

W.J. Sanders III

**Churchill Club Transcript
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Man: If I could have your attention...this is a typical Churchill Club audience, completely unruly, exactly the way we like it. So you folks know the drill.

The first thing is to turn off the cell phones. It's a great market for semiconductors, but we need them turned off for this program please.

There will also be CDs of tonight's program for sale in the lobby as well as on our Web site, churchillclub.org. They usually ship within 48 hours.

Let me give you just a little preview of the upcoming program. You should have newsletters on your tables as well. But we have a great lineup. And kudos to the staff for doing a great job here.

On Monday we're going to be having lunch with Steve Ballmer, the CEO of Microsoft. And he'll be interviewed by (Roger McNamee) who's probably one of the smartest investors in high technology I can think of, a great friend of the club.

Then on Thursday, October 2 we're going to have a wine testing networking. And it's going to be a members-only event. And among others we're going to

have (Judy) and (Les Bedez) who are both vintners as well as industry veterans and (Garen) and (Sherri Staglund). And the moderator is going to be Chris Kitze who is, among other things, the founder of Wine.com. So that will be a great event.

Then on Tuesday, October 7 we're going to have our first all-day conference at the Churchill Club. And it's going to be at the Computer History museum. This is going to be called Silicon Valley 4.0. And it's a clever sort of device. Our premise that 1.0 was semiconductors, 2.0 was the PC, 3.0 the Internet and 4.0 is hopefully what we'll find out to some extent at this conference. I would urge you to think about that. And there is special pricing if you act pretty quickly.

Then we have a wireless showcase later in October and then Michael Dell later in the fall.

But the important thing is the program at hand this evening. And I can tell you it is a sincere pleasure and a privilege to bring you tonight's program. I don't think it's possible to overstate how much we owe to tonight's guest beginning with his contributions as a starting player on a small team led by Bob Noyce at Fairchild that worked to provoke not just Silicon Valley but the semiconductor industry altogether.

Indeed, in a amazing book written by Charlie Sporck about the birth and growth of Silicon Valley called Spin-off, a full 2 of the 24 chapters are dedicated to tonight's guest. The only other individuals who got dedicated chapters, and only one chapter at that, were Bob Noyce and (Andy Grove). This is because even among giants our guest stands out and in no small measure because of his confident personality.

Is that a setup or what? For instance, once while working as top Fairchild sales engineer, our guest was hosting a dinner for two engineers from IBM at a restaurant in Menlo Park. Coincidentally, Bob Noyce and Sherman Fairchild himself were having dinner there as well having just dedicated a building at Stanford.

They called our guest and his two IBM companions over to their table. At the time Sherman Fairchild was not only chairman of Fairchild but also chairman of IBM's executive committee, the point being the IBM engineers certainly knew who Sherman Fairchild was but would normally never have come into contact with him.

Well during the course of their visit, our guest, who was in his 20s, apparently informed Sherman Fairchild, who was in his 60s, that he and Mr. Fairchild both knew a particular young lady which Mr. Fairchild, in fact, confirmed on the spot by consulting an actual little black book.

As Charlie Sporck writes, "It makes me smile to think about the two IBM engineers who were in those days constrained by a strict company code of behavior. Of course, this was all pre-Sarbanes-Oxley.

So it would be both unwise and I think disrespectful to have our guest interviewed by anybody below Mike Malone's caliber. Mike has covered Silicon Valley and high tech for more than 20 years beginning with the San José Mercury News as the nation's first daily high tech reporter.

In the last decade Mike's articles and editorials have appeared in such publications as New York Times, Wall Street Journal, the Economist, Forbes ASP and Fortune. He was the editor of Forbes ASP and also editor at large. He was the host of Malone, a half hour interview program seen on PBS

stations throughout the US that ran for nine seasons. And in 2001 he hosted a 16-part interview series called Betting It All, the Entrepreneurs: an In-Depth Look at Some of America's Most Famous Entrepreneurs.

He's also a well-known author. His first book, The Big Score: The Billion Dollar Story of Silicon Valley, was named one of the top ten business books of 1985 by Business Week. His latest book, a collection of his best newspaper and magazine writings, is called The Valley of Heart's Delight.

He's currently executive producer of an upcoming PBS miniseries on social entrepreneurial ship called The New Heroes. He was raised in Silicon Valley and has a BS in science and an MBA from Santa Clara University. Please join me in joining Mike Malone and Jerry Sanders.

((APPLAUSE))

Mike Malone: Good evening, everybody.

Jerry Sanders is one of the most famous and sometimes most controversial figures in the history of Silicon Valley. His biography is the stuff of many novels. There's the young Jerry who stepped into a gang fight to defend a friend and was left himself for dead. There's the brilliant young engineer who left Chicago to make it in Hollywood as a movie star.

There's the legendary and flamboyant super salesman at Fairchild Semiconductor who lived in the Hollywood hills and drove a black Cadillac convertible, and as legend has it, wore pink pants into a an IBM sales call.

And of course, there's the legendary entrepreneur who started Advanced Micro Devices on a shoestring and built it into one of the world's great

companies, who all but invented high tech marketing and who has fought for 20 years against Intel, one of the greatest competitive battles in American business history.

Ladies and gentlemen, the founder and chairman of Advanced Micro Devices, Jerry Sanders.

Jerry Sanders: Wow.

((APPLAUSE))

Jerry Sanders: Well after that I should probably just go home because it can't get any better than that. I would say though listening to these stories -- and I'm always amused by them -- I must say I was better to be the guy in the 20s than the guy in the 60s. And I don't mean the years. I mean the age.

But, you know, it's been a great run. And I guess before we get into this interview, a couple of things I'd like to say. I was thinking, first of all, how great it is to have actually been born into the environment of the second half of the last century.

And coincidentally, you know, the invention of the transistor which was in the 40s and the invention of the integrated circuit in the 50s were about the time I was getting out of high school and college, respectively. And I know that sounds like it took you ten years to get through college? No, that was just general stuff. Come on.

But the point I guess I was trying to make is, most of my life I've always been underestimated. And that's terrific because you can get a lot done when people think you're not very good. And I've always sort of enjoyed the fact

that people talked more about my style than my substance. Of course, it would be important then to have some substance.

And I was thinking about this as I was preparing what am I going to say tonight and what do you say in an hour and answer these questions? I guess I wanted to say something a little bit about philosophy. And it kind of goes back to, you know, in America we're the only country where our constitution talks about life, liberty and the pursuit of happiness. No other country in the world thinks that individuals have the right to pursuit of happiness. But we do.

This is such a great country. We can have – you know, we can follow our dreams. And this is sort of the Silicon Valley story. But I was thinking about – we haven't rehearsed so Mike bear with me a little bit. And what I want to talk about really first of all is, you know, why does anybody do anything in life? How does the world work?

You know, there's so many crazy things going on in the world. You have to have some underlying philosophy of what it's all about. And, you know, my philosophy since I was a little boy is the greater pie theory. You know, the greater pie theory as opposed to zero sum, you know, because a lot of people jealously guard what they have. They don't share. They don't, you know, want to give other people, underdogs, a chance.

And my view is always let's just create, you know, a bigger pie. And you know, it's all about growth. Everybody's talking about growth. You know, everybody wants growth -- growth, growth. And you know, now we're in a global economy. And we've got, you know, different sovereign nations competing for growth.

So you know the question came up and just in the lobby here well, you know, do you think there's any future for AMD? Is it all over? Is there any future for Silicon Valley? Is it all over? I mean, is this it? I mean, is the future bright? You know, we've had a long run and this and that.

And I was thinking, you know, it all goes back to Joseph Schumpeter and you probably remember him. He's the famous Austrian economist who said, "Growth will occur when the entrepreneur is given the opportunity to innovate and the right to participate in the rewards of his labors."

Well that's pretty straight forward stuff. Just give the innovator an opportunity, and let him participate in the rewards. Now that's pretty straight forward. But that's really what makes the world work.

And it turns out, you know, innovation is all about ideas. And ideas, of course, have to be brought to the fore. And that means you have to have competition, competing ideas. And if you have competing ideas and this market forces, if you believe in market forces in free markets, which I do, those competing ideas, hopefully, will be victims of or result in the successes of market forces, and you'll have great growth.

And to the extent then that the opportunities you present are better than the opportunities your competitors present, the chances for growth are greater. And this is why I think that in Silicon Valley we have just an extraordinary opportunity for growth because the underlying engines for our growth are just, you know, now beginning to be tapped.

I just want to mention one thing. Talk about this 50 years, think about this, you know, for the last 50 years, starting with the decade of the 50s, you know, the integrated circuit, I don't know, maybe you saw the Business Week article

a couple weeks ago on the next big thing -- the next big thing. And what are the big things that happened since 19 -- the 10s, the 20s, the 30s. Well we won't go back that far because I don't knew about them. But there are some interesting ones.

What I thought was really interesting was that in the 50s the runner-up was the integrated circuit, you know. And in the 70s the runner-up was the cell phone. Of course, what are they runners-up to? Well interestingly enough, birth control pills and in vitro fertilization. So those were the next big things of the 50s and the 70s. In the 60s, by the way, the next big thing was lasers. And the runner-up was robotics which aren't exactly related to our industry but not far away.

So think about this. The 50s we had integrated circuits as the runner-up next big thing. In the 70s we had the cell phone as the runner-up of the next big thing. But in the 80s we weren't runner-up any more. We were right up there. We were the next big thing with the PC. And in the 90s our industry was the next big thing with the Internet, the World Wide Web.

So if you think about it, in the last 20 years and 40 out of the last 50 years, we've been right there. This is what we're on the cusp of as we enter, you know, the 21st Century. The next big things are among us. So our future, our opportunities, are just so enormous that anyone who thinks it's over just hasn't lived through the last 50 years. More important, they haven't lived through the last 20 years because there's always been business cycles.

And as I was again mentioning in the lobby, to me it was fascinating that people talk about, you know, the boom of '99 and 2000 and the bust that followed. And yet there was some very smart people who figured this all out, that there was going to be a boom followed by a bust because of the incredible

reflation as a result of the money that was pumped into the economy to keep the Russian default and the Russian economy from bringing down the whole world economy.

So if you look at, you know, money flows, the money we just poured into the system and the right thing to do because we didn't want a worldwide collapse, we didn't want a replay of the 20s. But at the end of the day there was so much money around, so much money chasing bad deals that we went into a, you know, a couple of years of suspended belief.

So when, you know, that fantasyland was over, we just have a terrible hangover which we're now just starting to come out of. So the semiconductor industry has been known for its four year cycles. And they usually last about four years, you know.

And somebody once asked me to define the silicon cycle. And I said oh it's very simple. When your return on equity exceeds 35%, you build new factories. When your return on equity goes negative, you shut down your factories. And that's the silicon cycle because – and we just keep going through this.

So for those of you who are, you know, younger than I, which is most of the people in this room, let me tell you this cycle is not really different than any other silicon cycle we've ever had. We live in a more global economy. We can talk about that.

But our future is incredibly, incredibly bright. Twelve percent of the world today have PCs -- only 12%. And if you include cell phones, only 13% of the people are connected on the Internet of the whole world. There's so much opportunity.

And just to mention china and India for two, not to mention Russian and the former Soviet Republics, there's just – or Soviet – I guess now they're republics or something. I'm not sure what they are. But the opportunities are just enormous.

But the realities are what drives growth is giving the opportunity to the entrepreneur to innovate. And innovate means ideas. And there's no shortage of ideas because look at this room full of idea givers. It's all about people. And Silicon Valley's future is brighter than anywhere because I think that the environment is better here to bring those ideas, you know, to the market.

So my philosophy of life is everybody wants a better life. It's the American dream. The next generation should be better off than the prior generation. Well you know what? That's not just the American dream. That's the global dream. That's not some jingoistic, you know, line. This is what everybody wants. They want the world to be better for the next generation.

Everybody wants – and the only way you get that is through growth. And growth comes from entrepreneurs and innovation. Innovation is ideas. And that's about people.

So as long as we keep educating our kids and get those people so they've got the background so that they can bring those ideas to fruition, our future is incredible. And I think, you know, we'll see double-digit PC growth for the next years. I think we'll see 10 to 12% growth for semiconductors. I think we'll see GDP in the US, you know, in the 3 to 5% range, certainly 3 to 4%.

And hang in there. All we have to fear is fear itself. We're going to make it through. And we're going to make it through big. And the people who've got

the leadership and the courage, you know, to take some new ideas and try to bring them to market, they're going to be the winners.

So with that, Mike

((APPLAUSE))

Mike Malone: Are you really retired?

Jerry Sanders: Well I'm sort of semi-retired and semi-enjoying it. You know, I don't know what it meant to be executive chairman. So I said, what am I supposed to focus on? Well everybody has these stories what you're supposed to focus on.

But the one thing you have to do when you turn over the leadership of a team is let the new team leader lead. And so the way I feel, I've been part of the AMD team for 35 years. I'm no longer the captain of the team. But I'm still on the team and doing anything I can to help. So yeah, I'm sort of retired. But until we fight this next big battle, I'm not walking away.

Mike Malone: I'm intrigued by your optimism. And I think the applause out there suggests that it's a welcome set of comments. We haven't heard that in a long time. These have been scary times around here.

Why is a veteran like you more optimistic than most of the people who are living here?

Jerry Sanders: Because I'm a truth teller. Everybody else or too many people just want to tell a story to put the spin on their need that everything is going to consolidate. All the little companies are going to go away. There's only going to be a couple of

big guys. Silicon Valley is going to be like Detroit maybe with better weather but, you know, this is really nonsense.

Now there are risks. There are risks. But I'm a great believer that individuals, you know, given the opportunity to innovate, are going to innovate. And if they can participate in the rewards, there are going to be great things.

Now it isn't all about money and splendor. You know, Jefferson said money and splendor – it's not money and splendor but tranquility and occupation that bring happiness. That's what Thomas Jefferson said. Think about that. It's not money and splendor but tranquility and occupation.

So what you do, if you're proud of what you do, that brings happiness. Now forget about the tranquility, guys. That isn't happening. There is no tranquility, you know. I am "retired". Tranquil, I would not include that in a descriptive adjective what I am.

So I guess I'm optimistic because as long as we don't – as long as we haven't come to the end of the some of the roads that underlie our growth opportunities, I'm very optimistic. So let me talk about a couple of them.

First of all, Moore's Law, the observation that transistors that can be put on a chip will double about every 18 months. We've got at least another decade to go on that. And that means we can do tremendous things by continuing what we've been doing in the semiconductor industry for 50 years which is to produce ever more for ever less.

And right now, again to show you why I'm optimistic, you know, right now, you know, unit volumes are approaching the all-time high. It's the pricing pressures that are just knocking the hell out of the business. And of course,

that's got to be worked through. And I believe the industry will work through that.

But the way I see it, as long as we can continue to bring more functionality at ever lower costs, then there's going to be ideas for bright people. How do we use all this stuff? You know, we make a 100 million transistor device called the Opteron. This is a dynamite product. But right now, until September 23, the only place any people use this are in servers.

And that's just getting going. Because right now servers are the only place where people really seem to think they need 64-bits. You know at one time -- you know we had 8-bit. We had 16-bit, 32-bit. Right now people say 32-bits are enough. But servers yeah, 64-bits. We've got to -- you know, we've got to access a lot of memory so we've got to 64-bits.

In my view, the innovation of Opteron is absolutely a watershed. We invented this thing called HyperTransport which is a way of addressing memory that can't be matched by any other technique. The bus limitations of Itanium and Zeon and SPARC -- all this other -- they can't compete because of this innovation which we're freely licensing to generate momentum for 64-bits.

My view is 64-bits is the next big thing. You know, I look and the next big thing is -- you're going to love this line. I love this line. It's my line -- cinematic computing. Cinematic computing, you know, it's only a matter of time before everything is going to 64-bits, video realtime, handhelds, I mean, we're going to put this AMD 64 technology all the way down in a couple years to, you know, handheld size form factors -- unbelievable.

Moore's Law is going to help us do it because we're going to be able to put all these transistors into this little space that burns so little power, not 125 watts

like somebody I know because you don't want to carry 125 watts around in your billfold. That would be uncomfortable.

So to me, cinematic computing is going to be a big thing. And so when somebody says you don't need 64-bit computing, your answer should be I want 64-bit computing. Don't tell me what I need. You know, we don't need cars that go 200 miles an hour either, all right? But we don't need a car that goes 300 miles an hour that cost \$450,000. We're going to give you a car that goes 200 miles an hour, and it cost you \$50 or maybe \$5000.

But you know, the idea is, you know, we call it about true innovation, building the best possible technology at the lowest possible cost to the widest possible audience. You know, it's not very interesting to the people in Africa that we can build computers that cost \$4000. See, there's a lot of people in the world today survive barely on a \$1 a day. We've got a long way to go -- greater pie.

We can bring the whole world up by being more productive. And productivity is what our industry, information technology, the software, the chips, that's what we're all about. We can produce more for less, making more available to everybody.

I mean, just look at the difference. You know, I mentioned the cell phone in the 70s. Maybe you don't remember the cell phone in the 70s. Maybe you weren't born in the 70s. In the 70s I remember I had a cell phone. It was made by Motorola. I could barely carry it. In fact, it reminded me of the dumbbells that you use when you're jogging. Now you walk down the road with these things.

Now, I mean, the cell phone is virtually indispensable. You know, and we throw them away and -- so all of this, in my view, is the result of productivity

gains largely driven by the semiconductor cycle and Moore's Law and just the willingness to take the next step.

You know, I give credit to people like Intel and IBM and Texas Instruments who are out there building 300 millimeter fabs on faith because the amount of silicon that you can produce, the number of devices you can build in these mega fabs, on 300 millimeter wafers, driving down to, you know, 65 nanometers in a couple of years is awesome.

You know, I made the observation that there is no product other than a memory or an X86 processor that can ever fill one of those fabs. And the last time I looked, TI and IBM didn't make X86 processors or memories which is probably one of the reasons they're going to have a hard time filling those fabs. But that's a problem for them not for me.

My problem is how do I get enough money to build one of these fabs so that Intel, you know, doesn't continue to extort monopoly rents from an unsuspecting audience.

Mike Malone: I told everybody I had the easiest job in the world tonight. Let's revisit Schumpeter for a minute.

Jerry Sanders: Okay.

Mike Malone: You know, there's basically four components in his theory. And you've discussed two of them, innovation, productivity. Now there's two others though. There's people. Let's look at that one first. And the other one is opportunity.

There's sort of a myth going around that Silicon Valley is a place where giants once walked the earth but there aren't people like that around here anymore, that perhaps we've been – we were spoiled by the dot-com era. We got distracted. We went after branding over productivity. Whatever happened, something has changed around here. Do you see that?

Jerry Sanders: Well the truth is, there's always an evolution. You know, yesterday's giants are today's midgets. I mean, you know, maybe it was just easier then.

I think the realities are that there's no shortage of new ideas. There may be a shortage of courage. But going back to Schumpeter, which was the question was about is, you know, if a guy is – you know, a human being is a wasting asset. What that means is you die, you know. So you've got a certain number of years to live and be productive and make your contribution and enjoy your life.

When AMD got started, for whatever reasons, you were supposed to build a profitable business before you could take it public and make a little money. You know, this was a kind of an interesting thought. You know, you start a business not to get rich. You start a business to make other people rich. And if you're successful in doing that, then you've got a payoff because they're putting up the capital. And you're putting up the sweat equity.

But I think during this period when money was so available, so easy to get, people just didn't have the commitment to work things out and really drive profits. In fact, you know, Peter Lynch, everybody remembers Peter Lynch. You know, he was the beautiful guy that got out of the mutual fund management business just in time. But, no, he's a brilliant investor. And he had a great record.

And he said, you know, profits drive the stock market. Warren Buffet says the same thing. And it's true. But that's in the long-term, not in the short-term. In the short-term it's momentum and ideas and craziness. I mean, you know, the (socks) index went down I think about 5% today for no known reason except that TI didn't raise their expectations. And Wall Street that, you know, wonderful Wall Street, whatever that is, wasn't happy with that so the market went down.

Well you know what? Maybe the market got ahead of itself. But the real issue is driving profits. In the old days you had to build a profitable business. Then you could take it public. And if you could do that, you were likely to make some pretty good money.

I know that the eras keep changing and you don't know, you know, how it's going to work out. But I'm a great believer in stock options. Stock options to me have been the greatest motivating force for Silicon Valley if anything. And this concept that they should be expensed, to me, is flat nuts, you know, because there is no way to value something.

And I read in the newspaper that FASB is going to now try to figure out a way to value these stock options. You know, what is an option worth if you're only going to exercise it in certain windows and you've only got a certain time to exercise it? And the more volatile your stock is the more valuable the option is, these are all kind of counterintuitive.

I mean, some rocket scientist could probably figure out an algorithm that tells you exactly how exactly how -- exactly how -- to value this option just like some rocket scientists figured out exactly how to value derivatives. And it was infallible. It was called long-term capital. Does anybody remember that?

The collapse of long-term capital management that almost brought down the financial system in the United States because literally these guys had developed computer programs to value derivatives such a way they could hedge these things, and they couldn't lose. They just plugged in the numbers and out came the value until it didn't.

And so what we've got now is there's no known way to value a stock option. So instead the realities are the more stock options that get exercised, the more the shareholder gets diluted. So there is a penalty. There is a cost.

Moreover, the federal government, as you know, collects, you know, a higher income tax on personal – on individuals in the personal income tax than they would get on the corporate tax. So the fact that the corporation gets a deduction for the amount of the gain, nobody is hurt. The federal government gets more money out of that. So everybody wins.

So why is everybody opposed to stock options? I'm at a loss. I don't understand why anybody is opposed to something which has created (unintelligible) not for me I'm out of that game. But it worries me for you and the people you're employing and your individual ability because, again, you've only got one life, right? You're going to take a risk and you're going to use up some years of your life, it seems to me, you ought to have a shot at a pretty good reward.

Mike Malone: Let's talk about that fourth leg now, opportunity. You mentioned a lack of courage. And if I look around, if I were to point to where there's the greatest lack of courage right now, it seems up to be up on Sand Hill Road. There's an awful lot of very bright people with a lot of great ideas trying to start companies. But the VCs who are sitting on mountains of money right now aren't giving it away. What's going on?

Jerry Sanders: Well, you know, it turns it's easy to bash people with money. People have been doing it to me for as long as I've had money which is almost two years. You know, it only took me 35 years to be an overnight sensation, you know.

Actually, you know, it really comes down to – again, I like Jefferson, you know,. Jefferson was enamored – you know, everybody knows that Jefferson spent some time in Paris. I love Paris. That's a good song title too. And while he was there he fell in love with a woman who, unfortunately, was married.

But he corresponded with her. And some of these letters are just extraordinary. But in there one of these letters – and you know, these weren't exactly romantic letters, but this guy wrote these letters to her, and they corresponded. And one of these he talked about was that America was a country of the heart not the head. And that really struck me. And I read through this. And what the meant was and he explained it better than I can.

But what he said was that no one would have ever would have believed that the colonists, the 13 colony guys could have gotten together, engineered a revolution and successfully defeated the British Empire. This was just an impossible thing. Nobody would have bet on that. Nobody would have thought that was possible.

But America was a country of the heart. And it was the right thing to do, to have a revolution and not think about that we can't do it but rather to think it's the right thing to do.

Well I like to think of AMD as a company of the heart. We were told we couldn't do it. I mean, somebody from (Venrock) said to me, do we invest in you as a venture capital – I mean, as venture capitalist. I said absolutely not.

(Arthur) told me idea was lousy, it was no good. And it was ten years too late to go in the chip business. And when I said but you just invested in Intel last year, he said but, yeah, but they're my friends, so. I'm glad he had those friends. It was wonderful.

So in my view let's not, you know, trash the venture capitalists because most of them are of the head. They're not of the heart. Most entrepreneurs are of the heart. Somehow it's up to the guys with the heart to convince the guys with the head to take a chance. So don't blame them. You know, if you can't get them to go for your deal, I mean, I got them to go for my screwy deal.

Mike Malone: How long did it take Intel to get their venture capital?

Jerry Sanders: Well Bob Noyce told me it took them about five minutes to raise \$5 million. It took me about five months to raise \$1-1/2 million. And I closed on 1 million 505. And I think one of the checks was a little shaky. But we got it together.

God, when we started AMD I leased the building. I had Pepsi-Cola leasing me the equipment. Pepsi-Cola was trying to diversify. They had a lot of cash flow. They had a leasing company. Anybody who would give me lease money I would take. I didn't care what the interest rates were. I didn't care what the (unintelligible). It didn't matter. It was do you get the thing going or don't you?

And then you just do everything you can. There is no failure. There is no retreat. And that's a company of the heart. And I think there are companies like that all over the Valley. And some of them are in here I'm sure. And some of them aren't.

And I guess the difference, to respond to what's different today than it was then, now apparently it's a good thing to fail because then you learn from it. I can't relate to that. You know, to me, Peter Drucker is another one of the guys that I greatly respect. If there are engineers in the audience -- and I presume there's lots of engineers in the audience -- you know, as an engineer, I thought if there's something I don't know, there must be a book -- this is before the World Wide Web, right you had to find books, you had to read these books, you know. Finding information wasn't easy.

So I didn't know anything about running a company so I started reading books on management. And one of my favorite books is *Managing for Results* by Peter Drucker. And one of the things that I remember most from that book was he said, "Most companies' success or failure is determined more by what they do themselves than external events."

Now translated, that means if you fail, it's your fault. Now a lot of people don't want to hear that. They can tell you well there's the whiners and the grumblers and if the dog wouldn't have stopped the car and I wouldn't have got out to fix the flat that (unintelligible). You know, there's a million reasons to fail.

To me there is no reason to fail other than I'm a loser. This is a strong motivating factor. I did not want to wake up every day of the rest of my life loser on my forehead. This was not it. So, you know, you prevail. And I think that when you believe you can succeed you at least have half a chance.

You know, so I think that expectations were lower also years ago. We didn't expect the company to go public in a year or two. It was going to take longer. We didn't know how long we were going to get to, you know, see any reward.

And I think, you know, today, you know, Internet time, right? Everybody wants it right away.

But Internet notwithstanding, you know, there's some fine companies that are successful on the Internet. You know, and there will be more of them. Certainly, you know, Amazon, you know, Yahoo!, eBay, Google, these companies are successful. And I'm sure there are going to be a lot more of them.

I'm not sure which one they are. I don't think it's Pets.com and a few of those guys, you know, but we can laugh at those. But those were dumb ideas then. It wasn't that they were dumb after they failed. They were dumb before they got started.

So but back to the venture capitalists, you know, I do think it's the heart and the head. And the entrepreneur is the guy with the heart. If these guys had any heart, they wouldn't be venture capitalists.

That was supposed to be tongue-in-cheek.

Mike Malone: Let's talk about heart for a minute. AMD and you have been locked in a titanic business battle, almost without precedent, for 20 continuous years. You haven't been able to make a single mistake, a major one, in that time or it would have been fatal. How many times has AMD almost died in that period?

Jerry Sanders: Every generation.

Mike Malone: Seven times.

Jerry Sanders: With the 286, the 386, the 486, the Pentium. You know, almost every generation. I call it the trapeze theory because in the process of your business, you know, you have a generation and you're swinging on this trapeze. And then you have to let go and grab the next trapeze. And twice it wasn't there. So...

Mike Malone: I get motion sickness looking at your stock chart over the last 30 years.

Jerry Sanders: You don't have to put the motion in front of it for my description.

Mike Malone: Now what's that like? I mean, this is something that's really beyond the experience of just about anybody but you.

Jerry Sanders: You know, that's very interesting. In the last uptick or the last up part of the up-cycle, our shares were trading such that the market cap of the company was about \$17 billion. And our net profits that year were \$1 billion. So even at that we only were selling at 17 times earnings. And I didn't think that was a very high multiple. But today we're selling at infinity times earnings. So I guess it evens out.

But I guess you have to believe that what you're doing is the right thing. You know, there's the old saw doing the right thing and doing things right. A lot of people do things right. Some people do them extraordinarily well. I mean, Intel is a tremendous company for execution.

But you also have to do the right thing. And so competition is really not just doing things right because everybody in a downturn cuts back, closes plants, lays people off, dot, dot, dot. But you have to decide what it is you're going to do, how you're going to spend your treasure in that time. I'll give you an example of ideas competing.

During the boom times of telecom and the Internet, AMD fell behind in Flash technology. Intel got ahead of us both in generation. And business was so good and the Internet guys were paying such wonderful prices and Cisco and Northern Telecom – Nortel, excuse me, and Lucent were such good customers that there was plenty of money to sweep off the table. And we made a lot of money in Flash.

But at the same time, we fell behind in innovation in that Intel came out with a wonderful product called StrataFlash which allowed them to have twice as many bits in the same cell size which was a much more attractive solution for cell phones. And they kicked our ass. There was no question about it.

But our guys internally were working on a program. So we invented something, you know, which is called MirrorBit which again gives you 2 bits in the same cell size. But the cleverer design of our product, there was no compromise in noise immunity and no compromise in endurance or reliability. And so now we're gaining share in cell phones.

We've recently completed a joint venture agreement to unify the memory business of Fujitsu and AMD with us having 60% control and with all of the sales being consolidated through AMD. And we just announced today a 512 megabit Flash Memory using our new generation, you know, 110 nanometer Flash. So it's a pretty exciting stuff. We've looked at 90 nanometer.

So innovation is there. Ideas compete. My concern -- and it's a very personal concern -- but I think it should be a concern of everybody here is as long as market forces work, innovation is a great thing. You get a better idea. You find a way to bring it to market. And the marketplace recognizes that. And you're successful.

Today it's a global industry. You know, there's 600 semiconductor companies in China. You might not have known that. But there are 600. And some of these guys are going to be good, probably not most of them. But some of them are going to be good. Now that's competition. And right now they're mostly providing their local market.

But in time they're going to compete on a global basis. And right now China has an unfair value-added tax program. If you make the chips in China, your value-added tax is lower than if you try to import into China. That's not fair. So market forces aren't working here. So we've got to work with the government to make sure we get a share shake because otherwise we're going to be disadvantaged. So there's one case where market forces aren't relevant.

Moreover, again I'll use China as an example and this is something you've probably been reading about. It's very current. China supposedly – well first of all let me tell you something we do that's unfair, the US. You know, we have all of these agricultural subsidies to the point that we actually subsidize the growing of corn in the United States.

We subsidize growers of corn in our country. And we export this corn to Mexico because we can now sell it at lower than the cost of production in Mexico. So how the hell is Mexico going to pull itself up with that program? That's just damn unfair. And we ought to stop it. Now we're not alone. Everybody knows about European agricultural subsidies. But we've got them.

So I think, you know, we're going to talk the talk. We've got to walk the walk. We shouldn't be subsidizing industries if we're going to promote free trade. I think this is just wrong. So physician heal thyself. Let he who lives in

– does live in glass houses shouldn't cast the first stone or some mixed metaphor.

But the bottom line is, China today already has tremendous advantages over the US in costs of labor. But on top of that, apparently they have something approaching a 40% undervalued currency. So this puts them in a situation where they can export manufactured goods unfairly against companies – countries, I should say, who have, you know, a floating currency which, you know, it should be. So I'm a great believer in the free market. So again, there's a place where market forces don't work. Now these are probably well known to most of you or at least they make sense to you.

What's probably less well know is how much market power can do in the marketplace. You know, we've been competing, as you pointed out, against Intel for some 20 years. You know, and we've gone through several phases, first as an authorized second source to an unauthorized second source to a rapacious thief of intellectual property which was found by the courts to not be true. There was a contract dispute. We won. But by that time, you know, we had one soldier left, me, you know. It's called a pyrrhic victory – you know, the pyrrhic victory where, you know, the Greeks won but the only guy left was Pyrrhus I guess.

But somehow we survived all of that. And then we got, you know, to marketplace. We started innovating to the point where we invented things like 3DNow! which were new instructions that, lo and behold, Microsoft thought were so good they actually supported. They'd never in history supported any X86 instruction set – any instruction, excuse me, other than Intel before then.

Then we went forward with this. And now, of course, we're on the cusp of this incredible battle because arguably if you're making an X86 32-bit

processor, there'll be a back and forth of who's the performance, who's got, you know, the cost, who's got the advantage. But, you know, it's a game.

And Intel has managed to keep us out of the enterprise with a combination of market dollars, a strong balance sheet and intimidation. Okay? That's the game. All right, that's rough. We struggle ahead and every once in a while we bump above 20% market share. And we get thumped pretty good because they can subsidize where we compete by charging monopoly rents where we don't.

But now after 20 years, with our 64-bit strategy, our eighth generation processors with HyperTransport we now have a better solution for 32-bit, a non-disruptive migration to 64-bits, lower cost, higher performance, no disruption costs. If we can't win now, then market forces are no longer in place.

Now it's just a question of brute force. And I think that will thwart innovation and be bad for all of us because I'll tell you we believe that, you know, cinematic, you know, computing, the move to 64-bits, is going to launch a whole new wave of innovation and new demand, new software, new software applications that is, all kinds of new hardware, new ideas, all this with 64-bits and no disruption costs, no costs of abandoning the old, just move forward.

This is a tremendous opportunity for everybody. You know, I'll tell you. Do you remember Rambus? I've got to tell you the Rambus story. At one-time Intel said that they would only provide interfaces to the Rambus memory for their Pentium family. This would have raised everybody's costs.

AMD worked with the memory guys to supply double data rate solutions which were equal or higher in performance and lower costs. And we were very successful. And they abandoned that strategy. We ran some numbers. As

a result of AMD competition, we believe that we've transferred \$3-1/2 billion of wealth to the PC makers, just the difference between the price if you look at what Intel's prices are and what they are because of our competition.

The bad news, of course is we didn't get any of that because we have been just the guy to keep Intel from going completely monopolistic. You know, you don't have Rambus. You don't have MicroChannel because of competition. But you've got to have competition otherwise you get stuff you don't want.

So my concern is if our shareholders don't think that there's a fair game out there and there's a level playing field, they're not going to invest in AMD. If they don't invest in AMD, we can't raise the capital necessary to mount an effective – a competitive offering. And the game is over.

And we're on the cusp of the that right now. I expected that we would be announcing our 64-bit solution AMD 64 top to bottom at the annual meeting of 2002 when I stepped down. But we were a year late. But the things were in motion. I stepped down. I'm still involved. But we're a year late.

But we've just got a dynamite solution here that will bring the 64-bit computing all the way from servers where they're needed now to cinematic computing on the desktop and mobile and in a couple years in a handheld configuration.

It think that's going to give so much opportunity for Silicon Valley as the world goes to 64-bit computers, you know, hundreds of millions of computers are going to be replaced. You know, and I think that it – by the way, it lends itself also even to the cell phone.

You know, at some point in time people aren't going to want to have different, you know, alternatives, you know, competing architectures. You don't want to have one architecture for your servers, one architecture for your PC and one architecture, you know, for your handheld. That's nuts. That doesn't make them transparent. It doesn't make them cost effective. And it sure isn't going to solve the problems of Africa.

So you might have known that, but the answer to the solving the problems of Africa is 64-bit computing. And the reason for that is we have to generate enough wealth on a global basis to pull everybody along. And you know, this is a small aside, but you know, Bill Gates has done a tremendous amount the Melinda and Bill Gates Foundation to advance, you know, birth control and protection in Africa.

And I think, you know, others – I'm told that Warren Buffet when he dies is not going to leave his money to his kids. He's going to leave it to his charitable foundation again. Gordon Moore, you know, a tremendous, you know, philanthropist, you know, doing great things to help people.

So seriously, when you create new ideas that generate great wealth, you know, it does flow back on a global basis. And I think that's what makes America a great country. I think, you know, the opportunity is better in America than anywhere. I think the opportunity is better in Silicon Valley than anywhere in America. So therefore, I think we got the best chance long-term of perpetuating, you know, this Silicon Valley ideal.

Mike Malone: Let me see if I got this right. You see three obstacles to the long-term prosperity of Silicon Valley, government which isn't protecting us in global competition.

Jerry Sanders: Not enough, yeah.

Mike Malone: The public...

Jerry Sanders: I hate to use the word protecting. They're not sensitive enough soon enough. But they are working with us. You know, it was Ronald Reagan who made the statement, "A deal's a deal." And when the Japanese didn't honor their commitments, he invoked, you know, unilateral sanctions. Oh can't say unilateral. I'm sorry, that's one on the list. I can't say unilateral. We didn't ask the UN whether we could do it.

Mike Malone: Second, the public which has its pitchforks and torches out trying to crush stock options because the belief that there was some sort of illegal and nefarious activity going on.

Jerry Sanders: Well I think the public has every right to put people who committed fraud in jail. You know, I think the guys who manipulated their stock price, exercised those options and made a fortune should go to jail. I'm a little taken aback at the severity of the punishments. I have to tell you.

What's the name of this guy from ImClone, Sam Waksal, right, he called his mother to tell her to sell the stock. We're not getting approved. He sold some stock which he shouldn't have done. He's a bad guy. It's wrong, seven years. You don't get that for killing people in California, you know. He'd have been better off killing people in California.

Mike Malone: The third obstacle which is implicit in what you've just said and that is the presence of large corporations throughout the industry crushing innovation, using...

Jerry Sanders: Not crushing innovation, by having such a dominant power in the marketplace that market forces are no longer relevant.

Mike Malone: And scaring off potential new innovators.

Jerry Sanders: Yes, yes.

Mike Malone: So you have these three major obstacles in the way. And yet you're optimistic. And yet AMD is burning up all of its retained earnings on one more big bet on the table that there's going to be a boom and soon.

Jerry Sanders: We're going to create the boom. We're going to create cinematic computing, 64-bits. You know, people are interested in being more productive. IT spending is starting to recover, maybe only to 6% this year – or I guess 3% this year, maybe to 6% growth next year.

They're going to buy servers. They're going to want to have a migration path to the future. Opteron is that solution. We think that's going to be helpful. And I think – again I think the silicon cycle, you know, for the – I think we're on the – we're early in a recovery.

(T.J. Rogers), who's one of the smartest guys in Silicon Valley, said that we're seeing a recovery. We just haven't seen (Datacom) recover. When that recovers, we'll have a full-blown recovery. I think he's right.

But my bet is on Schumpeter. My bet is on Drucker. My bet is on the free market. So the thing I fear only is if free market forces don't work, you know, then there'll be a different kind of AMD.

Mike Malone: Do we need another next big thing? It's a new decade, the new millennium. The PC, which was the big product of two generations ago is basically becoming a commodity. What's out there that's going to galvanize the industry and set off our imaginations?

Jerry Sanders: No, commodities are great because they're high volume, okay? If you look at our industry, the cost of R&D is very high. I mean, AMD spends \$800 million a year on R&D. That's not bad when you're doing \$5 billion. It's still high. But it's terrible when you're doing \$3 billion. You know, so there are certain fixed costs.

So if people just retreat from the things that are necessary to have a long-term success, they're doomed. You know, it's just – there was a movie once called The DOA where the guy shows up at the police station, (Edmund O'Brien), and he was already dead because he'd ingested some poison. It just hadn't acted yet. Well by walking away from R&D, by walking away from innovation I think, you know, you're DOA.

So my bigger – my concern is more that we have free markets. As you say, these are the issues. You're right. We must have free markets. We need to form partnerships with our government to make sure we don't have currency imbalances working against us. We have to work with government to make sure they're (monitoring) fair trade practices. We have to ensure by getting the word out that, you know, we have to have market forces work.

Now if market forces don't – to me, this next battle that we have here at the 64-bit level is on the one hand you've got AMD 64 which is a natural migration from 32-bit to 64-bit bringing all the PC economies throughout the enterprise versus a complete abandonment of all of your existing software, an expensive solution that can never be brought down to handhelds or mobiles.

If we can't win in that environment where we have a lower cost, we have higher performance, we've got a three year roadmap that shows we can outperform our competition for the next three years based on what they say they're going to do and what we say we're going to do. We've got a lower cost which we can show we're competitive in price and there's no disruption cost. You don't have to throw anything out, if we can't win, then it says the market is rigged. I don't know how to fix that.

All the young guys in my company say what about antitrust? Oh sure, that works. You know, I read somewhere that since I was 65 last year that my life expectancy is 81.3 years. I'm out of time. Antitrust is not going to fix this problem. What we need to do is ensure that market forces work.

And the way that works is, you know, for people to buy what's in their best interest and not be intimidated. That's where the courage comes from. You know, to stand up and say hey we're going to use this thing and do it. IBM did it. You know, they're using Opteron. You know, they've had the courage. Of course, they're only an \$85 billion company with a balance sheet which is very strong. And, you know, so why wouldn't they do it?

Mike Malone: Now you've always looked long-term. Look out ahead now. There are obviously some milestones, some cues out there that you're looking for. When you see something happen, something going on at the device level, you know, in terms of 300 millimeter, whatever it is, something going on in the marketplace, what are you looking for as indicators of good times or bad times in the next six months, year, 18 months.

Jerry Sanders: Well it's a global economy. So what really matters is that the economy grows -- the global economy grows. And I think it will because Schumpeter's

principles more or less and because there's all sorts of stimulus out there. So the global economy is going to grow. The global economy is going to grow.

The successful companies – and by the way, these are Bill Gates words not mine. The successful companies will find ways to use IT to enhance their productivity to gain share and grow. I believe that's what's going to drive continued economic growth.

If you don't use these new techniques, if you don't adapt, if you don't reinvent yourself, you're not going to grow. But the economy is still going to grow. So I'm very optimistic the economy is going to grow. You know, tax cuts help the economy grow.

I'm more concerned about the deviation between the very wealthy and the very poor in our country not to mention the American standard of living and the standard of living is much lower around the world. There's going to be a balancing out.

I mentioned to somebody tonight that in 1998 there's an incredible – there was an incredible article in Fortune magazine. And in the Fortune magazine article Warren Buffet was talking about how the stock market works and his expectations. If you haven't read that article, you should because he's talking about the fact that for 17 years – before the 17 years, which ended in 1998, the stock market grew not at all -- 17 years of no improvement in the Dow Jones Industrial Average. And then a spectacular explosion over the next 17 years and then his analysis of why with interest rates, money flow and so forth and now saying going forward you shouldn't expect more than 6% growth. And that's pretax. That's pretty grim. That's pretty grim.

And I think, you know, people have to think in terms of, okay, if the global economy of the US – sorry, if you use the US stock market as a proxy for the growth of the global economy is only going to grow at 6%, you've got to rethink where you're going. But that still says that the semiconductor industry can grow 10 to 12% per year. So you've got to figure out, you know, how do you do well in that environment? And so there's going to be some companies that fall by the wayside.

(Unintelligible) and then we'll be able to persuade the guys on, you know, Sand Hill Road they should invest there. But they're going to have to just adjust down their expectations. They're not going to get these 100 bangers and these 10 bangers. That's not going to happen. But you know, if you're getting .9% on your money market fund in a double tax-free, you know, a 10 banger still sounds pretty good, you know.

So I think that I just have faith that, you know, – you know, (Ditopol) said the Achilles' heel of America, you know, is an informed public. So if the public isn't informed, they don't know what's going on, they're vulnerable, you know. This is the problem. So I think we've got to inform the public.

Anything I can do to help inform the public on any small size, you know, hey look. You know, if you work hard and the game isn't rigged, you can win. If too many people think the game is rigged – and that's what was going on with stock options. This was a rigged game, right? These are frauds. Stocks go up, stocks go down, but everybody's not a fraud. And I hope the frauds get the appropriate punishment. But you know, let's not throw the baby out with the bathwater.

Mike Malone: One last question, you mentioned reinventing yourself. I'm curious, some of the men you've most admired like Robert Noyce and Dave Packard, at this

point in their careers they've moved on to something else, becoming a voice for the electronics industry, going back to Washington. What about you?

Jerry Sanders: Well I guess the first thing I'd like to say is, I want to continue to be a voice for free and open competition and innovation because I think that's important to America. I think it's important to Silicon Valley. And I think it's important to every entrepreneur on the planet.

Beyond that, I'm waiting for an epiphany, Mike. I'm waiting for something to strike me that says this is what I really want to do. And that hasn't happened yet beyond continuing this battle, you know, and fighting this good fight in the migration to 64-bit computing and you know, cinematic computing. I really want to do that.

But I am hoping that in some point in time I will get that epiphany. I have a house in Malibu. And it's called Shibumi. And Shibumi – you might have read this book. Shibumi was written by the same guy that wrote the Eiger Sanction and the Loo Sanction, you know. And Clint Eastwood made a great move, the Eiger Sanction.

But his hero or the protagonist is a guy name (Jonathan Hemlock). That's not what I want you to know because he's an assassin. So that's not my goal. But he has made so much money by doing these sanctions that (Jonathan Hemlock) through all these things, he is now trying to achieve Shibumi. And Shibumi is inner peace and tranquility, you know, and aspire to grace.

So I thought, wow, that's really what I want to do. I really want inner peace and tranquility. Even Jefferson said tranquility and occupation, right, that's what's going to bring happiness. But here's the deal. He says there's three things he doesn't need – this is (Jonathan Hemlock) not Jerry Sanders.

He doesn't need the crutch of recognition, the reassurance of power or the narcotic of fun. So I thought about that. Wow, wow, the reassurance of power, okay, boy giving that up is going to be tough. The crutch of recognition, scared to death about that. And the narcotic of fun, oh no, never giving that up. So you take it back.

And so I thought, you know what? What I really liked about being CEO -- and any CEO in this room who doesn't get this part should go home and work on it -- is the power to say yes. So many people in the world can say no and shut you down. You know, everybody's got the no power. The no you can't do that, no, no, no.

The CEO can say yes. And that's a great thing, you know, because you can create things. And the power to say yes I really, really miss. So just being able to suggest things is not the same as saying do it and so so much for the reassurance of power.

The crutch of recognition, it's only a matter of time until nobody will know who I am or care. I mean, half the people don't know when Fairchild went out of business, right? So that's life.

But the narcotic of fun, that's it. Whatever the future holds, you've got to have some fun in life. And I think that Oliver Wendell Holmes said it's important to be part of the important things that are happening in your lifetime. And look at what we're in, 1940s the transistor, 1950s the integrated circuit, 1960s the laser, 1970 the cell phone, 1980s the PC, the 1990s, you know, the World Wide Web. Wow, we're it. We're in all that stuff. That is just so cool. That is really, really cool.

So I'll get some epiphany one of these days. And I don't know what it is. But it'll come to me. It'll be an inspiration by the grace of God. Thank you. Thank you very much.

((APPLAUSE))

Mike Malone: Now we have some folks out in the audience with microphones. If any of you have questions, raise your hand. They'll come over to you and we'll call on you. And while we're doing that, I have an anecdote. I don't think I've ever even told you this one.

When I was – way back in the mid-80s I was working on my first book, The History of Silicon Valley, and I was talking to (Regis McKenna). And just out of the blue, we were just chatting away, I said who do you think is the smartest man in Silicon Valley? And I thought he'd say, you know, Bill Hewlett or Gordon Moore. And he thought for a moment and he says, "I'm going to surprise you. Forget about the Bentley and the flamboyance and the PR. I think it's Jerry Sanders."

And a week later I was at Intel talking to Bob Noyce. A week later I was at Intel talking to Bob Noyce. And I said, "Do you know what Regis just told me? Regis just said he thinks Jerry Sanders is the smartest man in Silicon Valley." And Bob Noyce said, "I think Regis is right."

Jerry Sanders: Well Bob Noyce is dead so we can't prove that. Regis is a PR guy, so.

Mike Malone: And I'm a journalist.

Jerry Sanders: And he's a journalist so there you are. But I would say this. One of the highlights of my young life was when Bob Noyce was an investor in AMD.

And he invested primarily because he said he believed in me. I mean, after he'd already committed to make the investment when I told him I was going to be in the integrated circuit business, he said you mean you're going to make them, you're not just going to be a distributor or sell them? He said wow.

But anyway, he honored his deal. He made the investment. And I always had great respect for him. He unfortunately died the day I got married. And it was a very sad morning. I didn't tell my bride to be because I knew it would upset her too. But it was a very special day, you know, June 3, 1990. And he was a great guy. And he made tremendous contributions to our industry.

And I always tell everybody Bob Noyce invented the integrated circuit even though he shares that with Jack Kilby. Jack Kilby invented discreet chips wired together. Bob Noyce invented the monolithic structure which is the basis for the mass production which has made the microchip industry possible. And he's just – was an extraordinary guy. And if he thought I was at least above average, that's high praise. Thank you very much.

Mike Malone: Questions? Yes.

(Mark Ruse): (Mark Ruse) with (Ruse) Instruments. I was wondering what you thought was more important, stock options, the people that come late or founders stock to the success of Silicon Valley?

Jerry Sanders: Wow, well first of all, I think what really counts is how much net dollars you get at the end of the day. So if there's any way to get stock to everybody, restricted stock to everybody, founders, employees, whatever, when I started AMD we actually gave every employee, including the operators in the line, even the wire bonders, AMD shares.

Those shares, it turns out, from time to time were worth a great deal of money. And I can say that when they got pretty expensive – or pretty highly priced, a lot of them sold them – a lot of people, you know, were very successful at that.

So I think you have to figure out what the right program is. I mean, certainly the founders deserve a lot. But it's the whole team that counts. And I think you have to have some sort of – I wouldn't say I was egalitarian because I'm not. But I do believe in a meritocracy, and I believe in a hierarchy. The bigger your contribution, the bigger your stock position should be.

I think that it would be good if you could align the interests of the employees with the shareholders. And that's what you try to do with stock. You know, there's lots of constituencies when you run a company. Everybody talks about, you know, the shareholder is king. The shareholder is king.

And since I'm no longer the CEO, I'm not saying the shareholder isn't important, but what you really mean is the investor, you know, is important. I mean, these day traders, how important are they? I mean, what should a company or an executive do to satisfy their need to make money in seven minutes?

You know, so what is the long-term investor? I mean, if it takes you three to four years to develop a product and it take you three or four years to bring a factory on line and up to capacity, an investor is going to be in for an average of seven months, I'm more inclined to think the number 1 constituency is the employees who are shareholders and have a long-term view.

So I put the employees first, very close to the customers. To me there is no business if there isn't a customer. And I kind of put the shareholders in the

show position. If the employees win, you know, the customers will definitely place. And you know, the shareholders will do just fine.

But I think you ought to satisfy all three constituencies. And I think if you bias it, you know, too much in any direction you're not going to do well. But I certainly don't think you should bias it so the employees don't have a stake. I think they all need a stake.

Man: Hi, I think you know me. Two part question, one, first I've heard it said that the definition of insanity is doing the same thing over and over and expecting different results. And I'm just curious with the launch of Opteron and so forth, what has been the feedback from some of the larger channel partners of adopting that technology?

And then secondly, how concerned are you with the country and the export of jobs overseas and that affecting especially Silicon Valley because every time I turn around and talk to other colleagues and people in industry there is more and more jobs being sent overseas which obviously impacts us and so forth?

Jerry Sanders: Well those are two very different questions so I'll try to answer them separately.

The first question, of course, is whenever you go in – if you believe in a market economy, if you believe that market forces will work, then the first thing you should ask yourself when you start a company or launch a product line is, how are we different? How are we better?

Now if you're in the microprocessor business, being different is bad because it's really a Microsoft Windows world. And so the people who have started companies in microprocessors and tell you how great their processor is or, you

know, how much throughput it's got or whatever, if it doesn't run Windows, forget about it. It's over.

You can be a niche player, but niches are for cockroaches. So I'm not interested in a niche. Okay? You need to be where the money is. And the largest segment of the industry is X86 which means Microsoft compatible processors. That's a \$25 billion market.

So how are you different, how are you better means first of all you can't be different at all. What the customers would like is you just plug it in and it works exactly the same. And then they've got two great suppliers or more. And they're happy as clams.

But when the other guy who is the originator writes your intellectual property cross-license in such a way that you are not permitted to make a bus-compatible device because you're not licensed to – and their patents in any way to do that, you have to be different. And we have labored long and hard to make it different and better.

And that's what HyperTransport does. It isn't bus compatible. You're right. Whereas some of our prior generations were, it's not. It's our own bus. In fact, we had the seventh generation with Athlon, our major success, where we actually did, as I say, one year generate \$1 billion in net profits. Athlon had its own bus.

And the Hammer family, the Opteron and its progeny all have a completely independent, you know, different bus and even a different instruction set. So how are we different? How are we better? That's why this time is different if market forces prevail.

The second thing is jobs being exported overseas. We're a people company. We're a global company. We have Chinese employees. We have Indian employees here and there. We believe in meritocracy. We believe that the best person should have the job. And we believe that you got to be globally competitive.

So yeah, jobs are going to get exported. There's an unintended consequence. I'm sure that when Greenspan pumped in money because of the long-term capital debacle and the Russian, you know, defaults, he didn't know that was going to result in companies like WorldCom borrowing \$30 billion or other companies, you know – or these, you know, dot-coms raising so much money. But that's what happened.

Right now you have to look on a global basis how can you compete. If you have a commodity product, then you have to have the lowest cost because there's no differentiation in value. If you can build something that's better, you know, like I think, for example, I use MirrorBit. If we've got a better solution than a Flash Memory, then, you know, we can get a larger market share which allows us to absorb the high overhead of R&D. And we can have a successful business.

But I don't think that – I don't think that we should go into country bashing or nationality bashing. I think companies have to compete, you know. And I think that if you're a global company – we've got factories all over the world. And we respect everyone.

So it's going to be different here though. But that just says, you know, the food chain says you're going to have to be more highly educated to get a good job. And I worry about that because, you know, there aren't, you know – there

aren't as many good jobs for middle management or for less skilled workers. That's scary.

In fact, that's the big concern about this economic recovery, right? I mean, right now we've got – there's definitely an economic recovery. The GDP is definitely growing. Profits are running 12% ahead of last year. But there's no jobs being created. You know, that's a problem.

So we need to create more demand on a global basis. But that says we can't have 40% disadvantage against trading partners because of artificially held down currency values. That's mercantilism. We can't have that. So it's a complex issue.

But I believe that we're a global company. We're a global industry. And the Internet and communications realtime changed the world. Change with it or perish.

Mike Malone: Any questions? Microphone is coming.

(David Litone): My name is (David Litone) with Precursor. We're an independent investment research firm in Washington.

In April at the release of Opteron you predicted that AMD would sell as many Opteron chips in the next four months as Intel had sold Itaniums in four years. Did that turn out to be true?

Jerry Sanders: Yeah I think it did.

It turns out that my understanding – I saw this on the Register. The Register is – it does a Web site. I think it's register.uk.com. I think that's it. Okay. And

you know, they said some nasty things about me as Sanders is out there hanging loose and nobody's saying anything about this.

And their estimate that Intel had sold in that four year period 15 to 20,000 Itaniums. I can tell you that the number that we have sold is in between those two numbers. So he said the low number for Intel is the one thing. The high number is the other thing. So in my view, yeah I think we have. So if they sold between 15 and 20,000 in four years, we beat them in four months.

And I'd like to say – somebody was asking me earlier and I didn't do a very good job of answering it. In the channel, you know, why would they use – you know, there aren't too many motherboards out there that can support Opteron. We're now just catching up with the motherboard supply. I mean, IBM has more demand for Opteron-based servers than they can supply because they're just getting the infrastructure in place.

And those of you who are in the server business, you know, this is not like, you know, PCs where there's lots of guys making PC motherboards because the volumes are they and they get some share of market.

You know, you come out with a brand new product like Opteron that right now the only operating system you can use on it for 64-bits is Linux -- we're happy about that and it's a great Linux platform -- but until, you know, Microsoft issues its 64-bit server software, you know, there's a limited number of motherboards.

So I believe that, yes, I think we're doing much better than Itanium. I think that we're running well ahead of it. And I'm very optimistic that if market forces prevail, we'll eclipse it in volume.

Mike Malone: Other questions?

(Matthew), while they're waiting to come over to you, I've a got a question to ask you. You started out as a marketer. And AMD became quite famous for its early marketing efforts, Catch the Wave and the New Yorker type cover and all these various things. And the last 15 years you've had to become a technologist, an innovator. That's the great debate in technology. Which is more important, the marketing or the technology?

Jerry Sanders: The answer is yes.

Mike Malone: Okay.

Jerry Sanders: That's a very good question. Marketing without a product is hot air. And there's plenty of that. But a product itself not properly marketed, you know, and distributed, you're doomed.

It turns out I don't think people fully appreciate today what a technology company AMD is. I mean, think about it for a minute. For the last five years, AMD has been in the top 25 companies in the world in all industries in number of US patents granted, which is a recognition of original ideas. And you know, we've been in the same range.

And in two of the last three years we're higher than Intel. I think we're in the same range as Hewlett-Packard. And Hewlett-Packard is a very innovative company. In fact, their slogan is HP Invent. So we're very much a technology company.

I don't think people in this audience, unless they're technically astute, have any idea of what HyperTransport is all about and the ability to address

gigabytes of memory fast. And so for large databases, there's nothing can touch it.

I don't care if Intel puts 6 megabytes of cache on their trash. It can't work. They can't get us there. They can't get us. And so I would expect that over time the value will be seen by everybody. And that's why we outperform both their Xeons and their Itaniums on the server benchmarks.

So we are a technology company. As I said, we're running both 90 nanometer development wafers on microprocessors today. We're running 90 nanometer development wafers on Flash Memory today. And we're doing quite well with the process, got a special relationship with IBM.

And by the way, you asked the question before. I didn't do a very good job of answering it. What else are you looking for? Every day or – that's an exaggeration. But on a regular basis there's new breakthroughs. Maybe you saw it this week. IBM announced that they found a way to speed up the P-channel transistor in CMOS.

Up until now most of you know NMOS runs faster than PMOS and in CMOS you've PNN. But the overall system gets faster if you can speed up the PMOS. And they found out a way to do that. We'll have access to that through our arrangement with them because we're co-developing technology.

Similarly, they came out a way to develop strained silicon without introducing germanium. This is fabulous stuff. This is innovation that's going on every day. So, you know, buck up. These things are going to result in products that are then – you know, I'm telling you, 64-bit computing is going to be, you know, ubiquitous within 48 months.

And in two years it's going to be ubiquitous in servers because why wouldn't it be? It's better. And if you don't have to rewrite all your software so you can run your 32-bit, you're home free. So I just think that we're on the brink, if that's the right word – maybe the brink is the wrong word, you know, on the cusp, you know, the beginning of a great expansion.

Again, (T.J. Rogers) had a great line. And I want to give him credit for what he said. "The recovery of 2003 foreshadows the boom of 2004 and 2005". From his mouth to God's ears, I hope that's right, you know. And God bless him. Thank you.

Okay.

Mike Malone: Do we have time for one more question?

Jerry Sanders: Sure.

Mike Malone: Okay (Matthew).

(Matthew Quint): My name is (Matthew Quint) of (Quint) PR. And actually your last answer leads right into my question. If you were an investor with a heart residing on the proverbial Sand Hill Road, where would you place your bets or make your investments?

Jerry Sanders: Wow, if I was that smart, I wouldn't have had to work so hard all these years, you know. I don't think chips are over. So I would look for companies that have excellent design ideas in chips that are not selling at more than two times revenues. And so those are public companies I'm talking about.

Relative to new startups, I would invest in startups that had unique ideas that relate to wireless because we all want to be untethered. I think the future belongs to 802.11G notice not A or B. But it's got to be backward compatible, so – and that's all going to be possible with cheaper transistors. I think we're going to be able to, you know, build these kinds of chips.

And again, I would always stick to volume markets, no niches. Now maybe that's not what, you know, venture capitalists want to hear because at the end of the day the profit is always determined by the price they can get. And you can only command a superior price if you have a unique solution. But again, the semiconductor has always been driven by producing ever more for ever less. So it's tricky.

Now if you get outside of chips, I'm not smart enough to tell you what you should do there. I'm really not. I wish I were, but I'm not.

Mike Malone: Thanks, Jerry.

Jerry Sanders: Pleasure. Thanks and God bless.

((APPLAUSE))

Mike Malone: And now (unintelligible) (Burn) has some closing remarks.

Mr. (Burn): I would like to just point out that there was a wonderful question about what are you going to do with the rest of your life. And I would urge you to recall that almost everything that Winston Churchill is known for -- and he certainly did a lot before he turned 65 -- but almost everything he's certainly remembered for, our namesake did after he turned 65. So I think you have a tall order in front of you and we all look forward to it.

And as everybody knows, our speakers don't speak for free. They speak for t-shirts, Churchill Club (unintelligible). We'd like to have you wear these. And Jerry if you can help me hand one to Mike who I think did a great job.

((APPLAUSE))

Mr. (Burn): And also to Jerry himself. Thank you.

And we have one more thing. Mike is going to help us with the prop that's in the box. And I have it on good authority that I won't get in trouble for mentioning it. But speaking of Winston Churchill's 65th birthday, somebody on the panel does have birthday coming up this week. It's not me. And it's not Mike. And it is our guest of honor so if perhaps if you'll all join me in singing happy birthday to Jerry?

Jerry Sanders: Oh, wow, you guys.

Mr. (Burn): Happy birthday to you. Happy birthday to you. Happy birthday dear Jerry.
Happy birthday to you.

((APPLAUSE))

Jerry Sanders: You're the greatest. I'm going to take - guess what my wish was? God bless.
Thank you very much.

END