have value as you go forward in time.

And the last point is Empowering. Empowering. Giving you the ability to do more, to amplify your--either make you more productive or allow you to do things you could not do before. So you can see technologies come along that are empowering in that sense.

Those are the six items that we're going to focus on to deliver value. And we'll do this through things like industrial design. Compatibility work. We're going to make sure that we have the highest degree of compatibility of any operating system out there. Connectivity. We want to make sure we've got very, very robust connectivity so that you have many options.

And, of course, user experience and service I feel need a lot more

focus. You're going to hear a lot more--and I'm not ready to talk about the details yet but we're going to hear a lot more about what we're going to do on the service side to help deliver value to you than we've done before. So those are the key points.

And I guess if there's a key message I'd like you to take away, it is that we're refocusing back on what we're good at, that we have not lost sight of the fundamental notion of user experience, and the user having a delightful productive experience when they use the machine. But we're trying to formalize in a sense exactly how we go about attacking that, and therefore have structured development and structured invention as opposed to spontaneous stuff, so that we can ultimately deliver you better technology and a better product.

Well, I've talked much too long because we've got some great technology up here we want to tell you about. And to help me on this I'm going to ask one of our folks, Frank Casanova--Frank works in our research laboratories, but he's also Apple's official ring master. And here he is.

[In the Technology Section, Frank Casanova introduces Kai Kraus, who demonstrates Goo, an image-manipulation program for kids. Frank then introduces 11-year-old Gregory Miller, who demonstrates Apple's Cocoa graphical programming language due later this year, and Avid Cinema, which was announced at Macworld. Frank then demonstrates a number of future technologies and explorations from the Apple Research Labs, including Project X, VTwin, Data Detectors, Talking Internet Heads, 3D Finder, industrial design concepts and multimedia Sprites.]

GIL AMELIO: As it turns out that we just recently produced our 25 millionth Macintosh. And so we're celebrating that here as part of the Macworld experience. And it turns out that the unit that was the 25 millionth was one of our new Performa 6400's with the 200 megahertz power PC in it. So this is a special occasion.

We thought we ought to choose a special recipient to give that 25 millionth unit to. And while we were at it we thought, you know, what the heck. We'll put in our 10 millionth printer, a color Style Writer to go along with it. So the question was who do we give this to?

[Laughter.]

Well, we do a lot of work with the Boston schools. And in fact we've been involved with them in developing a five-year plan as to where they want to go and how we might be able to support their agenda. And in our course of working with these folks and the superintendents and so forth, we selected with their help the journalism program at English High School in Jamaica Plain to receive the 25 millionth Apple. The students there have proposed

to publish their yearbook on CD-ROM, their school newspaper on the Web and participate in video conferencing programs with the University of Massachusetts. Accepting on behalf of English High School is Janice Jackson, Deputy Superintendent of Schools.

[Ms. Jackson accepts gift.]

[Applause.]

You know, when I reached down to get that, I noticed that there was a second envelope here; number 25 million... and one.

[Laughter.] Those manufacturing guys keep working. We thought that it might be fun to do this. So to get your participation in this, when you came in, you got a pin commemorating our 25 millionth unit. One of these pins--and only one, now, so don't 10 people stand up. One of these pins has a red dot on the back. If that's your pin, we would like you to take home Macintosh number 25 million and one. The system is a Power Mac 8500 with an Apple Laser Writer.

[Applause. Recipient arrives on stage, receives certificate, thanks Gil.]

GA: As you can see, we've got some fun stuff going on and we intend to make Apple the fun company that I think all of us remember it as, once again.

You know, we recently reported our quarterly results, which while still a loss, were frankly a lot better than most analysts thought they were going to be. And there's something that is important, I think, for you to understand about earnings announcements and earning statements. My experience of what I've found is that earning statements are always a lagging indicator. That is, when you start making the right decisions and doing the right things, it doesn't immediately show up on the bottom line. Maybe three months, six months or a year later you will see the impact of that. So when you see an earnings announcement, if it's gotten going in the right direction, it's a reflection of the fact that some months ago some right decisions were made.

The opposite is also true. That is, you may be seeing good data, but if people are making bad decisions at that time, then later on you're going to see the loss situation occur. And so it's very, very important, I think, that we not get too focused on just the bottom line, as I think sometimes people tend to do. But ask the question: Are we doing the things we need to do to get the company back?

And let me tell you, from my perspective, while we have an enormous amount more work to do, a lot of the right decisions

are starting to get made and things are happening and I think you could get a sense of that from these presentations we just had.

I mentioned earlier that we have a contract with our customers to deliver products with distinctly superior value and quality. We intend to be number one in multimedia and connectivity and we intend to earn your loyalty and enthusiasm with every product we ship. We owe this to you. We owe you this much and much more for supporting our products and for making Apple one of the most recognized logos in the world today.

Apple has taken pride in our 20 years of being in business in creating products that amaze and delight our customers. What we may not have done enough of or mention as often as we should are the many ways that our customers and developers use apple products to do amazing and delightful things. That relationship and that sort of unwritten contract to do great things together has really been, from my view, the magic of this company.

You have my thanks and my promise to make you glad every day that you chose Apple. Thank you very much.

[Applause.]

End