

HARD DRIVE

Bill Gates and the Making of the Microsoft Empire

JAMES WALLACE & JIM ERICKSON

- 1968 Bill Gates and Paul Allen meet while students at Lakeside in Seattle, Washington and form a student group dedicated to finding ways to make money using computers.
- 1971 Gates and Allen form Traf-O-Data, their first company.
- 1975 The January issue of Popular Electronics features the Altair 8080, the world's first micro-computer. Gates and Allen write BASIC, a computer language which can be used to program the Altair.
Gates drops out of Harvard university and Allen out of Washington State University and form a legal partnership, Microsoft. They move to New Mexico to be near the manufacturer of the Altair.
- 1976 Microsoft ends first year of operation with revenues of \$100,000 after selling BASIC to NCR and GE, as well as licensing revenue from the Altair.
- 1977 Microsoft wins court case to set aside original licensing arrangement and to enable the company to sell BASIC as it sees fit.
Sales revenues: \$200,000
- 1978 Sales revenues: \$1 million
Company relocates from New Mexico to Seattle, Washington.
- 1979 Sales revenues: \$4 million generated entirely from licensing fees and royalties for BASIC and other computer languages.
- 1980 Microsoft contacted by IBM to supply BASIC for the IBM personal computer under development. After failing to secure CP/M as the operating system, IBM also contracts Microsoft to supply the operating system software for the PC.
- 1981 Microsoft buys 86-DOS from Seattle Computer Products for \$50,000. The software is re-worked and released as MS-DOS - the operating system for the IBM PC which is formally released in August 1981.
Sales revenues: \$16 million.
Microsoft restructured from partnership into company.
- 1982 Sales revenues: \$34 million on the wave of demand created by the IBM PC. Compaq Computers starts producing computers which are compatible with the IBM PC.
- 1983 MS-DOS now generating more than \$10 million in revenue per year.
Paul Allen diagnosed with Hodgkin's disease and withdraws from day-to-day operations for treatment.
Microsoft commences work on Windows.
- 1984 Microsoft reorganized into five divisions, each with a Corporate Vice-President.
- 1985 Revenues: \$140 million generating \$31.2 million profit.
Company goes public selling 12-percent of its shares at \$21 per share. By the end of the year, Microsoft shares were trading at \$90.75 per share, making Bill Gates (age 31) and Paul Allen (age 33) billionaires.
First version of Windows released to lukewarm reception within the industry.
- 1988 Apple Computer files lawsuit against Microsoft alleging the loss of intellectual property.
- 1990 Microsoft is the first software company in history to surpass the \$1 billion in annual sales revenue mark.
After an investment of more than \$100 million, Windows 3.0 is released and starts to become accepted as the industry standard graphical user interface.
- 1991 Microsoft's market valuation reaches \$21.9 billion surpassing IBM and General Motors.
Bill Gates is named as the richest man in America by *Forbes Magazine* with an estimated worth in excess of \$7 billion.
Microsoft's stock has risen 1,200-percent since company went public in 1985.
U.S. Federal Trade Commission announces an inquiry into Microsoft's possible anti-competitive practices.

1. Lakeside High School

William Henry Gates II was born on 28 October 1955.

His father, William Gates Jr., served in the Second World War after which he studied law at the University of Washington. He later became a partner in an established legal firm Shidler, McBroom, Gates and Lucas based in Seattle, Washington. His mother, Mary Maxwell, also graduated from the University of Washington before settling down to raise a family.

In describing her son, Mary Gates later remarked that he has pretty much done whatever he felt like doing since the age of eight. This also held true for most of the friends Bill Gates made in school, who always describe him as being very competitive and persistent.

While his father was busy building his legal practice, Bill Gates' mother was equally hard working and ambitious for her three children. (Bill Gates has two sisters). Mary Gates worked hard at cultivating the right social contacts and organizing numerous activities for the family's social calendar.

As a student, Bill Gates excelled at mathematics. In fact, most of his early teachers considered he would end up as a mathematician or college professor. At age 11, Gates' parents enrolled him in Seattle's most exclusive school, Lakeside. There he mixed with the elite sons of the rich and powerful, including the McCaw brothers who would later build a billion-dollar cellular phone company.

In 1968, the school decided to expose its students to the new and exciting world of computers. A group of mothers held a rummage sale and raised \$3,000 to cover the cost of leasing computer time on a Digital Equipment mini-computer owned by General Electric. A teletype computer terminal was set up at the school and students could communicate with the mini-computer using the telephone lines.

Almost immediately, a group of hard core computer enthusiasts began hogging the Lakeside School's terminal. This group, including Bill Gates and Paul Allen who was about two years older, began reading everything they could about computers. They also started writing programs to play tic-tack-toe, lunar lander and monopoly. Within the space of a few weeks, the \$3,000 raised by the Mothers Club was used up.

Paul Allen's father was Associate Director of Libraries for the University of Washington. He had passed on a love of reading to his son, who read everything he could lay his hands on about science and physics. Allen and Gates would spend many hours together at school working on maths and physics problems. They both shared a passion about the future of computers.

Allen and Gates soon formed the Lakeside Programmers Group along with two of their friends. The new group was dedicated to finding ways to make money using computers in the real world.

Their first "real world" problem, however, was that they had already used up all the computer time which the school could afford at that stage. This was further compounded by the fact Lakeside also arranged access to a second mini-computer - another Digital machine owned by Computer Centre Corporation.

While exploring the new computer, Gates and some other students managed to obtain access to the company's accounting files. They found their personal accounts and substantially reduced the amount of time the computer showed they had used. Their victory was short lived however as they were soon discovered.

To make matters worse, Gates also seemed to have a knack for making the mini-computer crash. Several times, he managed to make the system stop operating while a number of other paying customers were also on line.

Instead of barring Gates from the machine, the managers of Computer Centre Corporation decided to use his talents to their advantage. The company offered the students free access time at night and on weekends when no other paying customers were using the machine to try and document all the different ways the computer could be made to crash. The company would then use that information to correct the fault, thereby making the system increasingly reliable and more robust.

It was like a dream come true for the 13-year old Bill Gates and 15-year old Paul Allen. From then on, both boys, along with a small group of friends, would spend every evening from 6 pm to well after midnight working on the computer. Their fun was short lived, however, as Computer Centre Corporation went out of business in March 1970.

A former classmate later recalled:

"Bill stood out. Everyone knew who Bill Gates was. There were nerd types that no one ever noticed, and there were nerd types that everyone knew. Bill fitted that latter category. He looked much younger than he was. He was also incredibly obnoxious. He was also considered the brightest kid in school. He was so sure of himself he was aggressively, intimidatingly smart. But he didn't have any social graces. He was one of those guys who knew he was smarter than everyone else and knew he was right all the time."

Another friend, Carl Edmark, said:

"We did all the normal, nutty things that kids do as teenagers. Bill was exceptionally normal. We would talk about CD technology. We were both interested in technical things. But we would never say "I'm going to do this" or "I'm going to be that". We really didn't know what we were going to do with our lives."

2. Traf-O-Data and Harvard University

By late 1970, Paul Allen was hard at work finding mini-computers to play on. He used his father's connections at the University of Washington to gain access to mini-computers in the physics department and the university's hospital. The Lakeside Programmers Group moved operations to the University campus where they would use the machines all night most nights.

This experience paid off in early 1971 when Information Services Inc. contracted the students to write a payroll program for one of their clients. The job took about three months and they received around \$10,000 worth of free computer time. The Lakeside Programmers Group even became a formal legal partnership for this business transaction, with the assistance of Gates' father.

This early success encouraged Allen and Gates to try some other computer projects. They formed a company called Traf-O-Data to use computers to analyze the information about road traffic flows gathered by the traditional counting machines which had a rubber strip stretched across the roadway.

Gates and Allen also formed a second computer group called Logic Simulation Company to organize students to work for them on computer projects. This approach was reasonably successful. In fact, in 1972, their school contracted them to develop a class scheduling computer program for Lakeside. Gates and Allen responded by writing a program which gave them and their friends no classes on Tuesday afternoons so they could go off and do whatever they liked.

