Introduction of John Sculley by Dee Anne Dougherty

This morning we revisit a User Group Advisory Council tradition, our discussion with John Sculley. John was with us about six years ago when we first invited User Group representatives to Apple to discuss their hopes of a working relationship with Apple. It was through this discussion and with John's support that the User Group Connection was first founded. Since then he has been with each Council, listening to your input and incorporating it into his business decisions. For those of you who have met John before, you know that he greatly respects the work User Groups do on behalf of Apple, and shares your enthusiasm for the abilities of our products and the differences they make. Let's spend some time with John this morning listening to his perspective and issues your groups face in the User Group community. John, we're delighted to have you here this morning, and the Council, along with all of us in the User Group Connection, welcome you.

Opening Remarks by John Sculley

Well, once again, thank you very much for coming together for this Council meeting. The only thing at Apple that is more important than our products are the people who use them. This means a tremendous amount to us that all of you have taken the time, not only to come here and to help strengthen the relationship between Apple and User Groups across the country, but also that you work so hard during the year to make your User Groups successful. I want you to know that we know what you do, we think it's great, and please keep on doing it.

What I'd like to do is to take a few minutes before we start the questions to give you a perspective of some of the really exciting things that are going on at Apple today as we begin the decade of the 1990's. As I think many of you know, about 18 months ago we set Apple on a different course, and the course was to really try to expand the role of Macintosh computers in the personal computing industry. We have been very successful since the introduction of the Macintosh back in 1984, selling the world's most user-friendly computer, but we sold it to a relatively small percentage of the personal computer population. It became clear as the industry started to slow down in its overall growth -- as competitive products were on the horizon, such as Microsoft Windows, which were trying to adopt many similar features to the Macintosh -- that we were going to have a tough time holding on to the third party software developers support unless we could increase Macintosh penetration in the industry and expand the range of choice of our products. So, 18 months ago I took over the role of managing product development. I brought in Michael Spindler from Europe -- who had been very successful in building a tremendously large Macintosh market over there -- to become Apple's Chief Operating Officer.

We set as the first objective to go for market share. In order to accomplish this, we had to become much faster in bringing our products to market. We've been able, as other computer companies during the 1980's, to bring out about one or two new products a year. But in the 1990's it was quite clear that we had to bring out a much larger number of new products. We had to bring them out not only for the desktop, but also laptops and very high end performance systems, as well as peripheral products that would support them. So "time to market" became a very key criteria for us in product development. To give you a comparison, about 35% of our revenue last year came from new products. This year it is well over 80% that will come from new products. We have introduced a large number of new products this fiscal year, starting with the Macintosh Classic, the Macintosh LC, the Macintosh IIsi, as well as low-cost printers. The year isn't over yet, and there are still a lot of other exciting ones to come.

The other thing we did was focus the product development energies against the low end of the product line, trying to get as much innovation as possible at the lowest possible price points. In the past, the innovation was largely targeted at the high end of the product line, with the idea that it would trickle down over time.

Third, we tried to get customer input into the features that we put into our products. The Macintosh Classic was largely designed by users. Users told us they wanted an internal hard drive. Users told us they wanted more memory inside the Macintosh Classic. In the Macintosh LC, users told us that they wanted 8-bit color, and we actually went and redesigned the LC and the Classic while we were in the development process. In future products -- ones that we have started in the last year -- we have gone out and started with customers first to get their input as to what should be in the products. I think you will see some very exciting ideas that customers have given us as products.

We also dramatically dropped the price of Apple's products. We had done testing about a year ago to find out whether Macintosh was, in fact, a price-sensitive product. We wanted to know if Macintosh was sold at lower prices, would we reach out to new users? The answer was an emphatic "Yes!" In fact, when we introduced the Macintosh Classic, we literally cut the price in half from the product it replaced. On just about everything we have introduced, the prices have come down by tremendous amounts. What we found is that we have had a tremendous increase in selling our computers to people who would either never own a computer before, or who would never own an Apple computer before, because the prices were more than they could afford. I don't know whether you are noticing the rise in the number of new people who are coming into your User Groups, but all of our research shows that we are definitely reaching out to new people. So, in a recession year when most of the computer industry is not showing very much unit growth at all, the growth of Macintosh units is absolutely booming.

The problem for us as a company, however, is that the booming sales are with the lowest price products, which also have the lowest margins. So as we look out into the 1990's, with the much lower gross margins we've had, we haven't had the

affordability to be able to bring the next generations of technology to the industry. That is one of the major reasons why we have been looking around for over a year now to find a partner that we could work with who would help us be able to shift the industry off its course. We want to try to once again in the 1990's -- as we did back in the 1980's -- to bring some major new innovation to the industry. This time the major new innovations will be in object-oriented programming, and in multimedia technologies. It will be in expanded capabilities with the Macintosh on open systems as well as RISC. There are going to be a lot of very important and very exciting new technologies that will reach the market because of this new relationship that IBM and Apple Computer have entered into.

I would like to point out to you that when we announced the IBM-Apple relationship, now just a few weeks ago, that it was probably the shortest press announcement that has ever been put out by the computer industry. It was just about a page long. There were no quotes in it from either the CEO of IBM or myself. There have been no interviews up until this point by any of the top management of IBM or Apple. There have been a few people who have been writing about it and speculating about it, but you are the first people to hear from anyone from the top management of Apple or IBM. So I think it is appropriate that I have a chance to speak publicly to User Groups about what this can mean.

There has been a lot of questions about two companies that are so culturally different. I BM is one of the largest, most admired, and one of the most successful corporations in the world. Apple Computer is less than 15 years old, started in a garage, has been driven by a passion to change the world, and has many people who have never worked in a large, traditional corporation. Is it possible for two companies that are so different in terms of their roots to do something together that can really be successful? I know that's on a lot of people's minds. What I can tell you is that while we had the shortest press release probably ever in the history of the computer industry, we had the most intensive discussions, negotiations, and time together in order to understand what it was going to take to actually ship products, not just make press announcements. In fact, there were over 150 people who have been involved for over two months, almost around the clock, seven days a week. We have been getting to know one another, understanding what it takes to create a win/win for both companies. We've been discussing what it takes to have a "win" for independent software developers who will create new software applications and solutions on top of these platforms -- and, importantly, where the "win" is for the user and the customer. What we found is that there are tremendous complementary areas where we at Apple can learn a lot from IBM, with their success in enterprise systems, with their long tradition of focus on customer solutions. IBM is learning that they can learn a lot from Apple, with our focus on end user systems and our ability to create unique software technologies.

In the 1990's no one company can go it alone. We want to bring together the strengths of Apple's core competencies and the strengths of IBM's core competencies, but keep it out of the bureaucracies of each company. So we have been very careful to say "Let's set up either joint efforts or joint ventures that we can pull away from the more traditional organizations of each company," and "Let's bring in at the start in these discussions the people who are actually going to

have to develop the products and let them get to know each other. Let them work through the issues, as opposed to having the top managers agree on some overall relationship without understanding what the details are going to be in order to make it work." This has been the approach that we have taken. I think that we are going to find that there will be some wonderful products that will come out of this relationship. I think it has the potential to set the industry on a brand new course. As a lot of you know, there has not been very much innovation in software applications for about four years. It is kind of like we are getting Godfather III or Rocky V. We are getting new features on old ideas. In the 1990's we have a chance to make as big a breakthrough in the kind of things that computers can do as we did in the mid-1980's. I'll give you just one example, and then we'll go into questions.

Most of the capability that today is done at the applications level is done with object-based systems, built into the system software, in what are called class libraries. The class libraries sit on top of an object-oriented microkernel. What this means is that capabilities like spreadsheets and word processors and more traditional personal productivity applications are largely implemented at the system software level. With object-based systems, software developers and users can actually go in and write relatively small code segments the way you write a HyperCard stack in effect, but much easier. You have the ability to create usable solutions that tie into things that people want to be able to do that go beyond individual personal productivity. For example, a lot of people in education are interested in how to get students to work together in a classroom. A lot of people in business are interested in how to get individuals to work together to make an organization more productive. The computer industry continues to give greater and greater capabilities with networks and servers and the ability to distribute information across networks.

Object-oriented programming allows you to take something that is inherently very complex and to use a technology which dramatically simplifies it. Solutions become the defining ability of software, as opposed to broad, horizontal, shrink-wrapped applications. It means that the kinds of things that software developers will do in the future will be much more specific to solving problems that groups of people working together want to be able to do. It means that the testing of software, which is one of the the most expensive parts of software development, will become dramatically simplified because of the structure of object-oriented programming. And it means that things like multimedia capabilities -- which today have to be added on with special cards or with special software --those things are all built into the base system.

So as we go out into the 1990's and we get out into mid-decade, what we will start to see is wonderful new capabilities with new input, such as speech, handwriting recognition, gesture. We'll see multimedia capabilities integrated into the system software and therefore applications will be able to take advantage of it. We'll see the ability to distribute information across networks in ways that will allow people to work together in what has been called groupware, but where there are relatively few examples today.

All of this will put into the hands of users far more power than they could ever get without this cooperation between IBM and Apple. It brings together the resources of both companies, but it also brings together two of the world's most successful technology creators. The problem for a company like Apple is that the cost of the commodity software which is DOS and Windows -- because it is amortized over 20 million units a year -- is sold at a price lower than we can create the software, because Apple can only amortize development costs across the few million units that we sell a year. So we had a choice of either saying "We'll have to stop bringing innovation to the industry in the 1990's" or "We will have to charge very high prices for that innovation." Neither one of those alternatives seemed very attractive.

By bringing together two world class technology creators we are able to amortize the development costs across a much larger number of machines, and not only Apple and IBM machines. One thing we pointed out in the press announcement is we are making it open to other vendors and to customers. In the past, there have been technologies from Apple that have been available only on Apple hardware. Now the new software technologies are going to be available to other people. These are very significant changes for us. It meant that we had to make some very soul-searching decisions inside of Apple, and IBM had to make some very soul-searching decisions, too. But I think that the state of the industry today is such a serious one -- in terms of lack of innovation, in terms of the commoditization of the industry, in terms of America potentially losing the leadership in many of these technologies unless something such as this alliance emerged -- that it was important enough for IBM and Apple both to make some very fundamental changes. While it will be a few years before you will see some of the technologies that were announced in this agreement, there are some things you will see very quickly. One is that IBM will now support of the Macintosh and bring the Macintosh into their most important enterprise markets. Maybe that will come up in some of the questions and we can talk about that further.

I wanted to let you be the first to hear from me that Apple is on a course that we started 18 months ago, that is going for a much bigger role in personal computing in the 1990's. We're breaking some of our own ground rules, but there are no more sacred cows at Apple in things that we won't do. The real test of all of this is: will it make a difference to users, will users appreciate what we're doing, and can we do it without compromising on the quality of the product and the innovation that we have been able to deliver in the past. I believe that the answer is going to be a solid "yes" on that.

Why don't we begin with the first question.

Council Member: Apple is focusing on obtaining a larger market share, as shown by its introduction of low-end products, and the expansion of sales into non-traditional outlets. How will this affect end user support, and how far along non-traditional lines is Apple prepared to go to gain more share?

John Sculley: Well, that is a very good question. You are absolutely right, we are going for a market share. We will not see the most innovative software appearing on our Macintosh systems unless we do, because it would be a better profit opportunity for third party developers to write for alternative systems -- even if those systems don't have the full capabilities of the Macintosh. So we are very much expanding the share of market, and we're doing it not only with product development and pricing, but we're doing it with channels. The movement into superstores is one further example of that. Now we know that as we reach out to many new users -- many who have never used a computer before -- that we must provide other means of support. The 800 number is a good example of that. When we introduced System 7, we also introduced the 800 number on-line support. We've also introduced on a pay-per-use basis, support for customers. I think that you should expect to see that we will have more direct support relationships between Apple and customers.

One thing that is going to be very important in computers in the 1990's is communications. I think we are already seeing more and more computers being sold with modems built into them. I would hope that as time goes on that most of our computers would be sold with modems, and as that enabling capability is there, it is going to make it even easier to be able to deliver on-line support services to end users. I think there is an important role for the User Groups in this regard. If we can start to deliver to you as User Groups more information that you in turn can deliver to what will probably be a much larger user population coming into your User Groups, that all of these things are going to help us keep a real personal touch in our relationship with users and customers -- even as Apple starts to expand the population of Macintosh users.

Council Member: The recently-announced Apple-IBM alliance presents significant opportunities for cross-platform development. What new functionality can end users expect in the areas of connectivity and data exchange? How will Apple preserve the unique qualities of the Macintosh vs. DOS-based systems?

John Sculley: I think there are very few companies today that don't have a mixed environment of vendor products. If you have a Macintosh sitting next to an IBM PS/2 machine, or a Windows MS-DOS machine, or a Unix machine, it really isn't going to be effectively used unless it can be integrated across the network and connect into those other systems. What we are particularly excited about in the IBM-Apple relationship is that there are things that are going to start now, as well as things that are going to happen in the future. One of the things that is starting now is that IBM is now recognizing Macintosh as a real player in their environments. IBM is going to be marketing connectivity products under their label to connect the Macintosh into their servers and systems. That may sound like a relatively simple statement, but if you just think and ponder on that for a moment of what that means -- to have IBM give the endorsement of the Macintosh into large enterprise markets -- I think it will have a tremendous impact of not only establishing credibility that the Macintosh is a full-fledged player that can walk in through the front door and not just the back door, but I think that it's going to attract third parties to want to do other things on top of those products. We are very excited about that.

We are also excited by the fact that IBM will actually be selling a version of Macintosh in the future. It is not the 68000 Macintosh that we all know and love -- it is is a RISC-based Macintosh built on a Unix kernel. I think that most of you are familiar with Macintosh's A/UX. What we're doing is we're porting Macintosh A/UX over to IBM's RISC architecture, and on top of IBM's AIX, which is their version of Unix. So this means that IBM customers, when this product is available, will be able to have access to all of the Macintosh productivity applications, and it means that those customers will also have access to all the AIX Unix applications. And it means that customers who are interested in seeing the Macintosh applications systems being offered by more than one vendor are going to be able to get it from either IBM or from Apple. So those are very dramatic changes for anybody who is involved with enterprise systems, whether it is in government or eduction or business. We think it will greatly expand the popularity of Macintosh and hopefully take a lot of fear, uncertainty, and doubt out of whether it is okay to buy a Macintosh.

Council Member: You've mentioned in the past that the single most important market segment to Apple is education. With the current focus on building partnerships and market share in business, and the aggressive competition from K-12 and Higher Ed markets, define Apple's commitment to education.

John Sculley: Well, you've certainly touched something very close to my heart, because one of the things that attracted me to Apple computer was the chance to get involved with education with information technology tools. I was personally very disappointed about two years ago because I saw Apple losing it's market share in K-12 education. We were having a lot of problems bringing the kinds of products to the K-12 market as a follow-on to the very successful Apple II that the K-12 market wanted. The result was that we weren't getting the kind of innovative software applications that we needed because we weren't providing the new computers for that market, and people were beginning to question whether Apple still cared as much about education as it had in the past.

I can tell you with a great deal of pride and satisfaction for all of our Apple people involved in education that there has been a dramatic turnaround in Apple's role in education since we introduced the Macintosh Classic and the Macintosh LC. Not only have our sales gone up significantly and our share market is now back up where we want it to be, but we saw more new software for education introduced in 1991 than we have ever seen in the past -- and a lot taking advantage of the low-cost color capabilities of the Macintosh LC. We have also seen a tremendous response to the Apple IIe card which goes inside the LC, so there is a bridge for people who have big installed bases of Apple II machines. I think we've got the momentum back in education. I think that people know that we really still care about it a lot, and as we bring out other technologies like multimedia with QuickTime and things of this sort -- future editions of HyperCard -- I think that education is going to find more and more reasons to point to Apple's real commitment to it.

Council Member: John, I've got a related question to ask. I'm speaking for the Apple II constituency. The Apple II is still a very useful and viable computer among millions of users in the home, small business, and education markets. What is Apple's vision of the future of Apple II technology with regards to these markets, and how does this relate to the Macintosh LC?

John Sculley: Well, the Apple II has been a phenomenally successful product. It will always be one of the legendary products that define this industry -- much as I remember when I was growing up that the Volkswagon Beetle was really the personal productivity version of the automobile. I think it was something that you said "Yes, there is a car that is really me," and I think that is what Apple II did so successfully. The best thing that we can do with the Apple II technology is to first of all, make it integrate as well as possible into the areas where we are putting our largest investment in technology creation -- and that's with our low-cost Macintosh systems. The Macintosh LC is certainly an excellent example of that because it allows us to take advantage of the 1990's technology -- meaning that we can take advantage of ASICs, of much faster processors. We can take advantage of system software capabilities that we can really only implement on the Macintosh. Yet to be able to integrate through communications the Apple II into that network world I think is very important. The other thing is that we developed the Apple IIe card because we wanted to have a way of bridging for those people who have large installed bases of Apple IIs -- and the ability to add LCs to those installed bases. We also developed a series of cards -- like the SCSI card or the video overlay card -- for the Apple IIGS so that we can add capability to those machines, even though those machines might be several years old. Those are examples I think of how we've tried to keep the Apple IIe and the Apple IIGS still viable members of the Apple family. But recognizing that the technology in this industry continues to move very, very rapidly and if we're going to live up to our other commitment to people -- which is to bring them the very best and most advanced technologies that we possibly can at the very best prices -- then we have to put the focus that we are on the Macintosh. Then we have to even look at things that go beyond the Macintosh, as we move further out in the decade. So we are selling Apple IIs, we will continue to sell them as long as there is demand for them. But most of our technology development is going into Macintosh products and trying to give a bridge for those Apple II users. Trying to extend the useful life of the Apple IIs with add-on cards and system software such as HyperCard for the Apple IIGS are examples of things we can do for the installed base. I think we have to sort of strike a balance between how we spend our resources.

Council Member: User Groups have traditionally provided end user support and education, filling voids that Apple has not or can not address. However, our function within Apple has never been well defined. What do you see as the real strategic value and role of User Groups?

John Sculley: Well, I was really made a convert to User Groups about six years ago by Ellen Leanse and she is so enthusiastic as you all know. She really grabbed me by the hand and took me around and said, "You've got to see what happens out there with User Groups." So I have been a strong supporter of the role of

User Groups for really some time. We have today 1400 User Groups in the United States. That's about 400,000 members in the United States. There is nothing comparable anywhere else in the computer industry to the Apple User Groups. And the thing which I would like to see, particularly as we are now expanding the number of machines dramatically that we are selling, I would like to see a start to try to formalize the role that User Groups have in ways beyond what we have done so far. I think we have given recognition to the User Groups -- the fact that you all come together as an Advisory Council each year, and I have a chance to meet with you is one example of that. I think that User Groups perform a tremendously valuable service, particularly in the area of training. I know that we are making efforts to try to get more materials to you, whether it is on CD-ROM, videotapes, or some of the collateral materials that we have when we introduce new products. I think we have to find more ways. And what I hope has come out of your discussions here at this Advisory Council are perhaps some suggestions, and hopefully a chance to raise the awareness of people inside of Apple to just how important the role of User Groups can be -- not only for users, because I think you have demonstrated that, but also for the success of Apple. The feedback that I am getting from Apple people is that you've really made an impression on a lot of them. I am hoping that you'll see as you come back for future Advisory Council meetings that we've made even more progress on how we can formalize your role.

Council Member: HyperCard's original status as system software and its shift to Claris has created a great deal of concern and confusion. Apple has traditionally allowed dealers and User Groups to provide updates to system software. How does Apple plan to handle these types of upgrades in the future?

John Sculley: Apple has had to make some changes, not all of them popular. But in order to dramatically reduce the price of our products -- remember a Macintosh Classic is about half the price of a Macintosh SE, and the Macintosh LC is about half the price of what the lowest cost color Macintosh was before it -- we had to decide what things to put in the base system. We had to ask, "What do we make available to everybody? And what things are really not used by everybody, even though they may be enthusiastically used by some percentage of the population? And how do we make sure that we give the largest number of people the lowest possible price for the systems that we sell?" In that context we moved HyperCard from a product that we gave away free, to a product that is now sold as an application -- not a system software -- by Claris. We have continued to invest very aggressively in HyperCard, not only with version 2.0 as you know today, but also with things that will be coming in the future with future versions of HyperCard. We want it to grow in terms of its capabilities. There is actually a relatively small percentage of Macintosh users who use HyperCard. But the users who do use HyperCard are fanatics about it. I suspect that there isn't one of you here who hasn't written some HyperCard stacks, or probably has some very strong opinions about the important role of HyperCard. We had to make some tough business calls that had to deal with expenses and our ability to bring dramatically lower price levels for Macintosh to users. We made a few people probably a little bit unhappy along the way. I hope we made other people have a chance to use a Macintosh who might not have been able to afford it otherwise.

And yes, we are going to continue to have future releases of HyperCard. And no, it is not sold as system software in Macintosh as it used to be. But it does have very strong support from Apple, through our Claris subsidiary.

Council Member: Apple prides itself as providing future-oriented solutions and enabling "growth without disruption." How strong is Apple's commitment to satisfying the upgrade needs of loyal customers, including users from the Apple II to the top of the Macintosh line? Will Apple, for example, allow present Macintosh users to take full advantage of the wonderful features of System 7 by providing 32-bit-clean ROM upgrades, which in some instances are even needed to make CPUs meet specifications touted at the time of sale?

John Sculley: I don't think that there is a company that has taken more seriously the upgrade of its installed base than Apple Computer has. The fact is that we are dealing with technology that is constantly changing. Apple, at the same time that it is trying to focus on the needs of the installed base, is also trying to push the envelope of the most innovative advances in software technologies that it possibly can. This is the philosophy that was clearly behind the introduction of System 7. We could have just focused System 7 on a certain class of machines at the very high end of the product line, but as you know System 7 is able to run on any Macintosh, starting with the Macintosh Classic that has 2 megabytes of memory and a hard drive. As you move up through the product line, you are able to get more and more advantages from some of the features of System 7. So if you have Memory Management Unit, you are able to do things that you couldn't do on a Macintosh Classic. There are products in our line that we wish had more of the capabilities that we have in some of the newer products. A good example of that is the SE/30 and the Macintosh IIcx, which do not have the 32-bit-clean ROMs that you referred to in your question. We are looking at what we can do with the ROMs in those products. But those ROMS were not designed with that in mind at the time, because that wasn't part of the technology that existed at that time. As new technologies have been created like 32-bit-clean, we have made sure that those products that have the PMMU, that they do have the 32-bit-clean. So we tried to be very consistent in what we say to the installed base -- that we want to bring you along as best we can. Sometimes it just isn't easy to do, as in the example you pointed out with 32-bit-clean. It doesn't mean that we don't continue to look at that and we aren't evaluating it and trying to find ways to do it. It also doesn't mean that there aren't innovative third party companies out there who are looking for software solutions that will try to fill a gap. But some of these things are not easy to do, and again Apple has got to make tough choices with our resources. We can't, unfortunately, give it you both ways. We can't say we will dramatically lower our gross margins, therefore lower the prices, therefore focus our technology on bringing out new products which customers are demanding -- like Classics or LCs or low-cost printers -- and then somehow miraculously say that we can go and do all the things that we always did in the past when we had a lot more resources. So we've had to make some choices which aren't easy ones. But for the most part I think we've been pretty consistent in trying to stick with bringing our installed base along as best we can. I think it's a direction that has been consistent with Apple over a long period of time and one which is still pretty unique in this industry.

Council Member: Apple's product line has consistently reflected a commitment to bringing innovative technologies to the personal computer market. What emerging technologies do you see steering Apple's research and development efforts over the coming years and who will be the beneficiaries?

John Sculley: I think that I can speak with some knowledge of that because for the last 18 months the most important role that I've had at Apple has been to focus on our technology directions. What we have been looking at are those technologies which will make the personal computer even more personal in the 1990's. We're looking at the things that will allow us to have the kind of breakthroughs in software and hardware technologies that will be the equivalents of what Lisa and Macintosh were in the 1980's, or the Apple II was back in the 1970's. That is going to include things like object-based systems technologies, which I talked about in my opening remarks. It's going to include multimedia technologies such as QuickTime, which introduces temporal management. When personal computers were conceived, no one really thought about time management. But when you want to deal with animation and text and graphics and video, you want to be able to edit those. Temporal management device control -- for things like compression algorithms that will let you do video compressions in software -- these are important technologies.

You will see from Apple in the future some great things in miniaturization. We believe that the personal computer will not have to be something that you go to for so many minutes a day, and then when you're not at your desk, you cannot do personal computing. In the 1990's, miniaturization and mobility are clearly going to be important technological areas for advancement. Computers will get smaller and smaller -- laptops, notebooks, hand-helds. Communications will be built into computers. At Apple you would expect us to build it into the basic architecture, not just bolt it on -- so that is something that we are paying a lot of attention to. Wireless communications will be, I think, as important as wired communications. We'll see new input technologies, including handwriting, gestures, speech. So there are some remarkably exciting technologies that I think Apple will continue to be able to be the leader in bringing to users in the 1990's as we did in the 1980's.

The problem is that the investment of bringing out a new product as revolutionary as the Macintosh in the 1990's is at least 10 times more expensive. The investment also high for third party products -- which are no longer MacWrite and MacPaint, as when we introduced the Macintosh -- but connectivity products, printing products, peripheral products, networking products. Things like this can actually go up into the billions of dollars. The only way that Apple could continue to fulfill its role as the innovator in the industry for users was to begin to open its technologies up and to begin to work with other companies. That is a lot of what is behind the IBM-Apple relationship. We very definitely don't want this to be a commodity industry. There is no reason why the industry should be held back to 1980 technologies when there are some wonderful new things on the horizon for the 1990's. I can tell you that we are even more committed to being an innovator in the 1990's than I think anybody else. We

think that there is still a revolution ahead. It's in the hands of users and it's our job to make sure it gets there quickly.

Council Member: John, you've consistently expressed considerable personal support of User Groups and their role as Apple partners. What can you do in the next business year to extend this commitment throughout the company?

John Sculley: I think that we have to raise the profile of User Groups throughout the company. Just the fact that I come and I meet with the Advisory Council doesn't go unnoticed across Apple. There is a lot of traffic over AppleLink about the Advisory Council meetings. Many of the ideas that are brought up end up on bulletin boards and people discuss them and debate them. In typical Apple fashion there is usually pretty heated debates about some of these issues, and I think that is all very positive. It reinforces that Apple is the user's company and that we started in a user's club -- the Homebrew Computer Club. Steve Wozniak created the first personal computer to show to his friends at a user club. There aren't many computer companies that began in a user's club. So people talk about Apple beginning in a garage -- it really began in a user club. I think that those roots have held, and are definers of what Apple still is today. So I would hope that the role of User Groups becomes more formalized, becomes more highly profiled. Particularly as Apple starts to move out to new channels -- high volume channels where users are probably going to know less about computers when they walk in -- User Groups are going to be even more important. User Groups will help in filling the gap between the knowledge of that user when he walks out with his first Macintosh and what that user is going to want to be able to do once they realize the capabilities of Macintosh. I think that the training role of the User Group becomes far more important in the 1990's than it was perhaps in the 1980's. I'm going to do everything that I can to try to get that message out across Apple, and I'm sure that you will try to do the same -- so between the both of us, I hope we're successful.

Council Member: There have been remarkable changes in global economies and politics in the last year. How do these changes ---for example in Eastern Europe ---affect Apple's marketing and technology development plans?

John Sculley: I think that the changes that are going on in Eastern Europe are remarkable. I remember when we introduced the new products last fall, the Macintosh Classic, the Macintosh LC, and the Macintosh SI. We had a live satellite two-way communications with a group of users who had just received their first Macintosh in East Germany days before the launch of the product. To be perfectly honest, we all had a lump in our throat. It was a very emotional moment because we were listening to people who had just been freed from a totalitarian system, who had just joined the free world. And what they were talking about was freedom of their rights as individuals, and the freedom to publish and to use tools that they had only heard of and never had the chance to touch before -- and that was the Macintosh desktop publishing system. They showed us what they could do with their first newsletters that they were creating. This is happening all across Eastern Europe, it's happening across the Soviet Union. I traveled to that part of the world. We're actively marketing products in Eastern Europe today. We're

doing the same thing in the Soviet Union. And when we talk about changing the world, if you ever wanted to see it in real life happening, then you ought to go over there. Computers are probably having more impact in those former totalitarian countries than perhaps anywhere else. These people for the first time are able to get a tool, a technology tool, that actually allows them to do the things that we talk about in abstract terms when we say freedom.

Council Member: AppleLink is a very innovative and exemplary means of taking advantage of computer communication technology. While Apple Link still has tremendous potential for uniting and serving the Apple community, its usefulness has been severely hampered by the present rate structure, and the abandonment of AppleLink Personal Edition. How will Apple address this situation?

John Sculley: We have about 40,000 users on AppleLink today, and since we have 15,000 employees at Apple that means that there are about 25, 000 people who aren't employees who are using the AppleLink services. As we went to the new financial model -- which was to bring down gross margins and dramatically reduce the prices of our products -- we had to go look across every area of expense in the company. AppleLink service was another example of that. We couldn't afford to subsidize people on a service if that was going to mean that we we'd have to sell our computers at a higher price. What we are doing though is that we're trying to adjust to the fact that there are a lot of people who still want to be able to get on AppleLink, but they may not be able to afford the price structures that we have today. So there is development work going on inside of Apple. Keep in mind that the AppleLink services are provided by a third party company, not by Apple, and therefore we have to pay the third party company. If we can do some of those things with Apple's own technology, there is a potential of being able to bring the cost down. And if we can bring the cost down, then obviously we'd like to be able to bring the prices down. So while I cannot announce anything today, I can tell you there is very active development going on to see if there is a less expensive way that we can deliver some of those services. I believe as more and more Macintosh computers are sold with modems in them, there is going to be even more interest for those kind of services. And as we start to deliver more on-line support to customers, via modems, there are going to be more incentives for people to want to have these services out there. So I think that all of the momentum of change that is going on inside of Apple, inside the industry, is going to work favorably to the advantage of users in the future.

This is always one of the highlights for me, to actually get a chance to talk with all of you, because you are out with users all the time. I hope that you will take back to those you talk to personally the message that I care a lot about what you are doing, and that Apple cares a lot about what users want to do with their products. We hope the relationship between users and Apple gets even stronger in the future.

Thank you.