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SPECIAL REPORT
THE FALL OF APPLE
By Jeff Goodell

COOL JERK

Is *Sean Penn* the greatest actor of his generation or a menace to society?

The DOGG WALKS

Snoop Doggy Dogg Beats Murder Rap

Beatles Unplugged

SEVEN MARY THREE

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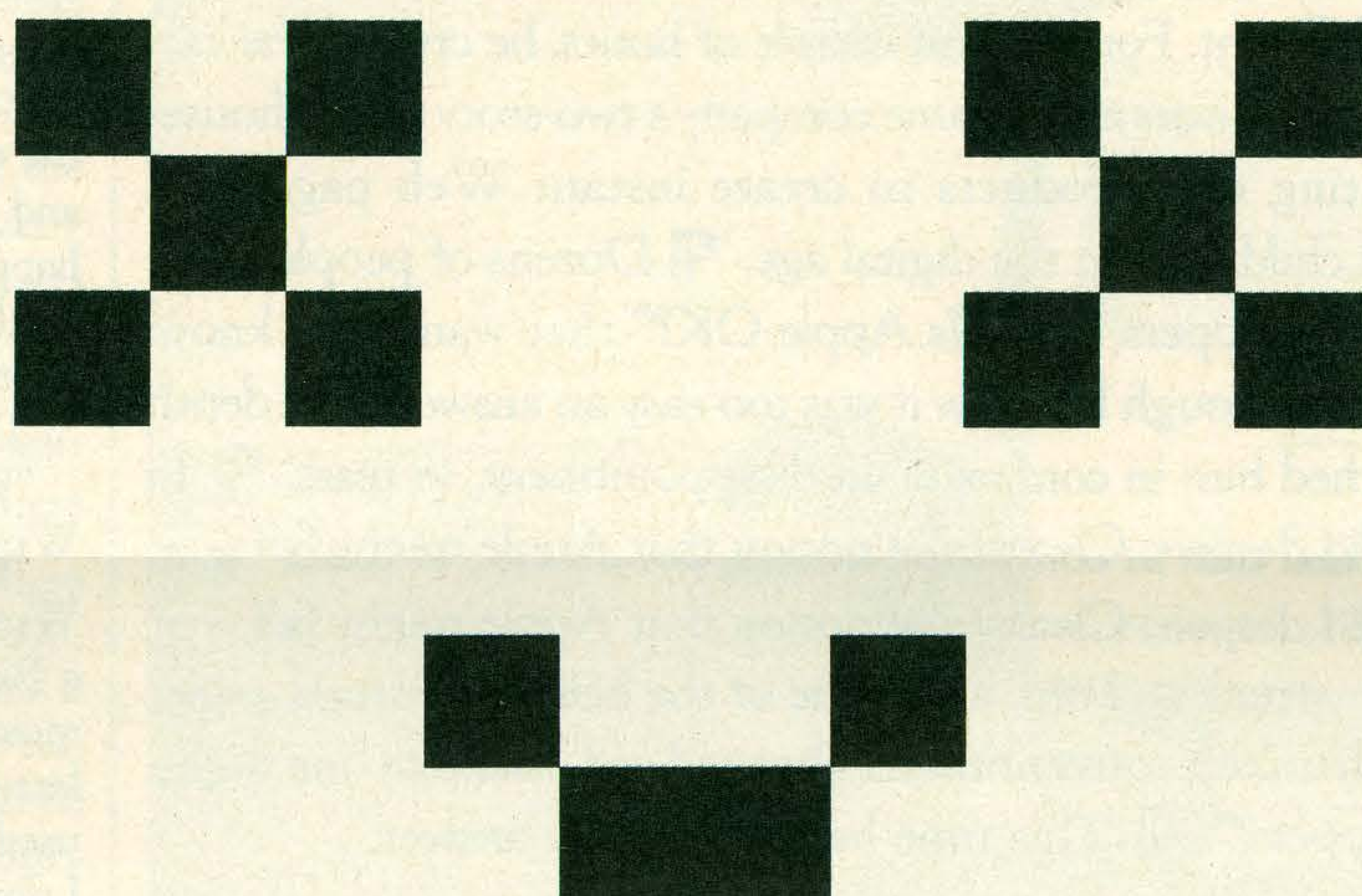


THE RISE AND FALL OF APPLE INC.

BY JEFF GOODELL

THE ANNUAL "MACWORLD" EXPO IS MORE THAN A COMPUTER CONVENTION. FOR 11 YEARS IT HAS FUNCtioned as a revivalist meeting for Apple Computer's true believers. Beginning Jan. 9, 1996, some 80,000 developers, industry executives and alpha geeks gathered at the Moscone Center, in downtown San Francisco, to once again celebrate the glory of Apple, to sing the praises of the Macintosh, and to breathe hellfire and damnation on the evil spirit from the rainy north, Bill Gates. ¶ Things got off to a bad start this year, however. On the second day of the convention, Apple announced it was taking a $68 million quarterly loss. The news spread through the convention center like kudzu in the garden of Eden. Silicon Valley was in the middle of the biggest gold rush since the early '80s – and Apple was taking a loss? The report lent credence to increasing speculation that the company was in serious trouble. For the past few months, Apple had been going through what amounted to a public nervous breakdown: Several highly regarded top executives departed, and there were rumors of a takeover by Sun Microsystems and that more than 1,000 employees

would be laid off. And on top of it all, Michael Spindler, the charmless CEO of Apple, had declined to make his customary address at *MacWorld*. To many Apple watchers, long accustomed to reading the secretive company's tea leaves, it was a sure sign that heaven was falling. ¶ By the following afternoon, when Frank Casanova, the director of Apple's Exploratory Products Lab, arrived at the entrance of the convention center, the media were in full deathwatch mode. In Silicon Valley, Apple is a tabloid darling, the only company that regularly commands the lead story on the evening news. Reporters pushed microphones into faces as people entered the building: "Are you worried about losing your job?" "Do you think this will be the last *MacWorld*?" "Is Apple going down the tubes?" ¶ For Casanova, one of the brightest stars in the Apple cosmos, widely recognized for his shoulder-length black hair, technical savvy and podium wit, the scene was heart wrenching. He knew Apple had been through near-death experiences before. But this time it felt different. For the next couple of hours, he cruised the carnivallike convention floor past rows of flickering monitors and a game company's two-story beach-house-on-stilts exhibit, past software vendors touting new products to create instant Web pages and voice-activated programs to help handicapped children join the digital age. ¶ Dozens of people came up to Casanova – Apple employees, software developers, fans. "Is Apple OK?" they wanted to know. "It's hurting, but it will be OK," Casanova replied, though he knew it was too easy an answer. The depth of their emotion startled him. People approached him in confusion, in disappointment, in tears. ¶ In the following days, as the news settled in, so did despair. Clearly the notion that Apple might fall – or be swallowed up by another corporate entity – struck a chord, and some of the believers turned angry. "You guys have fucked up a good thing!" a drunken conventioneer shouted at Casanova one night. "Those assholes! How could you let this happen?" ¶ This time he had no easy answer.

an industry came of age, but it is also about greed and failed leadership. It is about how Apple could have had it all and blew it.

Much of the potency of the Apple story, and perhaps what led to some of the arrogance in the later years, was the innocence of its founding. Apple was born in a valley of orchards, the product of two wide-eyed kids who in a garage created a machine that would not just make them millionaires many times over but would also have a profound effect on the way people live and work. And as time has passed, the significance of their creation has grown, not faded. We now know that the computer is not just a productivity tool but is also a window into the electronic universe, a portal to cyberspace. Wozniak and Jobs are the technoculture's Adam and Eve. What happened in that garage is as symbolic to a 22-year-old Webhead today as the Immaculate Conception was to a 14th-century Roman Catholic priest.

The myth, of course, differs from reality.

"We didn't build the computer in a garage," says Wozniak, known as Woz, now 45, taking a bite out of a Big Mac during lunch one day in his office. "I built most of it in my apartment and in my office at Hewlett-Packard, where I was working at the time. We just used the garage to assemble the parts toward the end. I don't know where the whole garage thing came from. Maybe it's because Bill Hewlett and David Packard built their machine in a garage, everyone assumed we built ours there, too. But really, very little work was done there."

Woz doesn't perfume history. His manner says, "Hey, I'm just a regular guy who got lucky." And that's how he lives. He works in a quiet corner of the valley, down the street from an abandoned orchard. Across the hall is an office for Dianetics and another for the Church of Scientology, an organization inspired by L. Ron Hubbard's quasi-spiritual ramblings (lights in Woz's office occasionally black out, he says, when Dianetics staffers fire up their office hot tub). For the past few years, he's been teaching kids how to use computers and the Internet. Three or four days a week a dozen or so children from the local schools trek in to his office for lessons from Woz, who provides them all with new PowerBooks and America Online accounts, which he pays for out of his pocket. He's on his third marriage now, responsible for six kids (three of his own, three from his wife's previous marriage).

PART 1
THE COOLEST MACHINE THEY COULD IMAGINE

You feel it as soon as you step through the doors of R&D 1, the main building on Apple's research and development campus, in Cupertino, Calif. R&D 1 is one of six buildings on the campus, loosely arranged in a circle called, appropriately enough, Infinite Loop. In a valley where structures are traditionally low and flat, the glass atrium that marks the entrance to R&D 1 vaults several stories into the air. Stepping through the glass doors is like entering a Gothic cathedral: One gets the sense of a tremendous volume of crystalline light skillfully designed to both exalt and humble. There is a kind of hush in the building. Your eye is forced upward, not to a stained-glass window but to a giant rainbow-colored Apple logo. Below, employees come and go, often bending down in front of an electronic sensor that reads their employee badges and unlocks the door. The act gives the impression of genuflecting worshipers.

Inside Infinite Loop, the sense of isolation increases. Many offices have balconies that overlook a grassy interior courtyard. The distant peaks of the coastal mountains are visible, and traffic on Highway 280 whooshes pleasantly in the distance. The weather is always sunny. Nearby is Apple's famous employee cafeteria, Caffe Macs, with reproductions of fifth-century Italian frescoes on the walls and better Italian food than most Silicon Valley restaurants. The overwhelming feeling is of contentment and peace, a perfect world enclosed and removed from the grittiness of everyday life.

And maybe that's what makes Apple's fall from grace so hard to bear. Apple never pretended to be just another Silicon Valley start-up. It had long sold itself as the great hope of the counterculture, living proof that good could triumph over evil, light over darkness, intelligence over authority. It was a company that seemed to have everything going for it: the smartest people, the best technology, the highest hopes, the truest believers. It had a prophet, Steve Jobs, and a wizard, Steve Wozniak. According to the script, Apple was supposed to rise up out of the orchards of Silicon Valley and vanquish its foes. A lot of this was hype, a clever marketing strategy. But people believed it. And for a while it looked like Apple might indeed triumph.

The story of Apple's decline is a morality tale for the Information Age. It is not, as one might expect, a story about how quickly the technology moves, or about how unforgiving and brutal business has become in Silicon Valley. In fact, Apple had many, many chances to save itself. But it didn't. It was the company of the future that failed to see what was right in front of its nose. And while Apple will no doubt reinvent itself in the years to come, the central idea that animated the company for so long – that Apple is a revolutionary force, that it could change the world – is dead.

This is a story about ambition and luck and how

SEVERAL MEMBERS OF TEAM MAC SHOWING OFF THE FRUITS OF THEIR LABOR.

NORMAN SEEFF

ROLLING STONE *Contributing Editor* JEFF GOODELL *is the author of "The Cyberthief and the Samurai" (Dell). He can be reached at jg@well.com.*

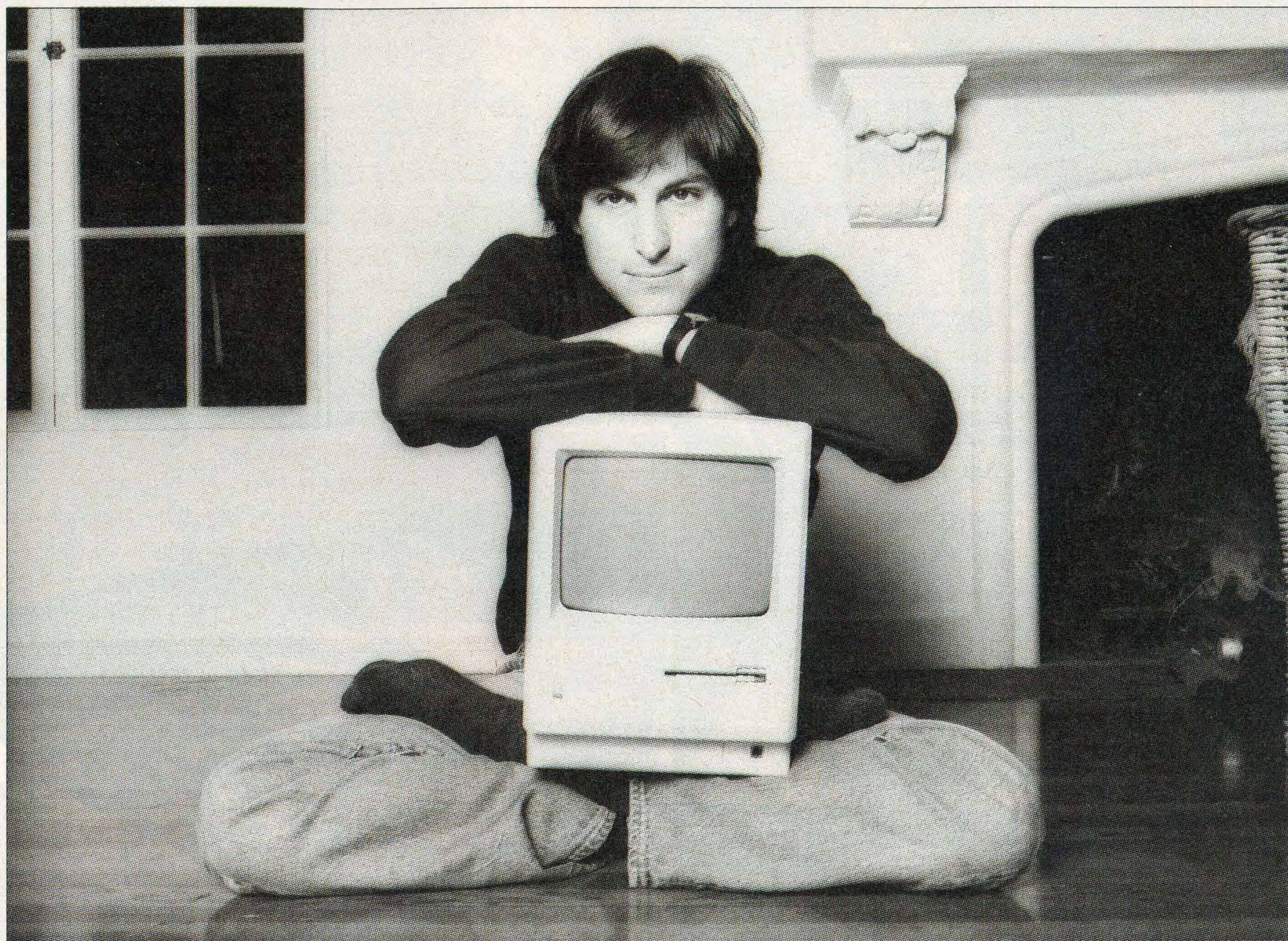
He drives a Mercedes convertible with personalized plates – WOZ – and owns two white bichon frisés, a frisky breed of dog that looks like a poodle ("I call them my bitchin' dogs," Woz says). But at heart he's still a hacker: He still eats junk food, he still plays an hour or so of Defender, his favorite video game, every night at home.

Woz sees no particular miracle in the creation of the first Apple. "Everything in my life was leading me up to that machine," he says now. "It was just a natural progression."

It wasn't just Woz; in the early 1970s, the whole valley was inching toward the computer revolution. As it happened, I grew up in a suburban tract house in Sunnyvale, only a few blocks from Woz's family. The valley was a quiet, lonely place, with none of the energy it has today. A large animal-feed company with two tall silos stood on the spot where Apple's corporate headquarters are now located. Apricot and cherry orchards still thrived. Woz's father – like many others – was an electrical engineer at Lockheed, which built missiles and spy satellites. Others worked at Fairchild Semiconductor or Raytheon, building some of the first microprocessors. It was a gizmo culture, full of engineers who toiled for national defense during the day and by night puttered around in their garages, playing with oscilloscopes and ohmmeters.

Woz was more precocious than most. In the fifth grade he built his own ham radio. At 13 he won a blue ribbon at the Bay Area Science Fair for building a 10-bit parallel digital computer. In family pictures you see the evolution of a geek, a boy who was born to tinker. He was oblivious to any wider social implications of what he was doing and had no clue that these little devices he was wiring together might make him millions. That changed, however, when he was introduced to a tall, stringy kid named Steve Jobs.

The two met through a friend in 1971. They were an odd match: Jobs was five years younger, thin, intense, cosmic minded, with a slow, bouncy walk that suggested a profound cockiness; Woz was clunky, an engineer, inarticulate, a sweet soul beyond cynicism. Jobs grew up in an older part of the valley than Woz did, on a quiet street in Los Altos. Jobs' home was humble: a low, flat ranch house with thin walls and hollow doors. He had been adopted as a baby (it wasn't until he was in his 30s that he met his birth mother and discovered that he had a sister, the writer Mona Simpson). His adoptive mother was a payroll clerk at Varian Associates, one of the first high-tech companies in the valley; his adoptive father worked as a machinist at Spectra Physics, a company that built laser scanners for reading bar codes in supermarkets. In later years, after Jobs became the outspoken prophet of high tech, psychoanalyzing his family background would become a Silicon Valley parlor game. Jobs rarely spoke about it himself, but some wondered if his ultimate goal in life wasn't to change the world, as he often claimed, but to make his birth parents regret that they had given him up.


YOUNG, SMART AND RICH: BY THE TIME HE WAS 25, STEVE JOBS WOULD BE WORTH $165 MILLION.

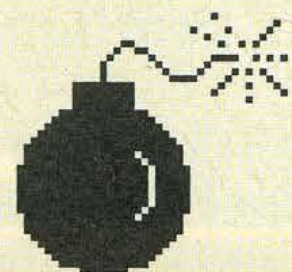
NORMAN SEEFF

To be sure, Jobs had a spiritual restlessness that was completely lacking in Woz. In the early '70s, while Woz was toiling in the calculator division at Hewlett-Packard, Jobs enrolled at Reed College, dropped out, studied Zen Buddhism and threw the I Ching. He went to the Oregon Feeling Center for primal scream therapy, meditated in a womblike sensory-deprivation tank. Traveling around India, he had a typically Jobsian encounter at a religious festival in the Himalayas. "There was a *baba*, a holy man, who was the holy man of this particular festival with his large group of followers," Jobs later recalled in a magazine interview. "I could smell good food. I hadn't been fortunate enough to smell good food for a long time, so I wandered up to pay my respects and eat some lunch.

"For some reason, this *baba*, upon seeing me sitting there eating, immediately walked over to me and sat down and burst out laughing. He didn't speak much English, and I spoke a little Hindi, but he tried to carry on a conversation, and he was just rolling on the ground with laughter. Then he grabbed my arm and took me up this mountain trail. It was a little funny, because here were hundreds of Indians who had traveled for thousands of miles to hang out with this guy for 10 seconds, and I stumble in for something to eat, and he's dragging me up this mountain path.

"We get to the top of this mountain half an hour later, and there's this little well and pond, and he dunks my head in the water and pulls out a razor from his pocket and starts to shave my head. I'm completely stunned. I'm 19 years old, in a foreign country, up in the Himalayas, and here is this bizarre Indian *baba* who has just dragged me away from the rest of the crowd, shaving my head atop this mountain peak. I'm still not sure why he did it."

Although he never said it explicitly, Jobs seems to attach some mystical significance to this story, as if the *baba* had anointed him as a fellow spiritual leader. And perhaps the man had.

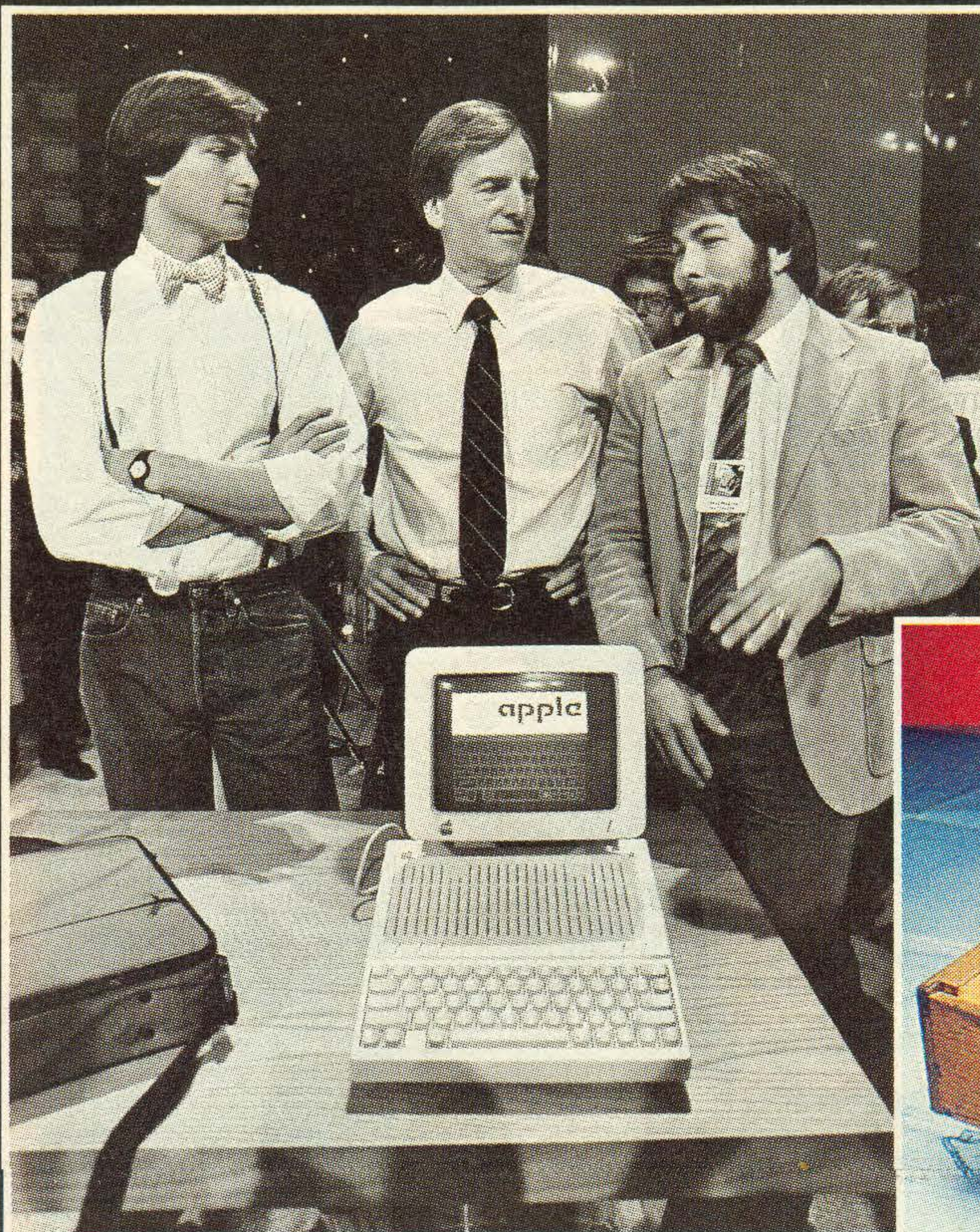

To raise the money to start Apple, Steve Jobs sold his VW van and Steve Wozniak sold his calculator.

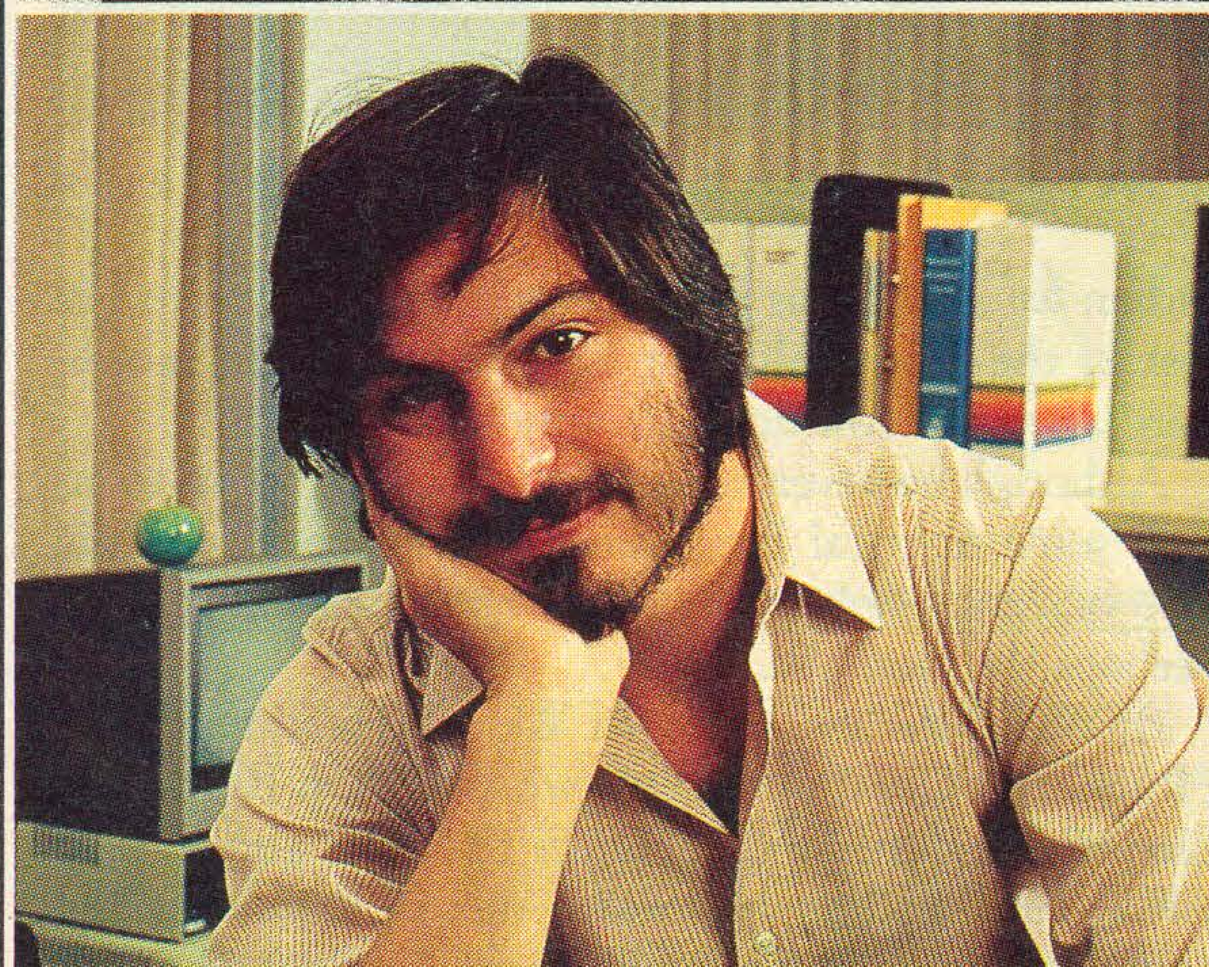
By 1975, Jobs accompanied Woz to meetings of the Homebrew Computer Club, which met at Stanford's Linear Accelerator Center, in the hills above Palo Alto, Calif. Homebrew was a mix of engineers and aging Berkeley radicals who were fascinated by an ugly little device called the Altair 8800 computer, which had recently been featured in *Popular Electronics* for $395. Of course, you had to assemble it yourself, and it had no keyboard or monitor. And it wasn't exactly clear what you would actually do with it – beyond simple addition. But that wasn't really the point. The point was, it was yours.

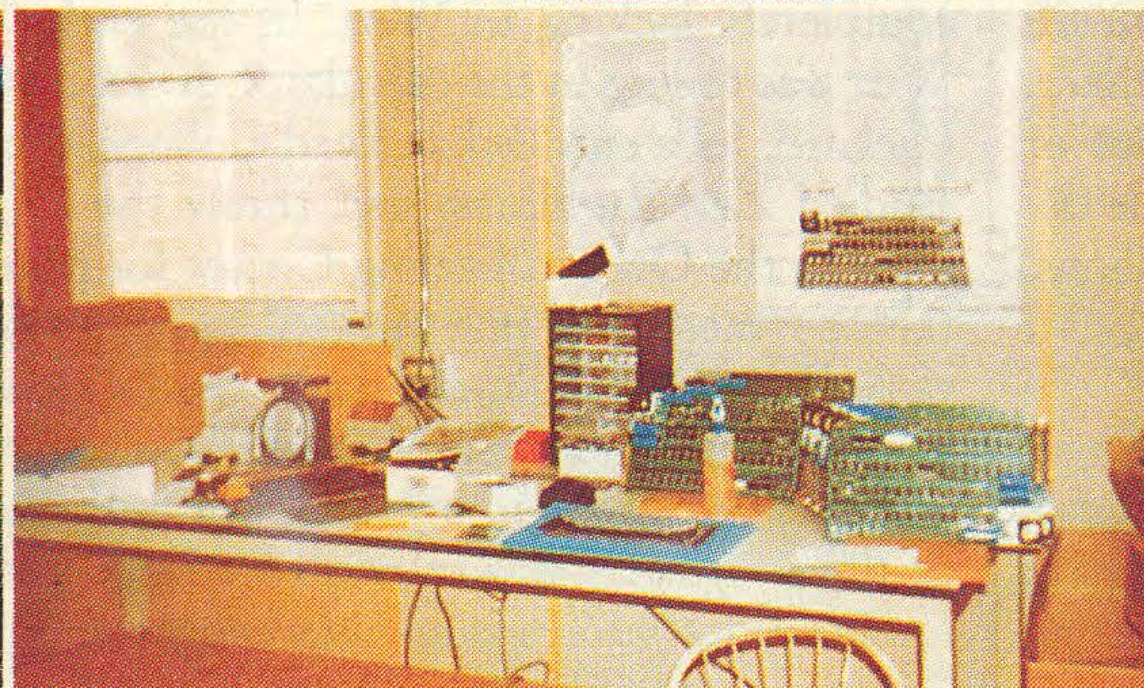
It's hard to grasp what a revolutionary idea the personal computer was in 1975. In those days, computers were big, menacing beasts that lived in air-conditioned rooms at universities and in government buildings. They had connotations of evil. They were symbols of authoritarianism. The notion that you could build your own was mind-boggling. Especially for someone like Woz. He wanted an Altair so badly he could taste it.

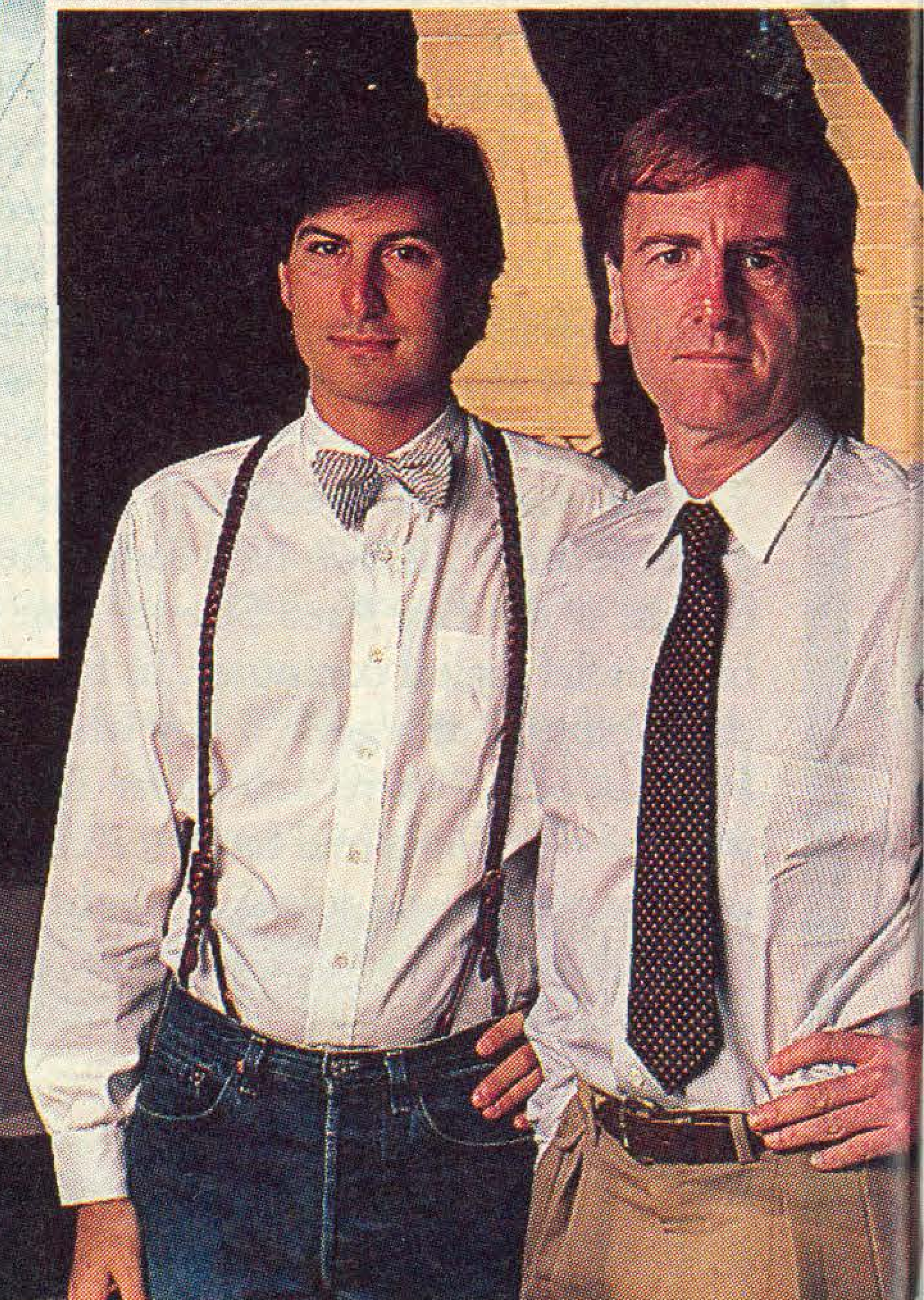
Except he was broke. He couldn't even afford the $179 it cost to buy the Intel processor that did most of the work. At the time, Jobs was working nights at Atari (remember Pong?), and Woz would frequently come by and visit and play video games. "Atari put out a game called Gran Trak, the first driving game with a steering wheel to drive it," Jobs has said. "Woz was a Gran Trak addict. He would put great quantities of quarters into these games to play them, so I would just let him in at night and let him onto the production floor, and he would play Gran Track all night long.

"When I came up against a stumbling block on a









CLOCKWISE FROM TOP LEFT: JOBS, SCULLEY AND WOZNIAK (FROM LEFT) UNVEIL THE APPLE IIC IN '84; JOBS LEADS A MEETING IN '88; THE KING OF SOFTWARE, BILL GATES (RIGHT), IN '92; JOBS AND SCULLEY IN '84; JOBS' MYTHICAL GARAGE; JOBS KICKING BACK IN '81; THE ORIGINAL APPLE.

project, I would get Woz to take a break from his road rally for 10 minutes and come and help me. He puttered around on some things, too. And at one point he designed a computer terminal with video on it. At a later date he ended up buying a microprocessor and hooked it up to the terminal and made what was to become the Apple I. Woz and I laid out the circuit board ourselves. That was basically it."

Not all the Homebrewers were as impressed by Woz's engineering feat as Jobs, who demonstrated his talent for seeing gold in dross and immediately insisted that he and Woz go into business together. To raise money to get started, Jobs sold his VW van and Woz sold his calculator, for a net total of $1,350. Jobs even had a name for the new company, inspired by his recent stay at a farm in Oregon: Apple Computer Company.

To anyone who was used to working on IBM mainframes, Woz's little computer was a joke. It had no screen or keyboard. It had only 4,000 bytes of internal memory – the equivalent of four typewritten pages. What was it good for? When Woz offered his new computer to Hewlett-Packard before Apple was formed, they told him it wasn't a salable product.

Jobs, however, had other ideas. While Woz worked on a new version of his computer, which would eventually be called the Apple II, and which would come with a keyboard of its own and display color on a TV screen, Jobs contacted Regis McKenna, a Palo Alto marketing consultant. One afternoon he and Woz stopped by McKenna's office. "Jobs had this Ho Chi Minh beard, cutoffs and Birkenstocks," McKenna recalls. "Woz was carrying some article he had written that described the computer he was building in very technical terms. I tried to read it but gave up. I told him that if he wanted to communicate with the public, he had to put this into English. Woz said, 'I don't want anybody touching my stuff!' So I threw them both out of my office."

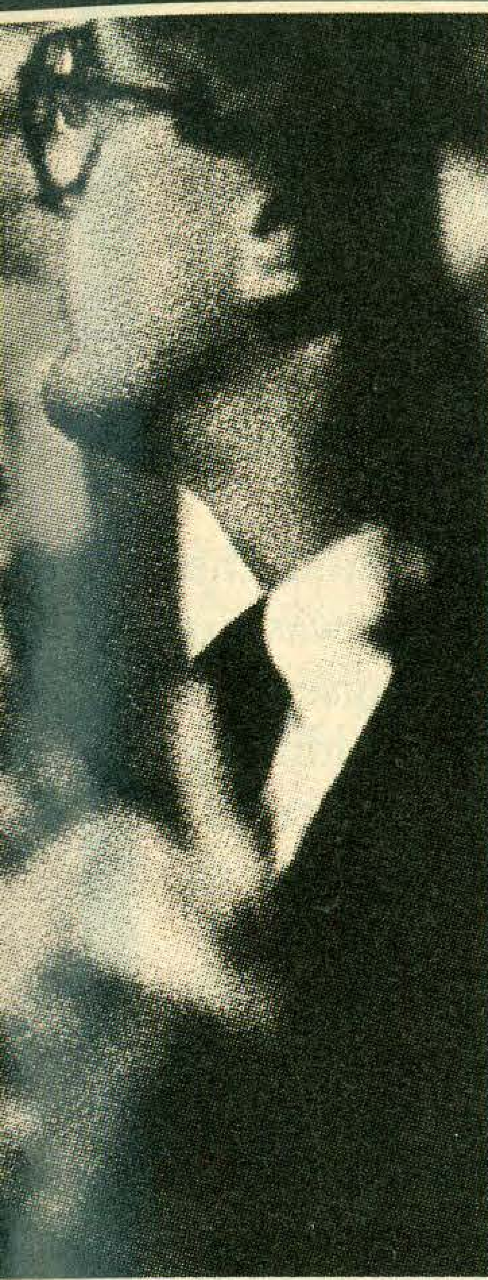
But Jobs wouldn't let go. He kept calling and calling McKenna's office – finally, McKenna sent a few potential investors over to the garage to look at the computer Woz was building. Most were unimpressed. But then Mike Markkula, a veteran of Fairchild Semiconductor and an inveterate tinkerer, stopped by and fell in love. Three months later, in exchange for $91,000 of his own money and his guarantee on a $250,000 line of credit at Bank of America, Woz and Jobs gave him a one-third interest and incorporated their company. Markkula brought in another colleague from Fairchild, a blunt, chubby man named Mike Scott, to help keep these two wild kids in line.

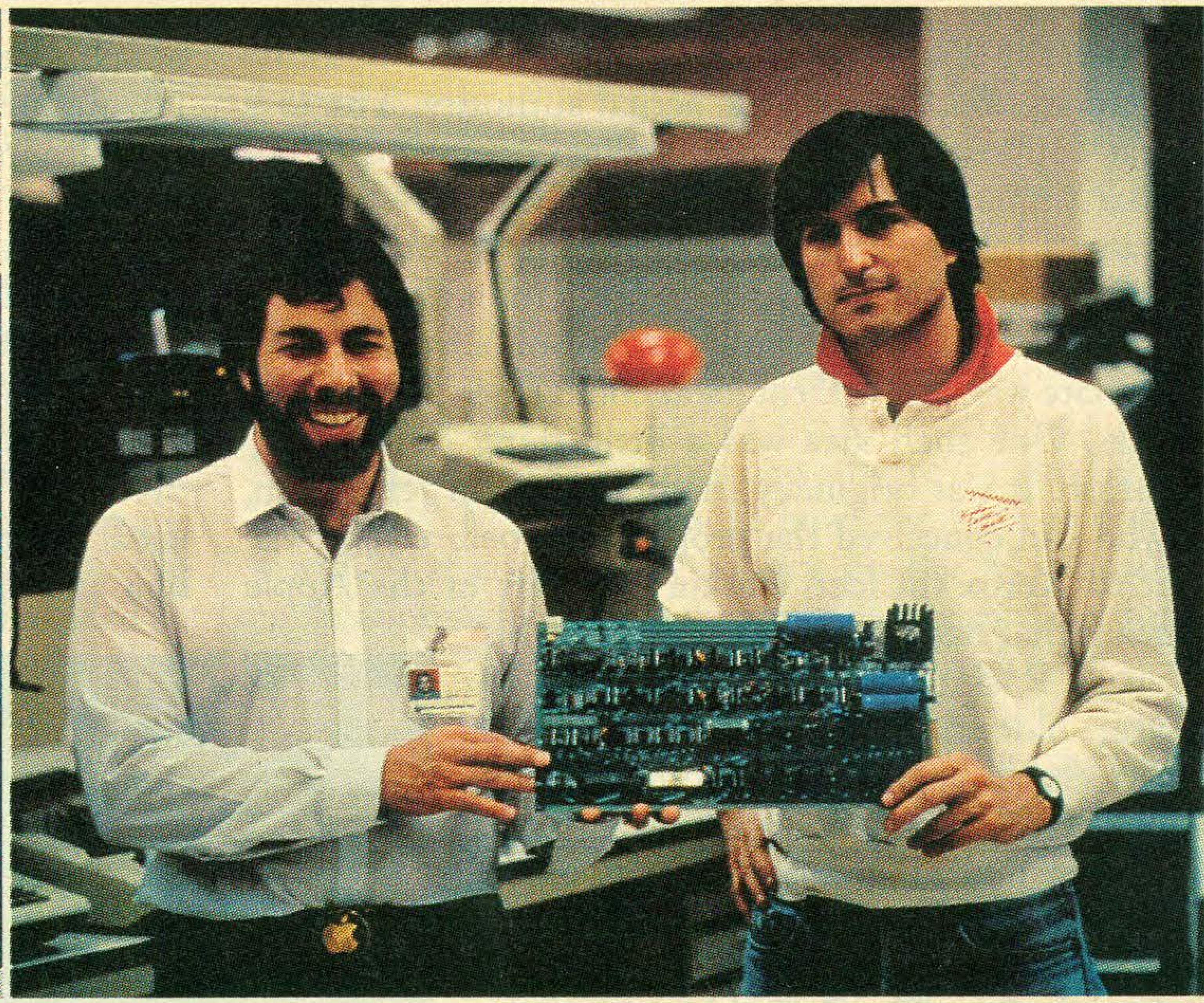
The Apple II made its debut in 1977 at the West Coast Computer Faire, a San Francisco gathering of geeks and hobbyists and garage tinkerers loosely modeled on the Renaissance Faires that were popular in the Bay Area. With the exception of the computer's switching power supply, the Apple II was, literally, a creation of Woz's mind and hands. It was housed in a cozy plastic casing (most computers in those days were in kits or in clunky steel boxes), it could output colorful graphics, and most important of all, it came with a useful version of BASIC built into it – a computer language written in part by a Harvard dropout named Bill Gates, who had just started a small company called Microsoft.

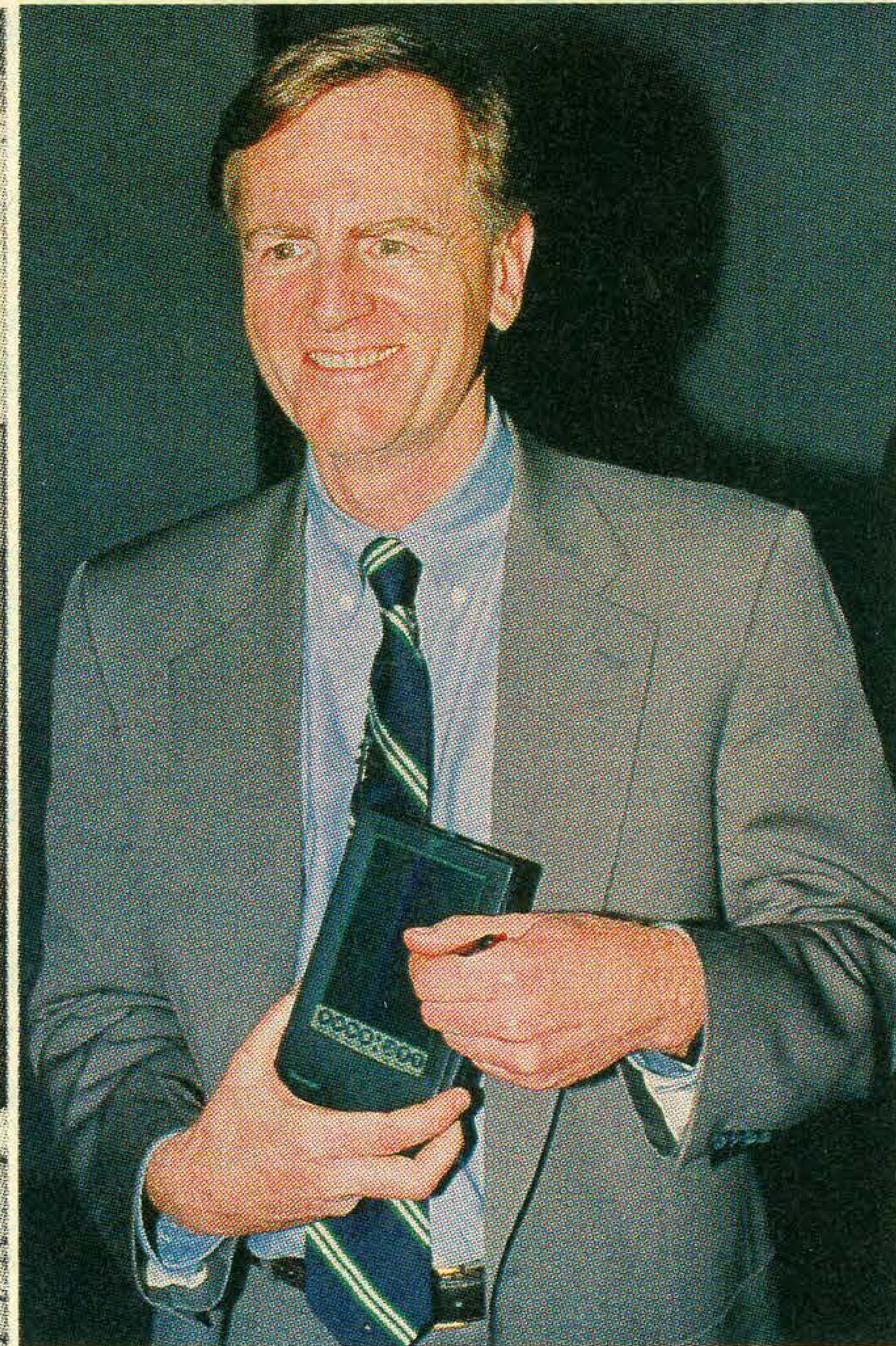
But the key lesson in the success of the Apple II wasn't in the design of the machine, elegant as it was. On its own, it was just a box. It was software that made the Apple II a hit. A Harvard Business School student and a pal from MIT created a program called VisiCalc, which was a simple spreadsheet that allowed the Apple II to be used for business calculations. Within two years, VisiCalc sold 200,000 copies, by far the best-selling computer application of the time, and sales of the Apple II zoomed off the charts.

Apple went public on Dec. 12, 1980. Investors went

CLOCKWISE FROM TOP LEFT: UPI/BETTMANN NEWSPHOTOS; DOUGLAS KIRKLAND/SYGMA; GARY PAYNE/GAMMA LIAISON; ED KASHI/GAMMA LIAISON; APPLE COMPUTER INC.; T. KORODY/SYGMA; APPLE COMPUTER INC.







CLOCKWISE FROM TOP LEFT: FLAGS FLYING HIGH AT APPLE'S CUPERTINO, CALIF., HEADQUARTERS; WOZ (LEFT), JOBS AND SOME SERIOUS CIRCUITRY IN '76; APPLE'S "CHIEF LISTENER," JOHN SCULLEY, IN '92; STEVE CAPPS (THIRD FROM RIGHT) AND THE MAC SOFTWARE TEAM TAKING A RARE BREAK IN '84.

CLOCKWISE FROM TOP LEFT: APPLE COMPUTER INC.; APPLE COMPUTER INC.; REUTERS/BETTMANN; NORMAN SEEFF

bananas. Jobs, the biggest shareholder, was suddenly worth $165 million. He was 25 years old. Woz, at 30, was worth $88 million. In just less than the five years since its founding, Apple had grown to more than 1,000 employees. Overnight, beat-up Chevys in the parking lot were replaced by Porsches. Woz and Jobs became instant icons, as famous as rock stars, fresh-faced symbols of American ingenuity and derring-do.

It didn't last long. By 1981, the bubble had burst at Apple – as it would by the mid-'80s throughout Silicon Valley. The initial rush to build personal computers had produced dozens of start-ups, each with a good idea, each hoping to cash in on this boom. Most of the names, from Eagle Computer to Grid Systems, have vanished into the fern bogs of the Information Age, done in by the difficult transition from good idea to stable business. Apple was no exception. In early 1981, 40 employees were laid off, and the stock price tumbled. Woz was seriously injured when his plane crashed on takeoff from a small airport in the Santa Cruz Mountains, in California; after recovering, he took a leave of absence from Apple and returned only briefly. And to top it all off, there was the recent introduction of the Apple III, a clunky, overpriced successor to the Apple II that – partly because of initial manufacturing problems and partly because of its poor design – was DOA.

Apple was starting to look like just another one-hit wonder headed for oblivion. Then, Jobs had a vision.

WHEN JOBS ARRIVED AT XEROX'S PALO Alto Research Center, the corporation's futuristic lab that was just a few miles from the building where the Homebrew Computer Club used to meet, he wasn't expecting divine revelation. He just wanted to poke around. It was a gray December day in 1979, and Jobs, dressed in jeans and looking mildly unkempt as usual, arrived with several engineering pals from Apple, including Bill Atkinson, who would go on to become one of the star programmers of the Macintosh. In the lab, Jobs was stopped in his tracks by a graphical user interface on the Xerox Alto, a high-end computer that had been developed there; basically the interface was a crude version of the icons and folders that would later be used on the Mac. It seems simple now, but at the time it was revolutionary. And to Jobs, obvious. "You could argue about the number of years it would take, you could argue about who the winners and losers in terms of companies in the industry might be," Jobs told me 15 years later for a ROLLING STONE Interview, "but I don't think rational people could argue that every computer wouldn't work this way someday."

Computer-industry pundits are still arguing about whether Jobs stole the ideas he saw at Xerox or was just "inspired" by them. The truth is, none of this technology was new – nor was it a secret. Xerox used much of it in its own computers but just didn't market them well (starting in 1979, Xerox Altos had been sent to some universities; they had many easy to use features that would later be popularized in the Macintosh). And the computer mouse, which everyone today associates with the Macintosh, had in fact been invented in the 1960s by Doug Engelbart, a well-known researcher at Stanford Research Institute, a computer-industry think tank.

The immediate beneficiary of Jobs' visit to Xerox was not the Macintosh, however, but a computer called Lisa. It was supposed to be the next big project, the great leap in computers. Apple had gone on a hiring binge and swooped up many of the best engineers in the valley – including several who worked at Xerox. The Lisa was to be a first-class project, engineered by some of the best minds money could buy. Except one: Steve Jobs.

By that time, it was clear that Jobs was not exactly a born manager. He was too hot-tempered and impolitic, too quick to shoot off his mouth. Although Jobs was a co-founder of the company, he owned only

11 percent of its stock; as long as Scott and Markkula were around, he had little actual authority. The Lisa was supposed to be a professional operation, proof that Apple could make it in the big leagues – nobody wanted Jobs mucking around with it. "It hurt a lot," Jobs recalled. "There's no getting around it."

But one of the advantages of Apple's freewheeling climate was that offbeat ideas could ripen in dark corners. One such idea was a little thing called Macintosh. It was originally the brainchild of Jef Raskin, who had conceived the project even before Jobs' visit to Xerox (in fact, Raskin was part of the Apple team that had accompanied Jobs on his visit). Raskin, who was more than 10 years older than Jobs, had been Apple's 31st employee, a colorful computer scientist and sometimes brilliant musician. Raskin had long dreamed of a small, friendly, inexpensive computer, a sort of information appliance. He hired a friend, Guy "Bud" Tribble, a young neurophysiology student turned software designer; Joanna Hoffman, who had recently left the Oriental-studies program at the University of Chicago and who was brought on to do market research; and Burrell Smith, a gifted young hardware engineer.

The Macintosh was still in a primitive state – there were only about five people working on it in an isolated office – when Jobs got wind of it. To him it was a return to the garage: a small, swift guerrilla operation uncluttered by managers and marketers. Jobs and Raskin battled about the direction the Mac should take – Raskin was opposed to a mouse and a graphical user interface, and didn't want to include any pre-written applications like a word processor or a spreadsheet, and he favored a squat design. After a fierce internal battle, Raskin was pushed out, and Jobs took over. Jobs' power increased a few months later when Markkula forced Mike Scott out of the company. Scott, a tough, dogmatic man who never quite found his niche at Apple, left in a fit of pique, firing off a bitter public letter, saying that Apple had degenerated into "yes men" whose "cover your ass" attitudes were exceeded only by their "foolhardy plans." With Scott out, Markkula became president, and Jobs took over Markkula's old job as chairman of the board.

Jobs didn't have much time to prove himself. In August 1981, IBM introduced its first PC. Big Blue had arrived.

LOOKING BACK ON IT NEARLY 15 YEARS LATER, it's easy to paint this as a moment of high romance and adventure in Silicon Valley. At the time, it was less obvious. In 1981, just as the Macintosh was taking flight, I worked at Apple for a short time. It did not thrill me. Of course, I was a lowly 21-year-old in the gloomy Apple III Systems Software group. I never bumped into Woz or Jobs. But I did get to know a lot of panicked and overworked engineers who lived in their fabric-walled cubicles in the Apple building on Bandley Drive. I attended Friday beer bashes, played pingpong and shot hoops in the parking lot. But I still had the naive idea that a computer was nothing more than a fancy typewriter. So I quit and moved to Lake Tahoe to deal blackjack.

Steve Capps was smarter. He is a burly software programmer from upstate New York who came to embody much of the spirit of the Mac team – the wildness, the irreverence, the occasional flashes of brilliance. He dropped out of college several times, rode a motorcycle around New York state, built a log cabin with his own hands – "I was a wanna-be hippie," Capps says now – before he finally ended up working as a programmer at Xerox. In 1981, at the urging of a couple of friends, Capps moved to Apple, where he worked on printer software for the Lisa. Word eventually got around that Capps was writing some hot code, so one day toward the end of 1982, as Capps was chugging along in his usual shorts and Vans slip-ons, Steve Jobs intercepted him and announced, "We're gonna nab you for the Mac." After a brief tug of war, Capps was installed on the Macintosh software team. There were about 40 people working on the project then. It would later grow to more than a hundred.

THE "1984" SUPER BOWL SPOT, WHICH RIDLEY SCOTT DIRECTED

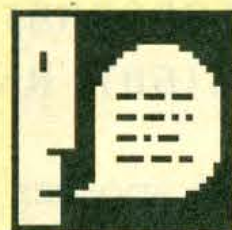
But the core team was really only a small group. It included at various times Burrell Smith; Joanna Hoffman; Bill Atkinson; Bud Tribble; a young, intense, moon-faced hacker named Andy Hertzfeld; Susan Kare, a graphic designer who created the icons and graphics; Randy Wigginton, who worked on software applications; and Bruce Horn, who did crucial coding on the finder. They were mostly middle-class eccentrics in their mid- to late 20s, born a few years too late for Vietnam or the civil-rights movement but still brimming with outlaw spirit. They were suspicious of authority and anything that reeked of privilege. Few of them were married or had kids or cared about money – according to Hertzfeld, Burrell Smith, the hardware genius whose work was crucial to the Mac's success, was paid less than $20,000 a year until Hertzfeld intervened and demanded that his salary be boosted. There was no promise of stock options (although when the Mac finally shipped, most of the team was given a bonus of about a half-year's salary). Many of them were grateful just to be working at a place where nobody cared if they rolled in at 11 a.m. and worked until 2 a.m., and where the office refrigerator was always stocked with free fruit juice.

They were a smart bunch. But the valley was full of smart people. The truth is, they were also lucky. A lot of other forces lined up to make the Mac possible: A new Motorola microprocessor, the 68000, which had just been released, was dramatically cheaper and more powerful than anything else on the market; also, much of the Mac software was inspired by – or directly copied from – work already done on the Lisa, which was turning out to be too slow, too expensive and too far behind schedule.

The Mac team's dictum was simple: build the coolest machine they could imagine. There was no marketing research, no corporate compromises, no pandering to practicality. "We weren't building a yuppie machine," Hertzfeld recalls, sitting cross-legged in his chair. He is 42 now and has gone on to start another company, General Magic, but he remains as impish and uncompromising as ever. "We were building a machine to make us happy," he says. Although Woz wasn't involved in the design of the Macintosh, the machine was very much an extension of his character. "I worshiped the Apple II," says Hertzfeld. "My goal was to instill the spirit of Woz's machine into the Mac. That edginess, that playfulness, that sense of fun for fun's sake."

Every day there was a new crisis. The disk drive didn't work. The finder software was fucked up. The menu bars didn't look right. Months passed. Deadlines came and went. Massive amounts of sugar and caffeine were ingested. Jobs nursed and coddled and horsewhipped the team's members, pushing them to think of themselves as artists (Jobs insisted that all the key engineers and designers sign the inside of the original Mac case). He also defended them from the bean counters. "The most important thing Steve did," says Hertzfeld gratefully, "was erect a giant shit-deflecting umbrella that protected the project from the evil suits across the street."

As much as they respected Jobs, they also loved to hate him. Smith, who had a gift for caricature, called him "the Devil." "You'd work on something all night, he'd look at it in the morning and say, 'That sucks,' " Capps recalls. "He'd want you to defend it. And if you could, then you were doing your job, and Steve respected you. If not, he'd blow you out of the water." Stories of Jobs' ability to humiliate people are legendary. "Steve simultaneously has the best and worst qualities of a human being," says Hertzfeld, who recently had a falling-out in his long friendship with Jobs. "They're both in him, simultaneously, living side by side with each other." To Hoffman, this was all part of what makes Jobs such a fascinating character: "He has the personality of a creative genius. You can't expect constancy out of someone like that."



The Mac team was governed by a single stricture: "It's better to be a pirate than to join the Navy."

To relieve stress, Capps played basketball. Others snarfed pineapple pizza, tossed Nerf balls. Nobody drank (hackers seem to have an anti-alcohol gene), but when things got tense, somebody would spark the occasional joint. Jobs brought in a $25,000 Bösendorfer piano and a BMW motorcycle for design inspiration; worried that his team needed creative stimulation, he authorized $1,000 a month to be spent on toys – so somebody went out and bought a killer stereo. During late-night kamikaze programming marathons, they'd crank up the Pretenders or the Vio-

APPLE COMPUTER INC.

lent Femmes loud enough to rattle the windows.

Jobs, ever eager to do anything to make the Lisa team look like slugs, encouraged his staff's unorthodox ways. "It's better to be a pirate than to join the Navy" was displayed on an easel during one off-site meeting. Capps took that as inspiration and immediately went out and bought some black nylon, which he cut up and sewed into a flag. Susan Kare painted a skull and crossbones on it, with a rainbow-colored Apple logo for the patch. "Then we climbed up onto the roof of the building one night at about 2," Capps recalls. "We were trying to figure out a place to fly it. We tried hanging it over the front of the building like a bunting, but that didn't work. I noticed a scaffolding that some workers had left behind, so I grabbed a piece of that and fashioned it into a flagpole. Some security guard wandered by and shined a flashlight in our eyes and asked us what the hell we were doing, but as soon as I told him who I was, he left us alone. I guess he was used to our craziness. You couldn't see the flag very well at night, but the next morning when we came to work, there it was, flapping in the breeze on a sunny California morning. It was beautiful."

IN RETROSPECT, ONE MIGHT ARGUE THAT Apple's decline began after lunch one day at the Carlyle Hotel, in New York. After meeting there, Jobs and John Sculley, the polished but uncharismatic president of Pepsi-Cola, walked over to Central Park. It was a spring afternoon, leaves budding in little fists of green on the maple and sycamore trees overhead. Jobs was a celebrity by now, recognized even on the streets of New York. But as usual he was oblivious. His attention was focused completely on Sculley, whom he was trying to recruit to Apple as the president and CEO. For weeks now, Jobs had been giving Sculley the pitch: how Apple was a new kind of company, how the computers they were building were going to change the world.

THE ICONOGRAPHIC GRAPHIC DESIGNER SUSAN KARE IN 1984

"How are you feeling about things?" Jobs asked.

"I'm really excited about what you guys are doing," Sculley said. "I think you're changing the world."

"Well, I really think you're the guy," Jobs replied. "I want you to come and work with me. I can learn so much from you."

Jobs may have been blowing smoke, but he wasn't lying. It was becoming clearer and clearer that Apple needed to shrug off its legacy as a garage start-up and become an adult. If the company didn't acquire some critical mass, it had no hope of competing against monsters like IBM. Unlike Microsoft, where Bill Gates evolved steadily from nerd to CEO, Apple had no steady hand with the maturity and the technical experience to guide it through this tricky period. To his credit, Jobs had wised up enough to know Apple needed someone who could smooth the road into corporate America, someone Wall Street could trust. Someone like John Sculley.

At first glance, Sculley and Jobs were a strange pair. Sculley was from a noble line of East Coast WASPs. He grew up rich and pampered. He had always thought of himself as something of an artist, however – he'd studied architecture in graduate school and, later, during a sabbatical from Apple, enrolled in the University of Southern California Film School. His ascent of the corporate ladder was no doubt aided by his connection – he was once married to the stepdaughter of Pepsi's chairman, Donald Kendall. Still, Sculley was widely regarded for his marketing smarts and often took credit for resurrecting the Pepsi Generation ad campaign in 1970, which had been abandoned five years earlier. It was exactly the kind of smart, hip campaign that Jobs imagined using to sell the Macintosh. Sculley knew very little about computers, but he prided himself on his listening ability (his business card at Apple later read: CHIEF LISTENER). Besides, Jobs figured he'd take care of the engineering side of Apple. What he really wanted was a teacher, a guide.

Apple cast itself as a spiritual liberator, as the best hope against intellectual tyranny.

That afternoon, Sculley and Jobs wandered into the Metropolitan Museum of Art, pausing to explore Periclean sculpture of the fifth century B.C. "As we left the museum," Sculley later reflected, "I gained a sense that I could be a teacher to a brilliant student. I saw in him a mirror image of my younger self. I, too, was impatient, stubborn, arrogant, impetuous." Later that day they ended up in a penthouse suite that Jobs was thinking of buying at the tony San Remo apartment building. They stood out on the balcony, where they could see the gray urban panorama stretching across the Hudson River to New Jersey, down to the Statue of Liberty and up to the George Washington Bridge.

After a few minutes of idle chat, Sculley finally let it be known that he didn't think he could come to Apple.

Jobs paused for a moment, then said, with classic Jobsian instinct for the jugular: "Do you want to spend the rest of your life selling sugared water, or do you want a chance to change the world?"

The line echoed in Sculley's head for a long time. Finally it got the best of him. In April of 1983 he became Apple's new president and CEO. With a base salary of $1 million a year plus a $1 million signing bonus and millions more in stock options, he became one of the highest-paid executives in Silicon Valley.

AS THE INTRODUCTION OF THE MAC APproached, Jobs went into hyperdrive. His most critical task was to line up support with outside software developers. Unlike the Lisa, which came with all of its own software applications, Jobs believed – correctly, as it turned out – that Apple should encourage outsiders to develop applications like spreadsheets and word processors for the Mac. No one was more crucial to this effort than Bill Gates. Circa 1983, Microsoft was a much smaller company than Apple. But the balance of power was beginning to shift. For the Mac to succeed, it was crucial that Microsoft have software ready to go when the computer shipped.

Early on, Jobs worried that Gates was playing a two-sided game with him. Yes, Microsoft would develop applications, but at the same time, Jobs feared that Gates was using what he learned about the Macintosh to write competing software for the IBM PC. Thus, Microsoft would have the best of both worlds – it could make money on the Macintosh applications while at the same time write software for a PC that would undercut the Macintosh's advantage. Which was in fact exactly what Microsoft did.

This put Jobs in a delicate position. He couldn't afford to alienate Microsoft by cutting off access to the Mac, but it would have been foolish not to take precautions. So in January 1982, Jobs drafted an agreement stating that Microsoft could not "undertake in any way to sell, lease, license, publish or otherwise distribute . . . any financial modeling, business graphics or data base program which utilizes a mouse or tracking ball for any computer not manufactured by Apple." The intent was to give the Mac a head start. But the exclusivity clause, which expired 12 months after the initial shipment of the Mac, or Jan. 1, 1983, whichever came first, covered only applications. It said nothing about operating systems.

Six months later, many Apple engineers sensed that Microsoft was working on its first version of the Windows operating system for the IBM PC. Jobs, who at the time still had the upper hand in the relationship, would often summon Gates to Cupertino and berate him for stealing ideas from the Macintosh. Hertzfeld recalls one particularly tense meeting. "Gates, you know, was just a skinny little geek like the rest of us, but he could really hold his own with Steve," Hertzfeld says. "He took a seat right across the table from Steve, and when Steve accused him of stealing software from the Mac, Gates shot back at him, 'No, Steve, I think it's more like we both have this rich neighbor named Xerox, and you broke in to steal the TV set, and you found out I'd been there first, and you said, 'Hey, that's no fair! I wanted to steal the TV set!' "

It wasn't just Gates and Jobs – everyone in the computer industry knew that graphical user interfaces were the thing of the future. The question was, Who would set the standard? In a blatant attempt to steal some of the Mac's thunder, Microsoft announced the first version of Windows at a splashy event at New York's Plaza Hotel on Nov. 10, 1983. In classic Microsoft fashion, however, the product didn't ship until two years later. And even then it was a lame, inelegant system – nothing like the Mac.

IN SILICON VALLEY, JAN. 22, 1984, IS LIKE THE day JFK was shot or Neil Armstrong walked on the moon. Even today, more than 12 years later, many high-tech execs and PC users have a precise recollection of where they were when Apple stunned the world by airing its famous [Cont. on 72]

NORMAN SEEFF

APPLE

[*Cont. from 57*] 60-second "1984" commercial, directed by Ridley Scott, during the third quarter of the Super Bowl.

It was an astonishing moment, as much for the ad's bold claims as for its powerful visuals. The commercial used the iconography of totalitarianism – a crowd of drones entranced by a Mao-like leader and set free by a sledgehammer-wielding woman in a Macintosh tank top – to cast Apple as the liberator of the human race, as the best hope against intellectual tyranny. It was as if some arrogant ghost had risen from the streets of Berkeley and tossed a Molotov cocktail into the soul of the Reagan revolution.

Looking back, Apple's *cojones* were stunning. The original Mac was a tremendous achievement. It was small, attractive, human, elegant and easy to use.

And with its windows, icons and desktop interface, it provided a metaphor for the newly expanding digital world. "Long after its departure, Macintosh will be remembered as the product that brought just plain people, uninterested in the particulars of technology, into the trenches of the Information Age," Steven Levy wrote in *Insanely Great: The Life and Times of Macintosh, the Computer That Changed Everything*.

But as a product, it was seriously flawed. It cost $2,495 (a far cry from the $1,000 price the more democratic-minded engineers like Hertzfeld had been shooting for), and it came equipped with only 128K of memory – hardly enough to open a file without having to swap disks. There was no hard drive, and no easy way of attaching one. Also, at the time the Mac was shipped, only three pieces of software would run on it: a spreadsheet; MacPaint, a drawing program; and MacWrite, a word processor that could only handle 10 pages of text. There was no networking capability, no color monitor – nor any possibility of adding one.

Nevertheless, the Mac looked good out of the gate. Apple sold about 70,000 units in the first three months, well above the public forecast. Jobs and the team traveled around the country pitching the Mac as the computer for the rest of us – "a bicycle for the mind" was one of Jobs' favorite phrases (revised, according to Hoffman, from the in-house version, which was "a vibrator for the mind"). Jobs astutely marketed the Mac's software engineers like rock stars – Andy Hertzfeld and Bill Atkinson become familiar names in the nerd world. In an effort to establish the Mac's hipness credentials, Jobs gave away computers to Yoko Ono, Mick Jagger and Kurt Vonnegut. Apple also brilliantly exploited the education market through a program called the Apple University Consortium, which sold Macs in bulk to schools at a deep discount.

But it soon became clear that the notion of the Mac as an information appliance, something as common to every household as a toaster, was about 15 years ahead of its time. If the Mac was going to succeed, Jobs and Sculley were going to have to sell it to corporate America. For Apple, it was a marketing challenge of cosmic proportions.

The problem, of course, was that the Mac had been designed and built by a bunch of eccentric hackers whose idea of a corporate retreat was two weeks alone in a geodesic dome in New Mexico. It's not surprising that the machine they designed had almost none of the features that corporate America wanted – no networking, pitifully little memory, no good productivity software. It was too touchy feely. It had that silly Mac smile that greeted you when you turned it on. To most purchasing agents it was a just cute toy. As one reviewer put it, the Mac was "the world's most expensive Etch a Sketch."

By late summer, nine months after the introduction of the Macintosh, sales started to drop precipitously.

To make matters worse, it was clear that Apple needed to introduce a new Mac that would address some of the shortcomings of the original, but the Mac team was burned out and in disarray. "The good part of working with Steve was that he inspired us to do our best," Capps says now, sitting in his adobe house on a hilltop above Silicon Valley. "The bad part was, it was really destructive. You can inspire people to exceed, but you have to be prepared to offer psychological support." Hertzfeld quit, partly in disgust at the high price Apple had put on the Mac. Hoffman and Capps soon followed. Burrell Smith plunged into something called TurboMac, but then got in over his head and wasted months on a design that went nowhere. Others seemed – momentarily, at least – to unravel. Capps recalls that not long after the Mac was finished, Bill Atkinson invited him out into the parking lot to gaze at the stars: "Bill pointed up to the sky and said, 'Steve, we're going to be invaded by beings from outer space pretty soon. We have to start building a data base now so that when we meet these aliens, we'll be able to explain everything to them. We have to be ready.'" Capps laughs about it now but adds that Atkinson "was not joking."

IT WENT FROM BAD TO WORSE. MAC sales plummeted. Christmas of '84 was a disaster. Computers backed up in warehouses, leaving Apple with a huge backlog of inventory. And during the 1985 Super Bowl, Apple tried to repeat the success of the "1984" commercial. This year, however, the ad was a humorless vision of blindfolded business people marching lemminglike off a cliff – supposedly the drones following IBM. But many saw it as a perfect metaphor for what was going on within Apple itself.

With the falling consumer demand, Apple had no choice but to push harder into the business market. After brilliantly casting itself as the rebel outsider, it now declared a public détente with IBM – a deeply humiliating reversal. At the annual stockholders meeting in January of 1985, Jobs announced the so-called Macintosh Office, a suite of new products, including a laser printer that was supposed to make the Mac more business friendly. But the key piece of technology, a file server that would allow Macs to be networked with IBM mainframes, wouldn't be ready for another two years.

Not surprisingly, the romance between Jobs and Sculley soured. To Sculley, Jobs was dangerously out of line. He was going in a million directions at once – no discipline, no organization, no manners. He had built a machine with no marketing strategy, no clear target user. "Build it, and they will come" seemed to be the motto. Well, it wasn't working. And now, Jobs balked whenever anyone suggested that maybe the Mac wasn't perfect. Sculley had given up a lot to come to Apple, which everyone knew was the coolest company in the world. Now he was starting to see his life flash before his eyes. This was not a man who was used to failure – or chaos. He'd go jogging at 4:30 a.m. in the hills above Palo Alto, then he would schedule a half-dozen early morning meetings. He had all the discipline in the world. But Apple wasn't like Pepsi. No one cared about discipline in Cupertino. Apple was rock & roll.

After the vote, Jobs left the company he'd started nine years before.

To Jobs, Sculley was turning out to be the emperor with no clothes. Jobs couldn't help but feel that he had been sucked into his own reality-distortion field. He thought Sculley had had the courage and vision to help Apple grow up, to be decisive, to help chart a course for the future. But Sculley had been around for about two years now, and what had he done? It was becoming clearer and clearer that he didn't understand the computer business. During one software demo, colleagues had noticed Sculley's hand was trembling when he touched a mouse. Trembling! Another time, Sculley had the temerity to compare selling the Mac to selling potato chips. Sculley was Old World all the way. Sometimes it seemed like he worried more about smudging his reputation than leading Apple. Jobs had no patience for this. If it were up to guys like Sculley, there wouldn't even *be* a Macintosh.

To Jobs, the problem was not the design of the machine. It was in the way it was being sold. Jobs had been talking with Fred Smith, the legendary founder of Federal Express, who, unlike Jobs, managed to keep control of his company and watch it grow into a multibillion dollar business. Smith had convinced Jobs that the best way to sell the Mac was to do it direct – cut out the middleman, sell straight to the consumer via Federal Express. It was a strategy that in the years to come would be exploited by companies like Dell Computer to great effect. Jobs thought it was brilliant – just pull the Fed Ex planes right up to the back door of the factory. There would be no problem with hidden inventory, lousy salesmen, clogged distribution channels. It would solve everything.

Sculley wasn't convinced. He thought the company needed a complete reorganization. Until now, Apple had essentially been divided into teams – the Apple II team, the Mac team, the Lisa team. To Sculley, this was inefficient and unharmonious. He wanted to set up the company in a more traditional way – one marketing department, one research and development department, one sales force. Jobs, of course, thought it was a lousy idea. It would dilute the sense of pride that had made the Mac team great, that sense of everyone pulling together to make one insanely great project. It would turn Apple into the thing Jobs feared most: an IBM clone.

While Jobs and Sculley battled, the free fall continued. In June, Apple's stock hit an all-time low of $14.75. Many people within the company began questioning the fundamental premise of Apple's business plan. It didn't take a Ph.D. to see that building hardware would soon become a commodity game. And the real genius of the Mac, after all, was the software. Why not license it to others for a hefty fee? It was a difficult concept – Apple's riches had come from building boxes. But what was it that Apple was really selling? Capps recalls a brainstorming session with Hertzfeld and Jobs – they were batting around ideas about what they could do to save the Mac. Capps said, out of nowhere, "You know, the truth is, we're really a software company thinly disguised as a hardware company." Jobs and Hertzfeld agreed, then the conversation moved on.

In the years to come, the debate about whether Apple was a hardware company, or a software company, or both, would consume Apple executives. And their failure to resolve the question clearly and swiftly would ultimately contribute to the company's downfall.

But at the moment, Jobs had other things on his mind. By May of 1985, he and Sculley became locked in a Machiavellian struggle for control of the company. And Mike Murray, then a 29-year-old marketing whiz who had joined the Mac team three years earlier, was right in the middle of it. "Apple had divided itself up into two camps – the Jobs camp and the Sculley camp," Murray recalls from his office at Microsoft, where he works today. "I thought Steve was brilliant, the heart and soul of the company, but I eventually found it too difficult to work for him. So I went to work for Sculley but didn't find that to be much more tolerable." As Murray vacillated, Sculley and Jobs competed for his loyalty. To Murray, it sometimes felt like he was living in two parallel worlds. One day he walked from a meeting where Jobs and his loyalists were plotting a companywide reorganization that sidelined Sculley to another meeting where Sculley and his pals were plotting to sideline Jobs.

And it got worse. "At one point, Steve and John and I scheduled a meeting at Steve's house on a Saturday," Murray recalls. "Steve lived in this big old crumbling mansion in Woodside. It was almost empty of furniture – just a bed, a TV, a table and a few chairs. John and I showed up, then the three of us took a walk outside together and started tossing around strategies about how to save Apple. At one point, John went into the house to go to the bathroom. And as soon as he left, Steve turned to me and tried to convince me that we had to figure out a way to get rid of John. It was just depressing. For the first time in my life, I was introduced to politics, to corporate infighting and manipulation." A note of sadness is still traceable in Murray's voice. "I thought we were supposed to be changing the world, and here this great philosophical idea was getting trashed because of greed and egos."

Something had to give. In May of 1985, Jobs decided to make an all-or-nothing play for control of the company. He had enticed Sculley to schedule a trip to China and, while Sculley was away, planned to stage a boardroom coup. But Jobs had vastly overestimated his standing among the members of Apple's executive staff – many of whom were exhausted by his constant yo-yo-ing – while at the same time underestimated Sculley's skills as a corporate warrior. If there was one thing Sculley was adept at, it was boardroom politics. At the last minute, Sculley was tipped off to Jobs' plot and, on May 23, decided to cancel his trip to China. He decided to confront Jobs in a dramatic showdown.

During the executive staff meeting at 9 the next morning in De Anza 3, a low glassy building just a few hundred yards from where the Mac team's pirate flag had flown two years earlier, Sculley and Jobs sat on opposite ends of a long table, eyeing each other like gunfighters. The contrast was startling: In his hand-tailored Wilkes Bashford suit, Jobs looked every inch the golden boy, the cocky young visionary who had invented the future. Sculley, on the other hand, seemed pale and worn out. But he had a kind of gravitas about him, a worried father in a room full of teenagers.

Sculley spoke first. He was so shaken he began to stutter – a nervous tic he'd had as a child that he thought he'd outgrown years ago. "He said, 'I've heard Steve has been going around my back trying to kick me out of the company,'" one executive recalls. "Steve took up the challenge and said, 'That's right. I think you should leave.'" After a brief and emotional exchange in which Jobs listed his reasons why Sculley was an incompetent leader and had to go, the matter was put to the executive staff for a vote.

One by one, they went clockwise around the room – and with apologies, they sided with Sculley. Then came Regis McKenna, who happened to be sitting in on the meeting as an unofficial staff member that morning. McKenna was the man who had helped Jobs get his start nearly a decade before when he was just a kid with a cool gadget and a Ho Chi Minh beard. Now, McKenna had to agree with the others: He was grateful for all that Jobs had done for the company, and McKenna hoped Jobs would stick around in some honorary position, but he had to get out of day-to-day operations. It was time to give Sculley a shot at running Apple on his own.

Silence filled the room. All eyes turned to Jobs. "Well, I guess I know where things stand," he said quietly, his voice trembling with emotion. Then he bolted from the room, shunned by the company he had given birth to nine years earlier.

In the next few months, Apple laid off a fifth of its work force, some 1,200 employees. The company posted its first quarterly loss. For the second time in five years, the company was knocking at death's door. No one could have guessed that Apple's glory days were just around the corner. ■

Part 2 of "The Rise and Fall of Apple Inc." will appear in RS 732.

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