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HEADLINE: I.B.M. Chief Concedes OS/2 Has Lost Desktop War

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BODY:

Just as a new battle for the heart of the desktop computer has begun, Louis V. Gerstner, the chief executive of I.B.M., appeared to concede defeat yesterday.

In his annual session with analysts, Mr. Gerstner admitted what many industry watchers have been saying for years: that I.B.M. has failed in its multibillion-dollar attempt to establish an alternative to the Microsoft Corporation's stranglehold on the software that runs personal computers.

Obsessing about operating systems is "fighting the last war," he told the group, later adding that it is "too late to go after the desktop."

"We have to go on to the next thing," he said.

Mr. Gerstner's comments came only three weeks before Microsoft is to introduce Windows 95, the successor to the Windows and MS-DOS programs that now control about 80 percent of all personal computers. Most analysts believe that the new program will gain wide acceptance, cementing Microsoft's primacy in a market that it has dominated since 1980, when I.B.M. licensed MS-DOS for its first personal computer.

I.B.M. has since tried to challenge Microsoft with a program called OS/2. Although many analysts say OS/2 is technologically superior to both the current version of Windows and the soon-to-be-released Windows 95, it has never caught on with more than a small minority of consumers.

Some I.B.M. executives have argued that the introduction of Windows 95 will help OS/2 because consumers will be forced to make a change and will see the benefits of I.B.M.'s offering. But others within the company have countered that it would be futile and a waste of money to go head to head against Microsoft where it is strongest.

Yesterday, for the first time, Mr. Gerstner appeared to side with those pragmatists. He said I.B.M. would aggressively sell OS/2 to large companies and institutions that use it on application servers, which allow networks of desktop computers to share a variety of computer programs.

"Our focus is in the large enterprise," he said.

OS/2 has dominated the market for such servers in recent years, but many analysts said the company was quickly losing ground to another Microsoft

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program. Windows NT.

"NT is displacing OS/2 servers extremely rapidly," said Rob Enderle, a senior research analyst at Dataquest, an industry consultant based in San Jose, Calif. He estimated that I.B.M. had more than a 2-to-1 advantage at the beginning of the year in the number of servers running OS/2 compared with NT, but that Microsoft had probably pulled even and was likely to overtake I.B.M. by the end of the year.

I.B.M. still has a chance, Mr. Enderle said, "but it is narrowing fast."

"A lot of premier I.B.M. accounts have indicated that they will be pulling off OS/2 in the next 12 to 18 months," he added.

During his 90-minute session with analysts, Mr. Gerstner expanded on a theme that he has been warning to since he arrived at I.B.M. two years ago: that I.B.M. is now focused on providing value to its customers rather than simply foisting the latest technology on them.

He said that the company had identified five groups of customers that it would now try to serve: large enterprises and institutions; small and medium-sized businesses; consumers; other hardware manufacturers, and resellers and other distributors.

Asked if I.B.M.'s recent \$3.5 billion acquisition of the Lotus Development Corporation was an admission that the company had failed to plan properly for its future, Mr. Gerstner admitted that it was. "It is an indictment of things we did wrong in the past and I am glad that we had the opportunity to fix it," he said.

But he added that he and his management team now spend a lot of time thinking ahead. "There is a very strong preoccupation in the company today to understand where the industry is going and get there first," he said.

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