From: Dan Neault
Sent: Tuesday, November 03, 1998 9:11 PM
To: Carl Stork (Exchange)
Subject: RE: Compaq meeting on Friday

Any reason not to send this to Keith?

Thanks,
--Dan

-----Original Message-----
From: Carl Stork (Exchange)
Sent: Tuesday, November 03, 1998 5:58 PM
To: Carl Stork's Directs (Exchange DL)
Subject: FW: Compaq meeting on Friday

-----Original Message-----
From: Paul Maritz
Sent: Tuesday, November 03, 1998 3:59 PM
To: Bill Gates; Jonathan Roberts; Harel Kodesh; Steve Ballmer; Joachim Kempin; Richard Fade; Carl Sittig; Pete Higgins; Brad Chase
Cc: Craig Mundie; Laura Jennings; Moshe Lichtman; Carl Stork (Exchange); Jawad Khaki; Eric Rudder; David Vaskevitch; Bill Mitchell; Ted Kummert; David Cole
Subject: RE: Compaq meeting on Friday

Since this crosses several groups in Plat/Apps and requires coordination with IMG team, I am asking Davidcol to be on point and work with the OEM team and Compaq, and pull together an initial analysis of options and recommendation.

-----Original Message-----
From: **Bill Gates**
Sent: Tuesday, November 03, 1998 2:46 PM
To: Jonathan Roberts; Harel Kodesh; Steve Ballmer; Paul Maritz; Joachim Kempin; Richard Fade; Carl Sittig; Pete Higgins; Brad Chase
Cc: Craig Mundie; Laura Jennings; Moshe Lichtman; Carl Stork (Exchange); Jawad Khaki; Eric Rudder; David Vaskevitch; Bill Mitchell; Ted Kummert
Subject: RE: Compaq meeting on Friday

For the Portal PC if they are planning on having a disk then maybe a castrated version of Windows98 at a very low price ($20? $15? $10?) would be the best choice.

It would be available and would support all the things they want.

We would have to make sure it didn't run PC applications - perhaps there would be some upgrade for that.

-----Original Message-----
From: Harel Kodesh
Sent: Monday, November 02, 1998 6 10 PM
To: Bill Gates; Steve Ballmer; Paul Maritz; Joachim Kempin; Richard Fade; Carl Sittig; Pete Higgins; Brad Chase
Cc: Craig Mundie; Laura Jennings; Moshe Lichtman; Carl Stork (Exchange); Jawad Khaki; Eric Rudder; David Vaskevitch; Jonathan Roberts; Bill Mitchell; Ted Kummert
Subject: RE: Compaq meeting on Friday

We had several meeting with Compaq re: the portal PC. You are right bill, we are running against BeOS and a possible AOL deal. I did ask the Compaq quys about WTV, but they were adamant that they need the "2 foot experience" and that they did not think that their customers would like to be in the "10 foot experience domain". We had msn folks in the room, and they still expect an answer on what we can do in the domain, but they were also clear that if we do something with them on the OS they want to offer it to other people as well.

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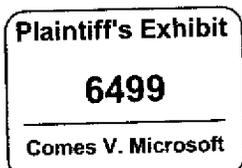
We are ready to engage them and work with Joachim, if people think it is a good idea.

As for the general CE domain, Compaq has been a no-show for V1, and 9 months late for V2. They have Jupiter designs that are also late, and I don't know whether they are going to do P/PC. I have also seen the market data for the low CE awareness, but these are old market surveys. Things are improving and when HP comes up with their P/PC in Q1 they will improve even more. Compaq was never willing to take risks in the CE space, so they always wait a long time.

> -----Original Message-----
> **From:**   **Bill Gates**
> **Sent:**   Monday, November 02, 1998 12:19 PM
> **To:** Steve Ballmer; Paul Maritz; Joachim Kempin; Richard Fade; Carl Sittig; Pete Higgins; Brad Chase
> **Cc:** Craig Mundie; Harel Kodesh; Laura Jennings; Moshe Lichtman; Carl Stork (Exchange); Jawad Khaki; Eric Rudder; David Vaskevitch
> **Subject:**   Compaq meeting on Friday

A. Consumer group

1. Portal PC

The Consumer group is planning to ship a "portal PC" in the second half of 1999. At present Microsoft is NOT the chosen OS vendor for this machine. I tried to probe and understand why not as best I could. Our relationship with Compaq should avoid us being in this kind of come from behind situation - even if we can't meet all of Compaq's needs they should come to us first and be clear about what they need. This machine cuts across all of our org boundaries - IMG, Win CE and Windows. Compaq at one point thought we would make a unified bid for this machine to be an MS OS and a MSN portal and we did not respond to that. I told Compaq that we should focus on whether we can provide the OS. Rod feels like Windows CE is not at all focused on this kind of machine and is missing the multimedia and other support required. He is talking about a machine that just does browsing. The way he talked it made me feel like maybe the BeOS is considered a favorite choose. He also said we would have to adopt our software for their portal partner which could mean they are thinking of AOL as the portal partner. This whole area is a confusing one inside Compaq and Microsoft. Are we willing to have Windows CE used for a browsing machine like this - it seems like with Jupiter we have crossed that bridge so I am unclear what Compaq thinks is missing. It would be a big disappointment for us to have another OS be chosen here. We need to get on top of this. Trey Smith may give us more insight into what is going on here. Our OEM group needs to get to the bottom of this ASAP. Rod will require quite a low royalty price for this machine. I am not sure it will sell in big quantities or not. It is proposed as maybe just Internet but including creating email and simple documents. It wasn't clear whether it has a disk or not. I think BeOS requires a disk and WindowsCE does not which should be an advantage for us. If the machine has a disk we could do a castrated version of Windows at quite a low royalty since it would no run Windows applications - technicall and timewise for 99 this might be the easiest path.

I tried to engage Rod on WebTV and understand what the issues were there. He said the costs of clearing out old inventory are super high for the current people so they aren't making money. I said I didn't think we had really dug into the issues on a TV based product to see if the economics could work between us or not. Maybe we don't need Compaq in this space but I would rather have them do this than the Portal PC. However we have to be careful. They interpreted something Craig said about preferring to work with them on WebTV and saying we had NO interest in Portal PC and they should go to another supplier for that. Schrock talked about how WebTV is a closed model and I pointed out that helps the economics and certainly AOL will do the same thing. I explained how "openness" was a spectrum starting with whether you allow a user to go to any URL they want to or not.

One area we need to get a policy together for is whether we believe in Windows terminal type usage in the home where you can share a device and have stuff that is less complex. There are third parties doing stuff like this and we create a vacuum by not understanding what we want to do in this area.

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2. Portal in general

Somewhat related to the above is their whole view of Portal. We have a clause in the Windows contract that requires our properties to be featured prominently at no charge. I don't believe Compaq is fufilling this clause. We need to have a hard core position on this without upsetting that on the Portal PC. Compaq should understand that machines that run Windows applications we have stricter requirements than for other machines - we won't impose the same requirement on Portal PC if it doesn't run Windows applications. Rod Schrock acted like we were the ones who had not followed up on the clause and I said that that couldn't be right since we were meeting with them and they were bringing up AltaVista to us. I painted a picture where the cable providers will get most of the high speed connection customers and they will not be paying a portal fee. I challenged Compaq's assumption that they can convert someone away from AOL with what they do in their machine. Schrock brought up a lot of data to say their buttons were getting people to do amazing things. After digging into it all their data shows is that Compaq users do use the buttons to get to their "Home Page" and that generates a lot of home page levels of use for Yahoo (MyYahoo) which is 10x as much traffic as Yahoo normally gets when they don't have the Home page. I suggested to Rod that people would "pay" customers to download software that redirects the Compaq URL that the keyboard generates - he kept saying they can avoid this which given the general purpose nature of a browser and remapping URLs I think he is wrong on that. Maffei thinks Compaq is trying to get TimeWarner to do some portal deal where they throw in AltaVista. This is possible since they are a partner in Roadrunner but I would be surprised if the deal comes together.

Compaq needs to get $40 per PC over the next 3 years to feel good. I suggested they shouldn't take any of this for granted on a machine that runs Windows applications since we control the interface. However it is interesting to understand that threshold which ties to their margin on selling the hardware itself. Portal people like MSN or AOL or GTE might be willing to pay that toll. I want to be clear this is the revenue for ALL PCs so you have to get to the $40 even including the people who don't stay signed up or never sign up - say an AOL user who stays with AOL.

Compaq is amazed at AOL's pervasiveness. They say 15% of all homes and 60% of connected homes are AOL subscribers and they don't see anything we or anyone else is doing to change that. I said it is true that AOL dominants and it means no one will pay portal fees unless they somehow think they can compete with AOL which since they were allowed to buy Compuserve is pretty tough.

3. Wingate(?)/NAT

Compaq is really disappointed that we have so far ingored their plea to support the PC as a gateway. They think we are crazy to just stick our heads in the sand and say that NT is the solution. They say that is a non-starter. They pointed out the work Intel is doing in this space and the cost for them of going to a third party. I was shocked to get mail from Stork saying their 3rd party solution replaces Winsock - that is crazy. However Compaq felt a need to do something and we did NOT respond. Apparently our lack of involvement has them off working with AOL to come up with specific extensions to make gatewaying work for AOL (does AOL like that? According to Compaq they are working with them). I told Compaq that there current solution worked in the basic cases (they offered to demo but I chose not to spend the time on it) but we saw some problems with it. Compaq said that they are full speed ahead unless we come up with something better perhaps even a standard. I don't want to do more standards that don't benefit us - I want to do solutions that work myself. This whole area is really an embrassment for us and I don't understand how we are going to do with this huge hole. Windows 98 has got to get some of this capability I feel. I promised Compaq we would work on doing better in this space. No one raised the issue of seperately distributing binaries and I would have said NO very very very hardcore if that had come up. I don't see how that approach can help us at all.

4. Connectivity to the home

I painted a picture where Cable is charging ahead and it doesn't appear the RBOCs are

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going to show up for the game at all. Echard has a keynote at Comdex and they said that they will announce all the RBOCs supporting G.lite as well as friendly words with Hughes about connecting through satellite and friendly words about making PCs cable ready. I asked when the RBOCs will price to compete and discussed all the issues about conditioning, no video etc.. Echard is on the board of BellAtlantic and said he would dig into it. I told Compaq they had been a great partner on G.lite but that right now I didn't see much happening and that cable will not allow them to get subsidies since they don't have to. I am disappointed in how vague all the G.lite pricing is - where it is concrete it is just too high.

Desktop

1. Windows CE devices.

They will continue with Jupiter and other devices. They lost a lot on discounting what was in the channel as we made the version transition. They wanted to know if Philips was pulling out and what was going on with 3Com. They showed me a great looking Jupiter form factor. They want to be leaders in Ebooks and I agreed they should talk to Dick Brass and crew. They were thinking of getting some software from Xerox called Peddy reader or something which overlaps the work we are doing. They may consolidate their WindowsCE stuff with the consumer group IF we ever figure out how to work with the consumer group on Portal PC. They had a bunch of market data that showed VERY low awareness of Windows CE and Palm as being very well known. They just got a huge order from one customer for 60,000 units - a medical application of some kind.

I suggested that relative to phone type devices maybe a three way partnership between MS, Compaq and oneof(Nokia, Nortel) might be worth pursuing since the skill sets and distribution might be very complimentary. We should consider how Compaq can help us with Officephone challenges that we face.

2. Customers are telling them that Windows Terminal is too thin and the PC is too thick. They want something that runs Office on the PC and is easy to deploy to by using the browser for most other applications. Essentially the customers want a Microsoft Office Appliance (plus a few other local productivity applications) and they want us to make this very easy and supportable. Compaq has hired Scott Cutler to work for Winkler as the chief technologist. He will come up with some ideas for this machine that are fairly concrete and near term which may be very interesting to us. Compaq is amazed that we haven't done more to have a clear story on application deployment. When they talk to us we seem to talk about new written applications but they say we HAVE to solve the problem for todays applications and soon.

3, Display technology. They have invented an approach for building displays which uses LCD chips and a new light bulb projector which is novel. They feel that over time it will compete with CRTs on price and have better resolution and size. The demo was very nice. They were even wondering if we would be a candidate for the spin out but I don't see it matching up with our focus even though what they are doing is cool and very protected with IP. Since it is not an LCD screen I don't think it lends itself to our special font resolution breakthrough.

Server

1. Alpha. Compaq feels we aren't doing enough relative to VLM. They say that people like SAP will not support it unless we have a plan for SQL and other key products. They are very worried about our 64bit status. They want to raise the visibility of Alpha. I suggested that maybe when we have the SDK for Alpha is one milestone. I also suggested to Strecker that maybe when we do our COM+ Runtime announcement in the spring it would be a nice milestone for Alpha. Strecker was VERY interested in this and asked who he should talk to and the one name I came up with was Vaskevitch. Compaq may be a good ally in our byte code efforts if we engage them. Compaq will want more partners for Alpha. They will ask us to promote it to Inteergraph, NEC and Fujitsu in the right way to help it get critical mass. They think Samsung is doing good work with their AlphaPower group.

2. SQLMX. I am unclear if there is a specific plan in SQL that lets us architectually use the

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work Tandem has done to get to a distributed SQL product much faster than we would have on our own. This seems to be a key element of us being willing to pay Compaq for all of this stuff and I don't know what will come true here. I assume we have had our DB architects look at what we are getting and have some buy in on how we will use it for example Jim Gray.

3. Communications + COM+. They wanted to know if CISCO was getting more COM+ stuff for UNIX than they will get. I assured them they would get everything that Cisco gets in this area. They claim they are going to do some great communications stuff all based on NT and we should see them as a great partner here. I said that sounded great. They plan to raise their visibility in this area. They do have strong relationships with telecom companies and plan to compete much better against HP and SUN inside those companies.

4. UNIX. They are deathly afraid their UNIX won't have critical mass. They talked about the AIX announcement. It is unclear how the SCO and AIX code based come together. Compaq likes to point out that IBM is not turning over all their technology so there will not be one AIX. Also there is a Sequent involvement in this mix somehow where that code is different. They really want us to help them convert some people to their UNIX (Siemens, ICL, DG, Unisys) which we are already doing. They think we should help them in the field with their UNIX but this is really asking too much I am afraid.

5. Appliance server. I made it clear how CRITICAL it is to us to get the new version out that uses NT. They said they think this is largely on track and they communicate well with Jim on this. I emphasized the importance here MANY MANY times. This is a foreign OS at Compaq who we treat better than anyone.

6. Buses. They explained at length about PCIX (Project1) and the followon they are doing and how that competes with NGIO from Intel. They agree a switching fabric is the future. They have IBM and HP working with them although they are the leaders of this. They want us to endorse at some point but when I pushed on how that would really help they were a little vague. At some point we may beed to do that.

I thanked Rose for all of his trips to Seattle and his willingness to dstract a lot of time for the lawsuit.

The whole meeting including my 1:1 with Pfeifer at the end was very friendly except for my really probing Schrock on portal related issues. However we help Compaq a lot with our Frontline efforts. There is tension over Portal PC and Appliance server and Portal in general.

I agreed to speak at their Innovate event in April and that will be the next review in Houston. We can decide if we need one here in between times.