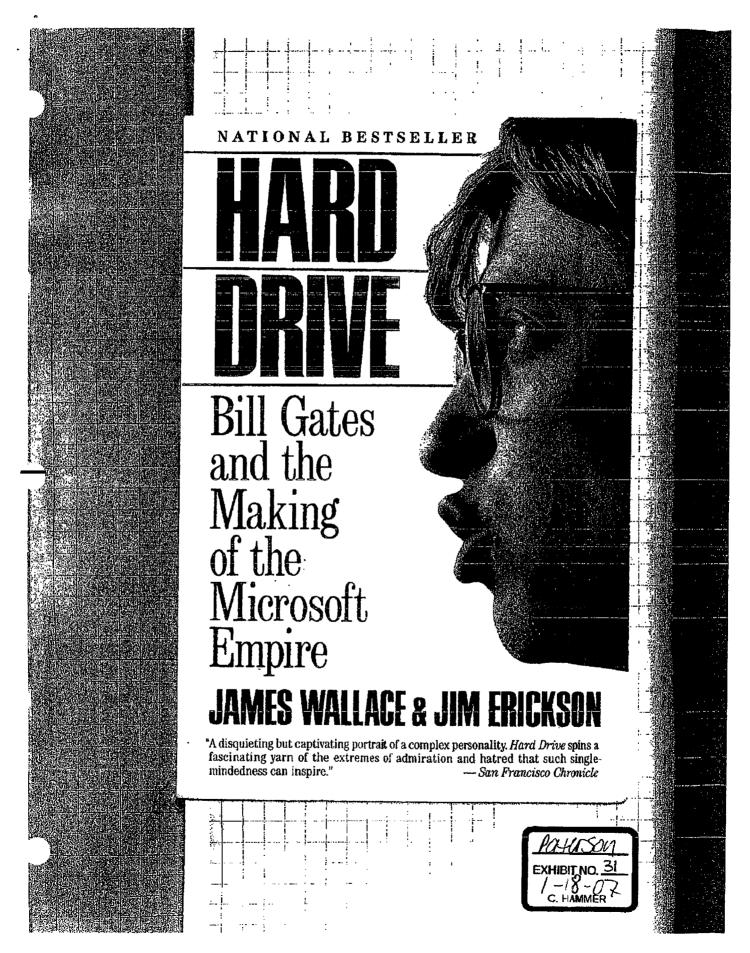
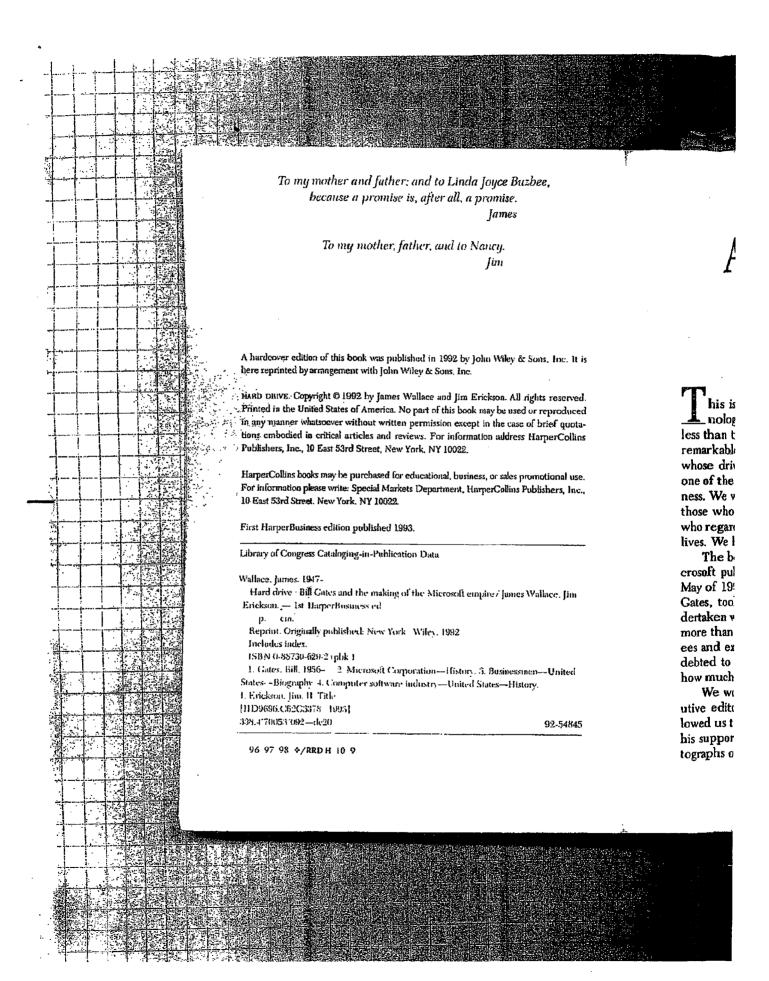
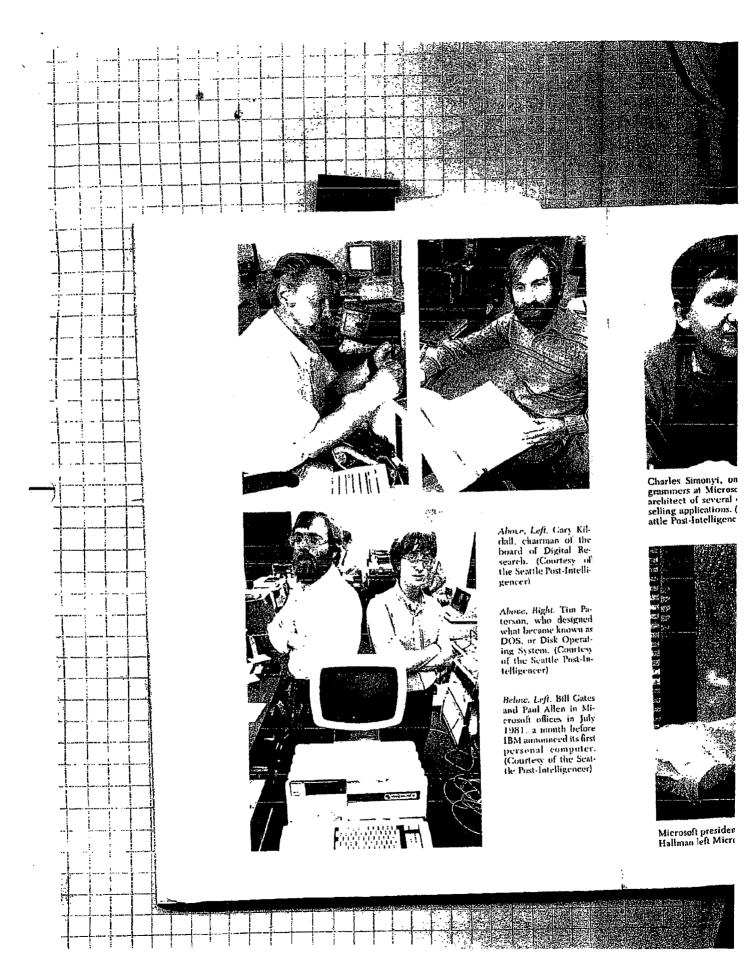
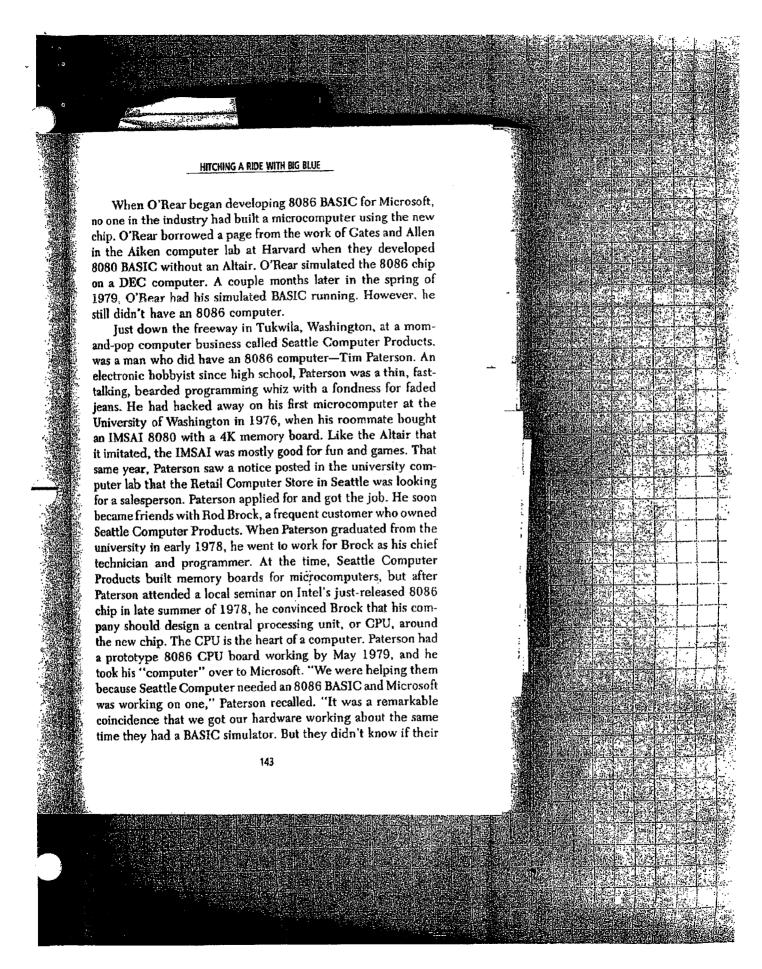
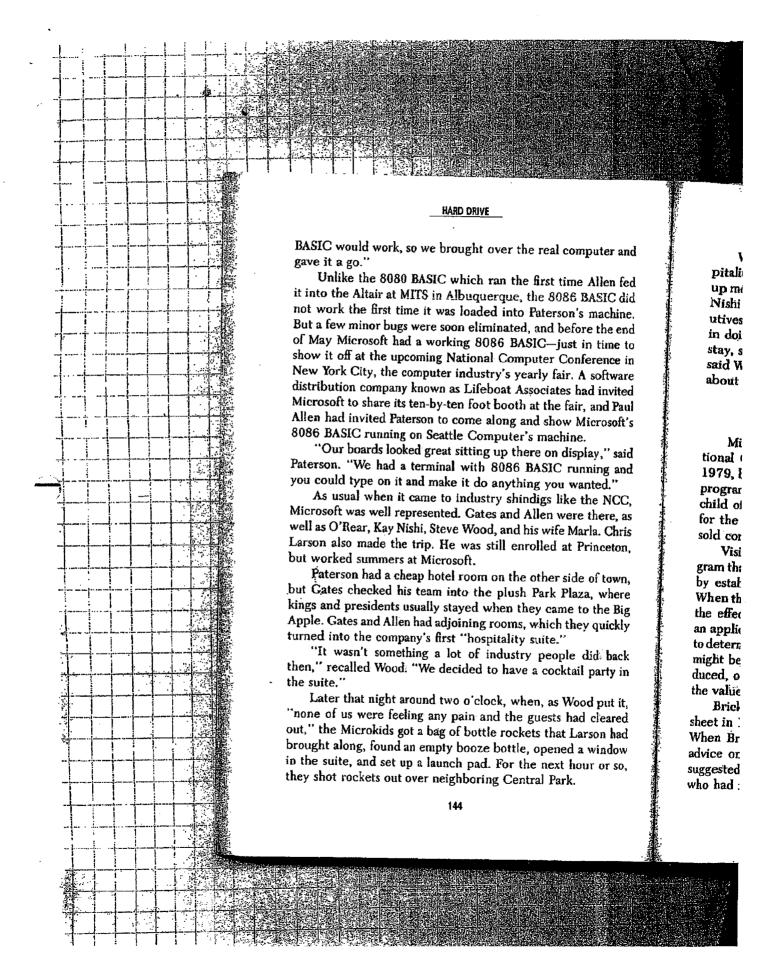
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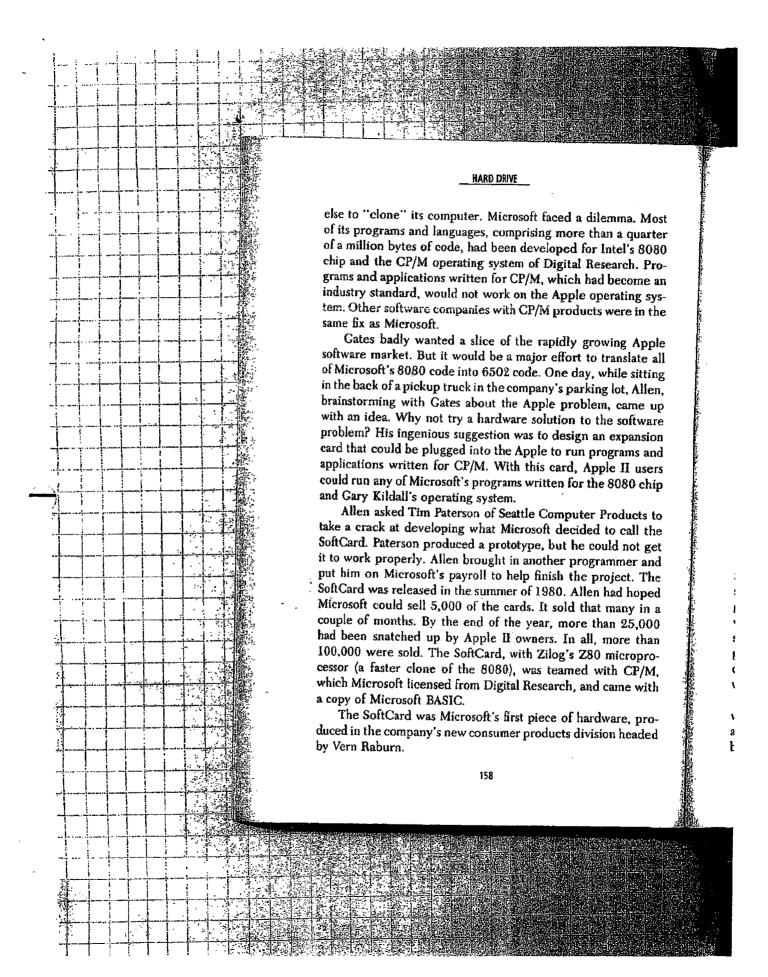


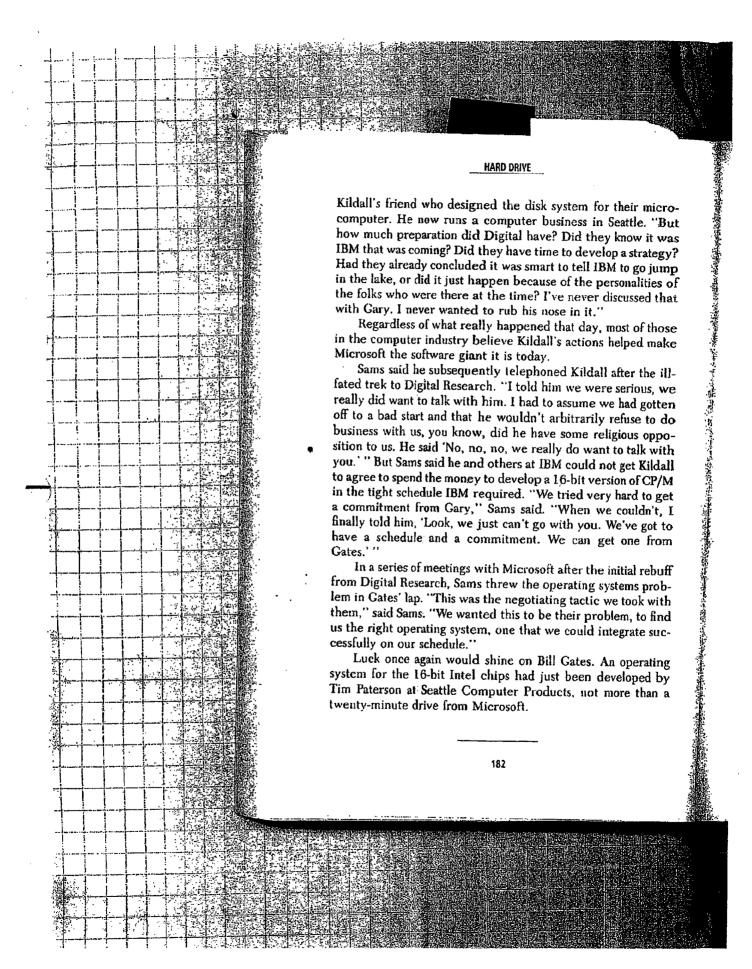


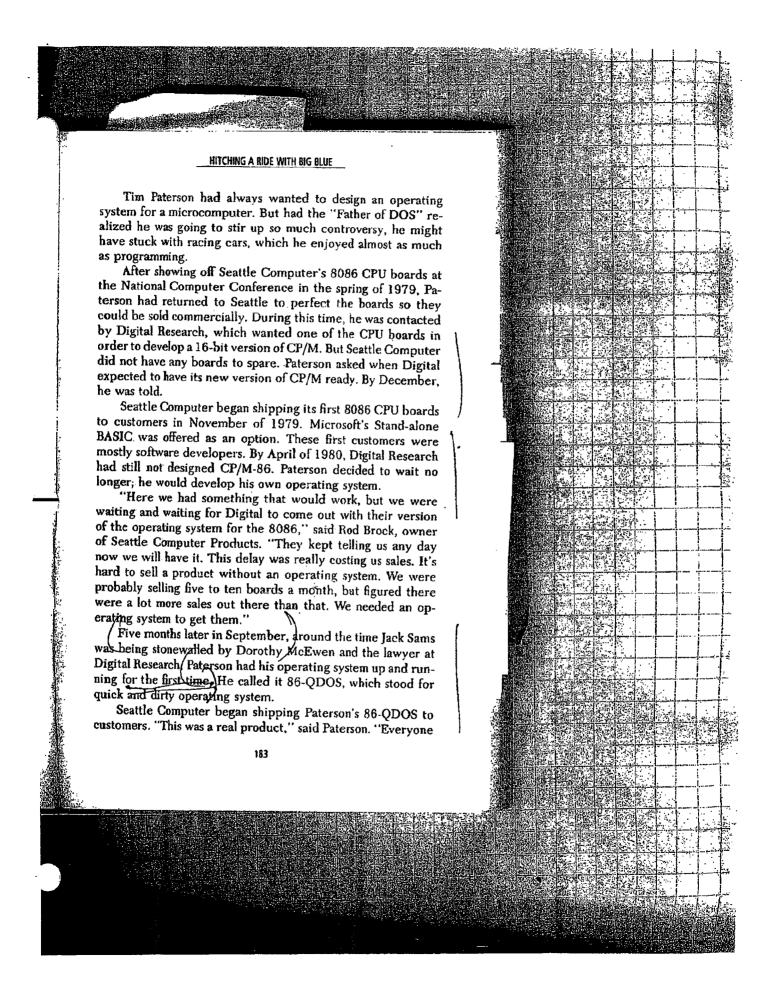


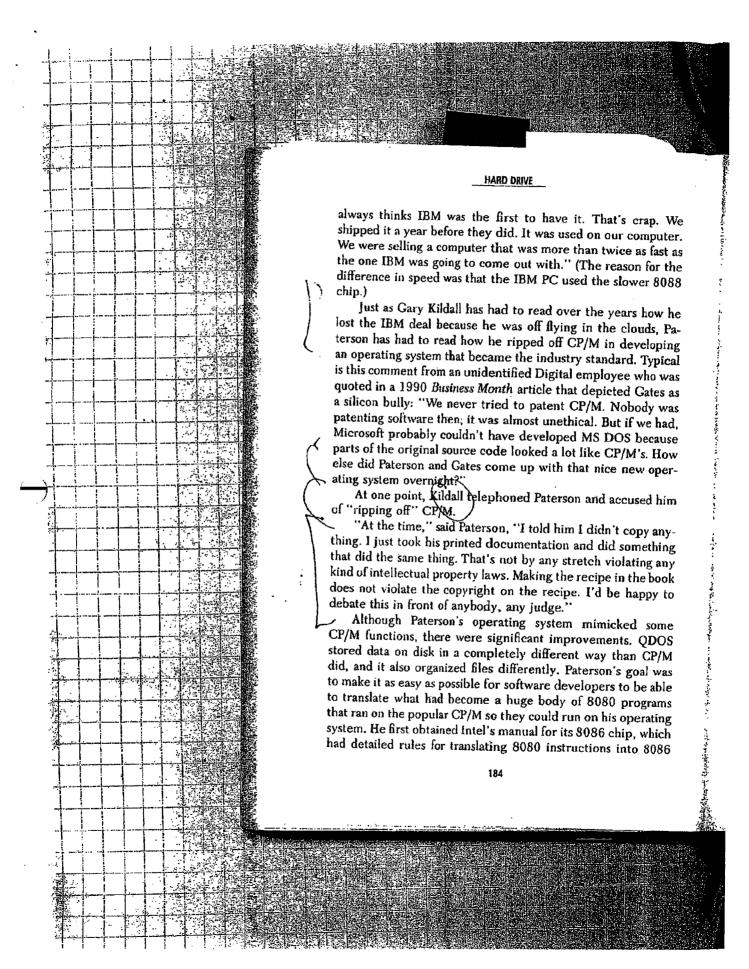


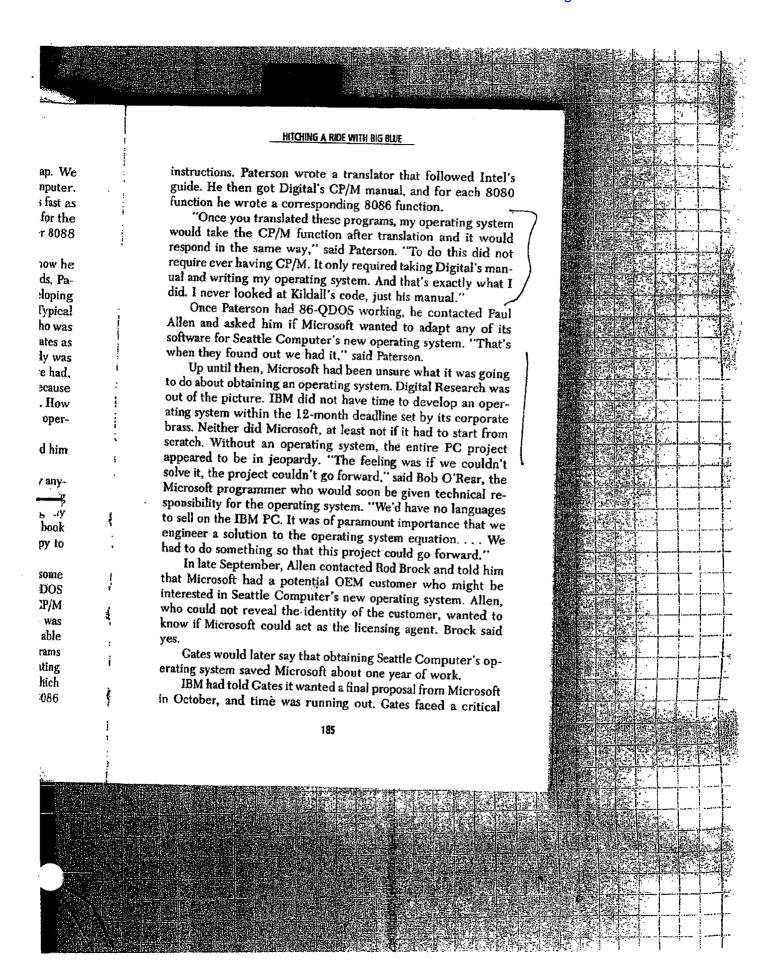


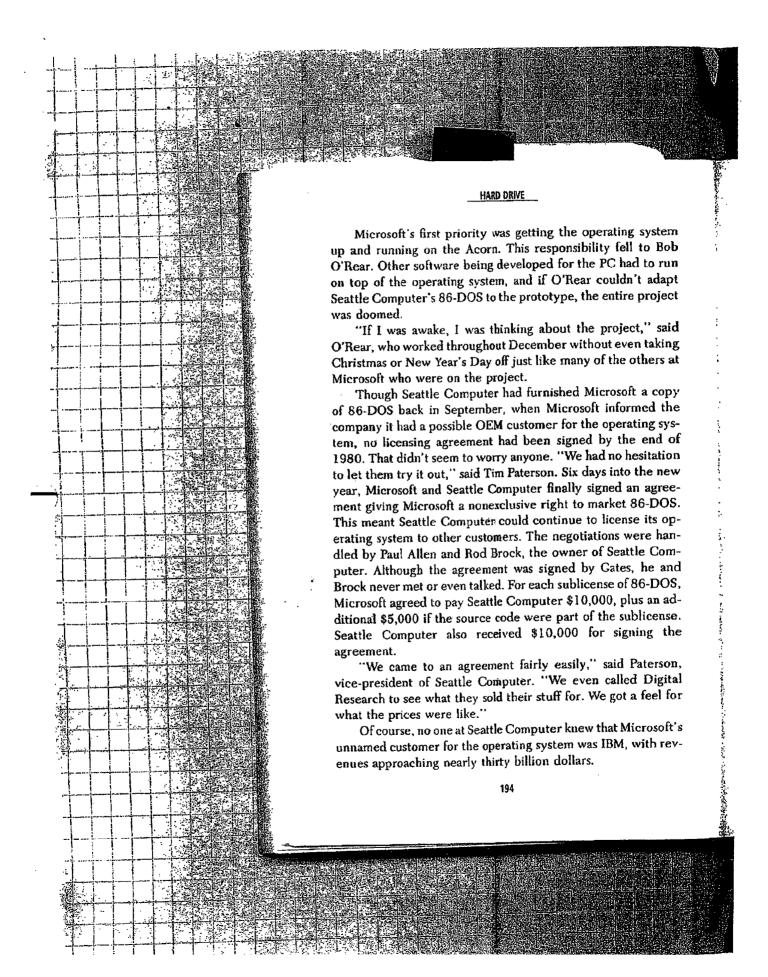


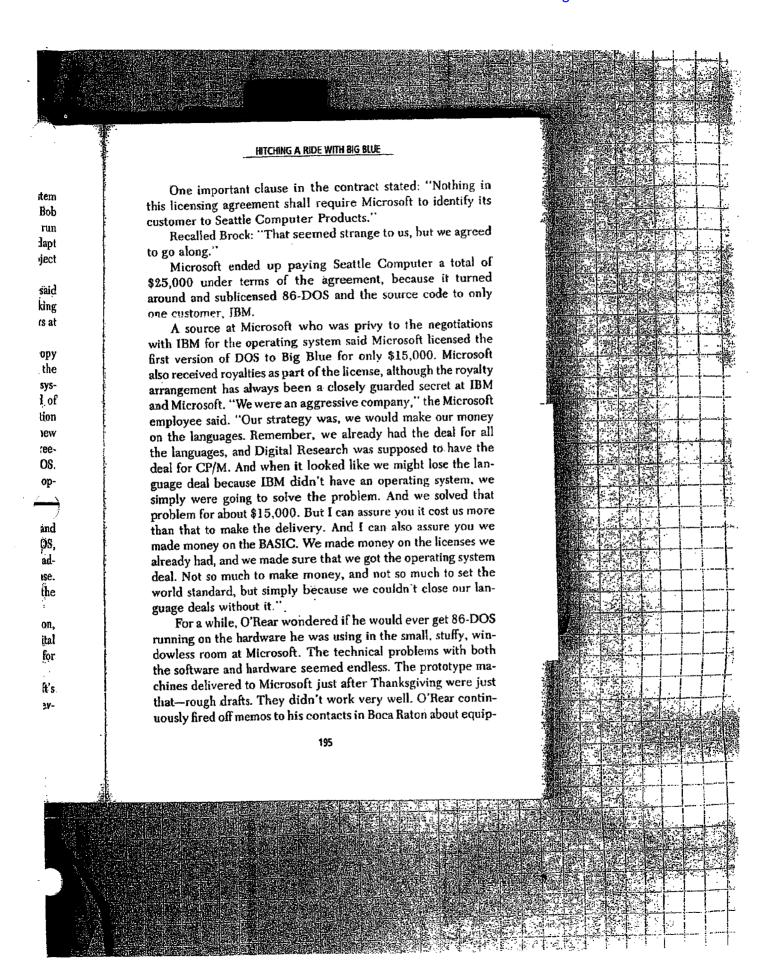


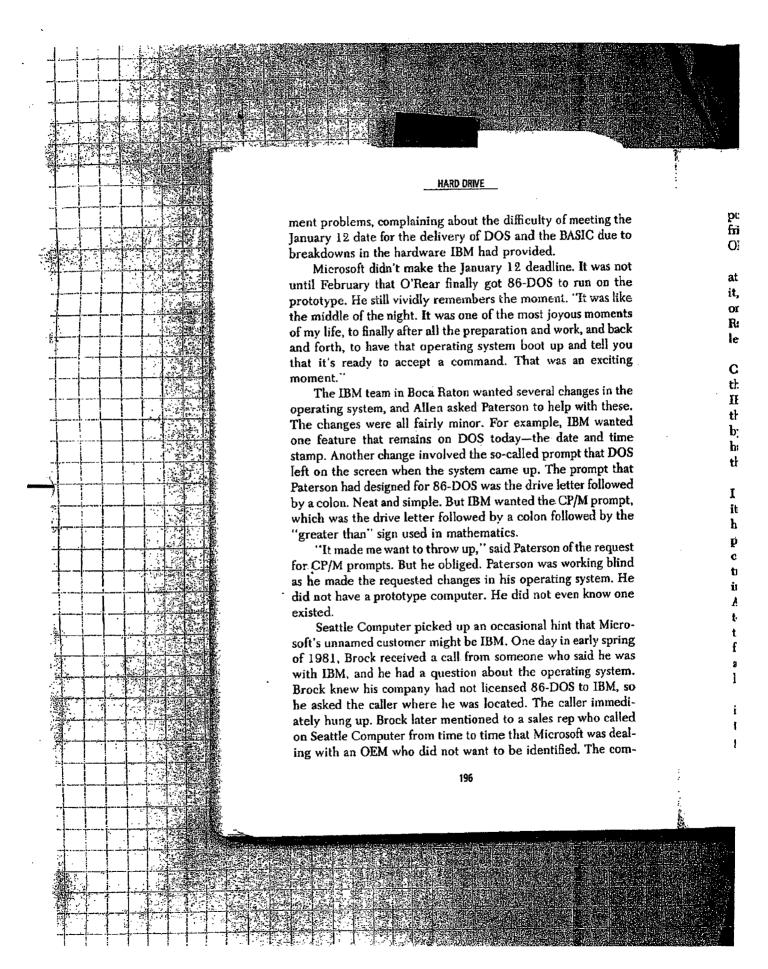












HITCHING A RIDE WITH BIG BLUE

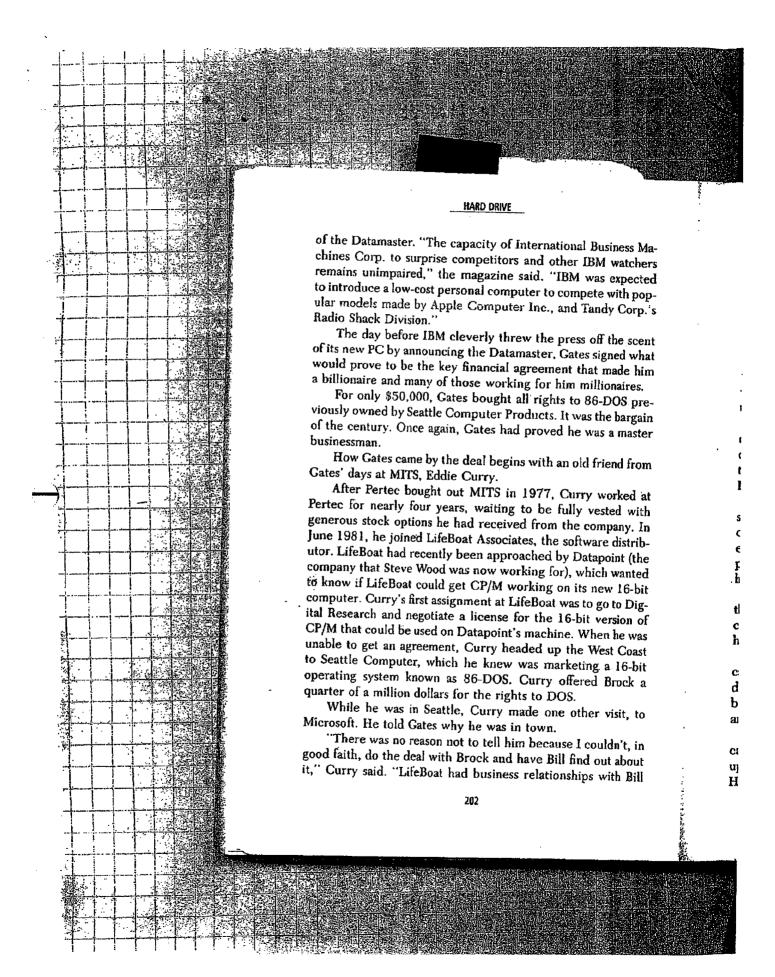
Simonyi was not working on Project Chess. He had recently been hired to take over development of Microsoft's applications. Although much of the company's attention was focused on the IBM project, Microsoft could not neglect its other business. Deals with OEM customers in this country and in Japan continued. Programmers like Simonyi worked on various applications. In dealing with these other customers, Microsoft took advantage of its inside knowledge that IBM was going to introduce its own personal computer based on Intel's 8088 chip, according to a manager who was working for Microsoft at that time. "We would highly advise some of our customers to chose the 16-bit processor," he said. "Nobody really knew that we were working on the IBM contract."

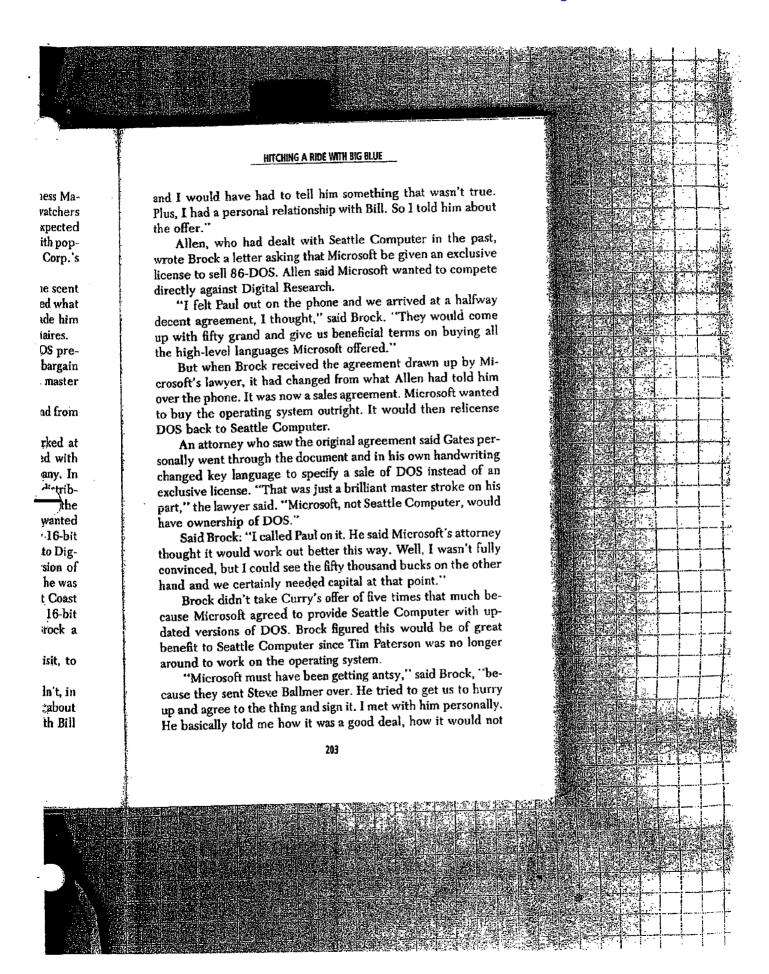
On May 1, Tim Paterson went to work for Microsoft, where he learned for the first time who the customer for his operating system was. He had asked Allen about a job a few weeks earlier. Paterson decided to leave Seattle Computer because Brock could not make up his mind whether to sell the company's products by mail order or through dealers. Brock was thinking of going back to a mail-order business, and Paterson did not want to work for what he figured would soon be a mom-and-pop operation. At Microsoft, Paterson joined O'Rear on the operating system. By the end of June, DOS was pretty much finished.

The company was growing rapidly, in part because of so many new employees hired to help with the IBM project. By June, the number of Microsoft employees had more than doubled from the previous year, to about 70.

One programmer hired in June, Richard Leeds, thought he was joining Microsoft to work on something else until he came to work the first morning, signed the nondisclosure agreement, and was told he would be helping with Project Chess. Each Microsoft employee on the project had to sign the document. Leeds was surprised when he got his first look at the PC. It had a clear plastic keyboard, and he could see right through the keys into the workings underneath. "We called IBM the typewriter

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GROWING PAINS

1981, Comeen the Big 75 percent 'C seriously, e computer

d intended. il computer position to o introduce tridge in an PC was anas the most clusion berow far be-Our judg-: hardware nction that ntroducing id then In that ers in ma-

New York hat would nal. "Welst exciting tion began setition in ogy to the

magazine nood wel-. "There ing cocky about it," Sculley told his interviewer. "We have all learned a lot."

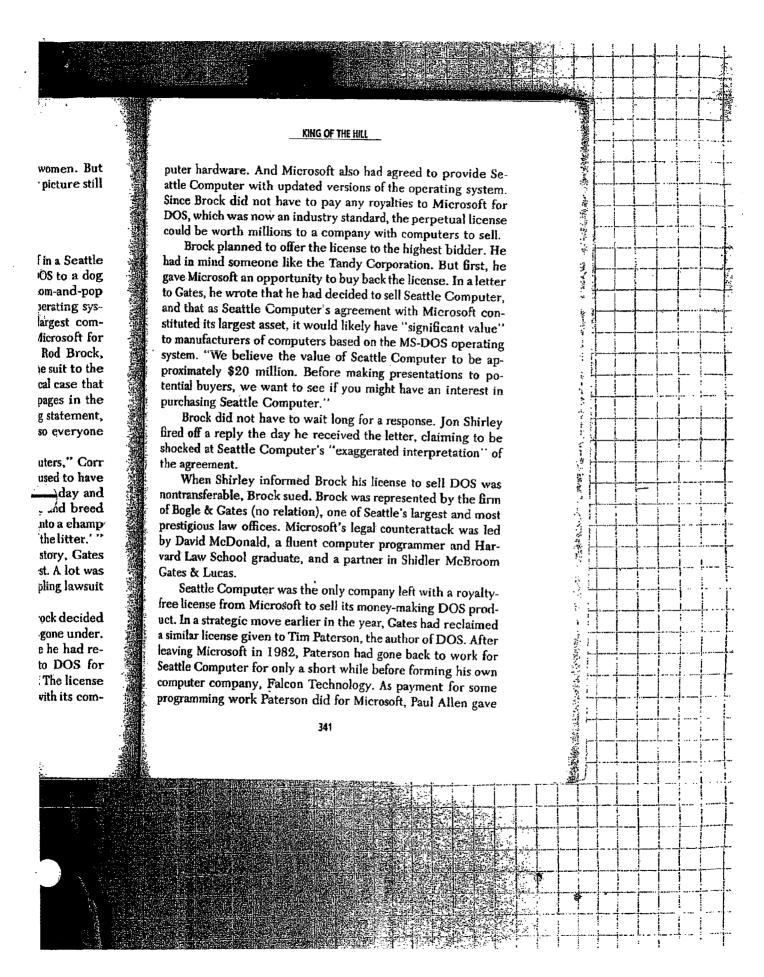
The IBM PC soon eclipsed the Apple II and every other machine on the market, thanks in part to a clever television ad campaign featuring Charlie Chaplin's adorable "Little Tramp" typing away on one of the ivory-colored machines. The Tramp, with his ever-present red rose, made the PC seem like a friendly and easy-to-use machine. The market targeted for the PC was not the home but the work place, where IBM had long established its reputation. As it turned out, the company underestimated preliminary sales by as much as 800 percent. Its Boca Raton facility could not turn out PCs fast enough to meet the market demand, and this resulted in a huge backlog of orders. From August through December of 1981, IBM sold 13,533 personal computers, which accounted for \$43 million in revenues. By the end of 1983, it had sold more than a half million PCs.

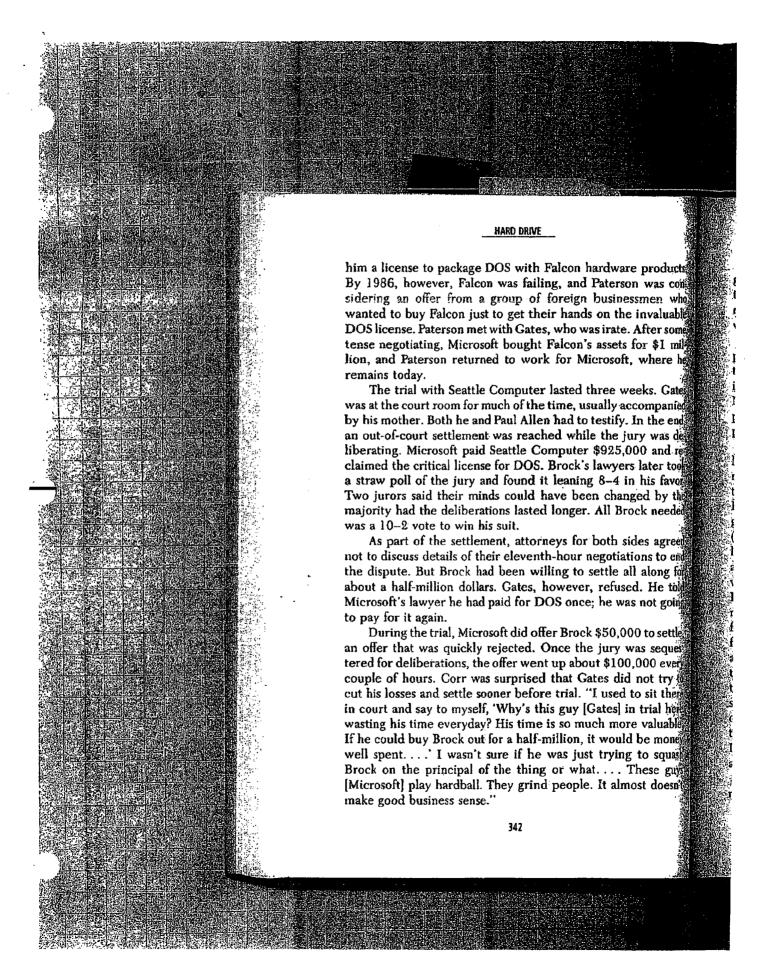
Toward the end of 1981, Microsoft went to work on an updated version of its new operating system. Tim Paterson did all the coding for this first upgrade, which was called DOS 1.1. It allowed information to be written on both sides of a diskette, thus doubling the disk capacity of the IBM machine from 160K to 320K.

When the DOS 1.1 upgrade was finished in March of 1982, Gates and Paterson went on the road to show off Microsoft's operating system running on the PC. Presentations to hardware companies and individuals on both coasts were usually made in hotel rooms. It was reminiscent of the song-and-dance trip Gates made in the MITS-mobile back in 1975 to demonstrate BASIC running on the Altair.

Although the road show was a success, Paterson quit Microsoft at the end of March and went back to work for Rod Brock at Seattle Computer Products. Thanks to the deal with Gates that allowed Brock to package DOS and Microsoft's programming languages with Seattle Computer's hardware, Seattle Computer would have its best year in 1982, reaping more than a million dollars in profit on about \$4 million in revenues.

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KING OF THE HILL

₃ like PS-2 Model

the decade." Said I don't think anysamong reporters, proposed alliance ton Microsoft. "I ry without a lot of ken, president of hington Post. One n "anti-Microsoft

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ment, Cates iarty his parents I. The guest list e former Washther journalists ind Buffett, who had met. The ame up only in topic. He was ith Buffett and

ncerned about ident of applitroops outside the applications building, said he didn't expect to see any useful products out of the alliance before he retired. Then he corrected himself. "No, I don't expect to see any products before you retire."

Tim Paterson, the programmer who developed DOS, expressed what others at Microsoft felt—that it was good to be rid of IBM, which had become a millstone around Microsoft's neck. Perhaps some of that so-called Blue Magic would now rub off on Apple. "Look at the three biggest bombs Microsoft has had—Windows 1.0, DOS 4.0 and OS/2. And who was our partner on two of those? IBM. Have we ever done anything with IBM that wasn't a bomb? No."

Many Apple employees, particularly software engineers, shared Gates' sentiment that the company had given away its birthright in joining IBM. An early meeting between about 100 IBM people and 50 Apple employees reportedly went badly because of the cultural differences. Jokes were soon making the rounds on both sides of the country. At Apple the grim question was, "What do you get when you cross Apple and IBM?" Answer: "IBM."

It was not until early October that Apple and IBM finally signed the papers officially creating their historic alliance. More than 500 people attended the news conference in San Francisco, where the two companies spelled out details of their technology-sharing agreement. They announced they would work with Motorola in developing RISC chip technology to be used in future Apple and IBM personal computers. But the big news was that IBM and Apple were establishing two joint venture companies, one called Taligent and the other Kaleida. Taligent was to develop an advanced operating system based on the Pink project Apple had been working on. Kaleida was to create multimedia computers that combine sound, text, and video on the screen.

Sculley predicted at the news conference that the joint venture would make the heyday of the personal computer revolution in the 1980s seem tame by comparison. The alliance, he said, "will launch a renaissance in technical innovation."

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