From:	Larry Cohen
Sent:	Friday, September 10, 2004 5:28 PM
To:	Bill Gates, Steve Ballmer
Cc:	Mich Mathews; Katy Hunter; Craig Beilinson; Kevin Johnson; David Siroky; Debbie Hill; Dorothy Veith; Christine Turner; Bob Bejan (D.N.A. Inc)
Subject:	Company Meeting Outline Docs
Attachments:	9.10.04 comeeeting outline.doc; 9.10.04 comeeeting q.2.doc

Bill and Steve –

I have enclosed both an outline version and more complete version of the script questions and messages for the company meeting.

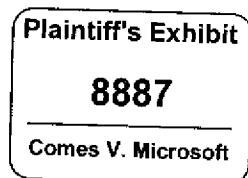As discussed, we expect that you will make a lot of this your own as well.

Additionally, Kevin is set (as appropriate) to go further on certain points, question you on points you may make, etc. We don't want this to come off as over scripted. That said, these represent some of the messages we would like you to convey.

We're still gathering some key facts on security progress. These will come on Monday and I will call them out for you

The speechwriters are following up with logistics information.

We'll have time on Tuesday morning to work out any other synch issues on subjects you both want to talk to and also hash through interactions with Kevin.

7/14/2005

Microsoft Company Meeting
Draft Talking Points

Outline

Bill

As Microsoft matures, how will you continue to ensure that it keeps trying to innovate, building the better mouse trap, recreating itself: continue to focus on the future and not just rest on past laurels and defend its existing portfolio? What are we doing that will change the world (again)?

- We live or die on our ability to drive breakthrough innovation.
- Driving innovation into our existing products, while also doing the work to deliver a series of breakthroughs of the coming years.
- Uniquely positioned to change the world through great software
- How we will make it happen.
    - Continue to aggressively fuel our investment in R&D
    - Ensure we continue to attract the best minds in the industry
- No shortage of opportunity for us
    - Still many inefficiencies that can only be addressed with software advances.
    - Important industry trends that fuel new opportunities for software breakthroughs
- Continued investment in R&D
- Working with BG leaders on driving new advances across the company
- The competitive landscape: "Faddishly hot" vs. lasting impact and winning

I understand part of our strategy is to sustain our competitive advantage through integrated innovation. As we develop more complex products, and grow as a company (in number of employees), this entails increasingly complex integrated execution. How are we going to continue pulling this off? Do you see a limit as to how large and complex we can be as an organization?
- Integrated innovation is a unique differentiation for Microsoft
- Putting in place the processes that really enable our various groups and technologies to work together.
- We're more focused on cross-company execution than we've ever been
- Many great examples of how that is working. Watson, CLT, MOM
- Infinitely scaleable

What was the reason for cutting WinFS from the Longhorn release? Are we abandoning the whole LH Wave concept?
- Vision and commitment to LH has not changed
- We are still on a path to deliver advances well beyond the magnitude of our prior innovation leaps.
- Prioritizing and getting it right
- Outline Customer & ISV benefit
- Specifically highlight commitment to WinFS

What are the key strategies to deal with the security headaches we've had to address in the past year?

- Making security a part of everything we do from the ground up
- Progress: Technology, Customer Education and Enforcement

- Continued focus on: isolation and resiliency; updating; quality; authentication and access control.
- TWC vision and progress
- Future advances (R2)

Please help us better understand the vast sum of money we spend each year on research? Where does the money get spent? What do we get from our investment?
- R&D is a lot more than MSR
- Innovation is key to our future success
- Tying innovation to scenarios and customer needs
- Technology transfer - payback and examples – correlation to market leadership
- Measuring impact: patents

How much of your time are you spending in R&D area in MS, and what kind of activities are you doing?
- Microsoft is still the focus
- Balance of time in working between research and BG work
- Excitement for the future and our prospects
- Committed for the long-term

Steve

1. My question for the company meeting is, "How aggressively will we grow"? Are we moving to a model where compare ourselves with older or more conservative companies like Disney and Dell, with little interest in taking risks and offering new features and products, or are we going to stay the "Microsoft of the 90's", and compare ourselves with companies like Google and Apple, and take more new risks and really focus on creating cool and interesting technologies that consumers "really, really want" to buy?

(Core question: Growth: How will we grow? Will we grow?)

- Tie our growth prospects to innovation
- What you're doing to drive the innovation – big bets and aggressive R&D
- The difference of being "First to cool" vs. "first to profit"
- Optimism for growth opportunities
- Success requires execution excellence

2. If you were projecting our financial figures 5 years out, what would you be happy with in terms of an annual revenue and profit growth over those five years? What would be a stretch target?

(Core question: Growth: Be specific, what is your target, what level of growth should we be happy with?)

- Define success metrics and indicators
- Outline specific opportunities in the P&L's
- The target: illustrate the magnitude of growth you will be happy with in 5 years

2a. Follow-on question from Kevin. "You mention the importance of improving our excellence in execution and how this is related to our success. Make this real for people, give an example of what you mean by driving greater excellence.

- Define "excellence:" consistent, high quality (and low cost) execution in all we do

- Examples: Engineering excellence, marketing work
- It's about how we work – clear priorities and accountability

3. I am feeling concerned with the announcement to give back $75 billion back to shareholders. It sounds as if we could not find better ways to invest the money in growing the company.

(Core question: Evolution and Innovation: Why did you do the dividend? What does it say about the company?

- The dividend represents optimism
- Why we did the dividend
- Responsibility to shareholders
- Preserving our ability to invest in innovation

4. How are we doing vs. Linux? Can you give us some specific comparables so we know where we are winning, holding our ground and still losing ground? Do you see a threat from Linux in the home PC market?

(Core question: Winning: Will we win in our competition with OSS?

- We are hitting our stride in understanding how we meet the challenge
- Competing with Linux through innovation, quality support execution, and facts-based customer education.
- Confidence for our success – OSS evolution and the commercial model
- Need for flawless execution
- Getting traction - The facts are speaking for themselves
- The home market threat– customer value, our investments and partner ecosystem

5. As MSFT is a maturing company, certain priorities have seemed to change - the cost cutting initiatives being one of them...what are your concerns about the type of message that things like cost cutting send to employees? Meaning, are we sending the message that working for MSFT is like working for GM - a big stodgy corporation?

(Core questions: Evolution: Is all the cost cutting evidence that we becoming a stodgy corporation?)

- Keeping the company dynamic and agile - We have as much opportunity to grow and are more dynamic than just about any other company in the world.
- Still making the big bets across our businesses.
- Evidenced in the products and technologies we have and are bringing to market. .
- Staying dynamic, while also becoming responsible

6. Cross group collaboration consistently rates as one of the lowest scoring areas within Microsoft on the Company poll, and one would assume that to keep organization structure seams out of our designs it would need to be one area where Microsoft must excel. What steps are we taking to make sure that Microsoft's organization structure is also not showing through in the design of our products? Do you feel these steps are sufficient and how do you think we are doing?

- Steps we are taking. Accountable for clear commitments and sharing across orgs.
- Integrating to meet customer needs
- Value propositions

Joint Questions

1. What are the 3 crucial things you want employees to focus on in FY05 for our collective success? What will you do to ensure that we can execute on those 3 crucial things?

1. Innovation and Growth
2. Business Performance:
3. How we work: Excellence

2. You talk a lot about commitments. Do you have specific commitments?
- Bill and Steve to talk to their commitments (from offsite)
- Key commitments that other execs are responsible for.

3. What is your vision for the company in ten years, and what is it in 20 years?
- Continuing to invest, making big, strategic bets and doing innovative work
- Bringing in talent that ensures we have necessary abilities to seize opportunities
- Maintaining the dynamic environment

Microsoft Company Meeting
Draft Talking Points

Bill

As Microsoft matures, how will you continue to ensure that it keeps trying to innovate, building the better mouse trap, recreating itself: continue to focus on the future and not just rest on past laurels and defend its existing portfolio? What are we doing that will change the world (again)?

- We live or die on our ability to drive breakthrough innovation
  - a (Bill, you can use the soda analogy to illustrate the challenge we face everyday in "reselling" to our customers based on innovation we deliver).
  - b We are absolutely still driving innovation into our existing products, while also doing the work to deliver a series of breakthroughs of the coming years. Our focus and ability on deliver software breakthroughs has never been more important or clear. I still believe that we are uniquely positioned to change the world through great software and also enabling new scenarios at work and at home.
- How we will make it happen. To do this we will:
  - Continue to aggressively fuel our investment in R&D – we're not pulling back here whatsoever.
  - Ensure we continue to attract the best minds in the industry from around the world. Our people and our ability to execute are our most important assets.
- There is no shortage of opportunity for us, especially as we are in a unique position to deliver key software breakthroughs.
  - There are still many inefficiencies that can only be addressed with software advances. Communications, information visibility, IT costs, development – key opportunities for MSFT to make big contributions.
  - At the same time there are important industry trends that fuel new opportunities for software breakthroughs– hardware advances, storage, networking advances
- Our continued investment in R&D and the yield from this investment is what's going to create the breakthroughs of tomorrow and ensure we're are poised to take advantage of these advances. Specifically, we are driving innovation into existing products:
  - Office system advances (XML/infoPath, One note, Outlook),
  - Windows client (media scenarios, SP2),
  - Windows server (management).
  - .Net and Web services.
- And on a path to deliver new breakthroughs:
  - Search
  - Tablet
  - Speech
  - Project Green
  - Longhorn
- My specific contribution to this is working with BG leaders on driving new advances across the company (the list, new scenarios, integration and engineering excellence)
- On the competitive landscape: There areas where we are seeing competitors who I would characterize as "faddishly hot." Areas like search and media are good examples of this. When you look at the long term investments we are making, the innovations we are driving and the breadth of our vision – I believe we will make the biggest contribution in these areas and will absolutely be in a position of market leadership

I understand part of our strategy is to sustain our competitive advantage through integrated innovation. As we develop more complex products, and grow as a company (in

number of employees), this entails increasingly complex integrated execution. How are we going to continue pulling this off? Do you see a limit as to how large and complex we can be as an organization?

- Why is integrated innovation important:
  - Integrated innovation is a unique differentiation for Microsoft, only we can truly deliver products that tie together a broad set of computing scenarios – Integrated innovation is what our customer buy and is our core competitive advantage
  - I think we can actually capitalize on this even more and work harder to deliver on the promise of integrated innovation – if we do this, our opportunities for growth will increase dramatically.
- How we are going to pull it off:
  - I do acknowledge there's a challenge in delivering on integrated integration as we continue to grow in size, and the complexity of technology we deliver grows as well. But what we've become really good at these past few years is putting in place the processes that really enable our various groups and technologies to work together.
  - Key to delivering is focus on customer value propositions and core customer scenarios that we will deliver on. Work Jon DeVaan is driving is designed to ensure we are building technologies to deliver on customer needs – and that this is done in an integrated approach across teams
  - We're more focused on cross-company execution than we've ever been – on making sure that our key initiatives have the right people, the right resources, the right technologies.
- Many great examples of how that is working.
  - One that I really like is the Watson error-reporting tool. Watson came out of Office, but once we saw what it could do, we started building it into a whole slew of products. And that happened really, really fast. I don't think we could have done that, say, five years ago.
  - CLT with Allchin, Poole, Mehdi and Bach – focusing on core value props and scenarios for consumers. Digital media as an example and the cross-company work that happened to delver on this.
  - Another example is MOM 2005 and the associated management packs. Each Server SKU builds their own set of management packs (and 3rd parties do this as well) to ensure that their reports can be interpreted and reported by MOM. In fact, for SKUs that won't ship for a little while, they are including their management packs along with the latest MOM release, not waiting for a new version of the product to come out. Over 30 MS Management Packs are already available, and 20 new ones ship with MOM 2005. It's now part of the Windows Server System Criteria.
- Do I see a limit to the size of the company? Not really, because Microsoft will always be an ecosystem of smaller businesses each working in partnership towards common goals. The beauty of that model is that we give people the freedom to innovate, to be creative, but it's all directed towards the integrated whole I think that model is pretty much infinitely scalable.

What was the reason for cutting WinFS from the Longhorn release? Are we abandoning the whole LH Wave concept?

- Vision, commitment and excitement for LH has not wavered.
  - Vision and commitment to LH has not changed – and in fact we're now better positioned to deliver on the vision. We are still on a path to deliver advances well beyond the magnitude of our prior innovation leaps.
  - We will deliver huge advances that I feel will surprise people.
- Explain situation and logic:
  - We decided to release a number of products before Longhorn so we can take the time to get it right, and to prioritize the important security features of XP SP2. But

all products after Longhorn will deliver on integrated innovation by building on its next-generation capabilities. Great innovations sometimes are hard, not quick and easy. It's important we get it right. Windows 1, 3, and 2000 all took time, and all were worth it. Longhorn has even more innovation, and it will be worth it too.

- Outline Customer & ISV benefit
  - o Customers can now build the target dates we communicated into their plans. We are now super clear on our technology roadmap and commitments. This is great for us and really good for customers and ISVs.
  - o By delivering these components separately we are able to drive even greater customer benefit – as we will enable WinXP and Windows Server customers to utilize Avalon and Indigo, which is key because they get to see the vision, to see where it can go, how it can transform what computers can do for them. They get to see the roadmap clearly without having to make the transition to WinFS immediately. I really believe that's a win-win
  - o This also benefits ISVs. ISV feedback has been really strong because they now have an even larger base of potential customers for their LH apps. Before, we made our partners make a hard decision – support the new OS with new functionality and platform, which has zero market share? Or support their larger existing code base? Most companies can only afford to do development, testing, marketing for one or the other. Now, as we make WinFX available on a much broader platform, this provides a much more flexible set of opportunities for our partners, our customers, and the industry and ecosystem as a whole.
- Specifically highlight commitment to WinFS
  - o Our commitment to WinFS is also strong – in fact, we're scheduled to be in beta with WinFS right as LH ships.
  - o Talk to the key advances we drive as a result of shifting the underlying data architecture to WinFS. I also want you to speak to our commitment and make this team feel good.

What are the key strategies to deal with the security headaches we've had to address in the past year?

- Make it clear that our work is not done
  - o First and foremost, we will continue our focus on making security a part of everything we do from the ground up as we build products.
- Highlight the great progress resulting from the focus on making things better for customers. Technology, Customer Education and Enforcement:
  - o I feel really good about the advances we delivered this past year to address security issues, and we're hearing more and more from customers that they believe we are on track.
  - o Outline key products/technology: SP2, ISA, SMS – all key in our vision to protect our customers.
  - o Education: We worked hard to educate customers on the importance to utilize firewalls and ensure they have up-to-date AV solutions. We've also conducted XX number of security seminars around the world, speaking to XX customers. All of this has had a positive effect as well. If you contrast blaster and slammer to recent attacks.
  - o Enforcement: making significant progress here – over 757 security related enforcement actions in FY '04
- Continued focus and construct for how we work on security
  - o We will continue with our unwavering focus on these areas. Specifically, isolation and resiliency; updating, quality, authentication and access control.
- I want you to use this as an opportunity to highlight the progress we are making on TWC as a whole. Specifically on SPAM and related issues:
  - o Additionally, we are making significant progress on issues like SPAM and malware. Delivered SmartScreen technology and have now integrated into

Outlook, Hotmail and Exchange. On hotmail alone we are blocking X pieces of SPAM per day. Here on campus, OTG is currently blocking X pieces of SPAM through the implementation of SmartScreen.

- The future: Moving forward, with releases such as R2 from the Windows Server team, we're teaming up with partners to support NAP (network access protection), so that anytime someone connects to their corporate network, their PC is scanned to make sure it's clean from all known issues.

Please help us better understand the vast sum of money we spend each year on research? Where does the money get spent? What do we get from our investment?

- Explain that R&D is a lot more than MSR
  - First, it's really important to understand what the big number includes. The biggest part of it is development, not pure, blue-sky research. That means development work on all our future products and technologies, some of them pretty close to market So that part of the investment – and it's more than half – goes directly to delivering technology directly to our customers.
- Strategic to our future
  - We are in the innovation business. Core is delivering on our customer needs today. But the only way we maintain our leadership position is if we are making investments to drive the types of advance that are 5 – 10 years out – the types of things that customers aren't even thinking about. This is the most strategic investment we can make – our leadership is predicated on this.
  - We're in a unique position to conduct research against a broader set of scenarios than just about any other technology company. (discuss focus areas that employees may not be exposed to).
- Technology transfer
  - What we spend on research itself gives us a tremendous payback – the work that is being done in MSR and around the company (and around the world in our various research outposts). Has tremendous impact on our products and customers.
  - They include media codecs, ClearType, text-to-speech engine, source-code analysis tools, cryptographic advances, Smart Tags, anti-piracy technologies, new datamining techniques, adaptive rendering, digital ink, natural-language technologies, etc, etc.
  - There is a direct correlation between the breakthroughs we deliver through research and our ability to lead in the server market, desktop, search, games, etc.
- Measuring impact
  - A key measure of our impact is patents. We discuss number of patents filed, and we're on a path of filing 3,000 patents this year, up from 2,200 last year. Certainly, this is really strong – but there are other measures which are interesting indicators for us.
  - MIT has a measure of patents cited (you have this)

How much of your time are you spending in R&D area in MS, and what kind of activities are you doing?

- Microsoft is still my full-time job
- Describe how you balance your time in working with the research groups to map future advances and investments and the work you do with the BGs, going deep on technology and product issues and driving the scenarios. (maybe speak to the list, your role as approver, mentor, etc).
- Describe how you tie these together and still conduct think weeks.
- Point to your excitement that goes back to the founding vision, and how you feel there is still so much potential to blow people away by delivering software breakthroughs.
- Committed for the long-term.

Steve

1. My question for the company meeting is, "How aggressively will we grow"? Are we moving to a model where compare ourselves with older or more conservative companies like Disney and Dell, with little interest in taking risks and offering new features and products, or are we going to stay the "Microsoft of the 90's", and compare ourselves with companies like Google and Apple, and take more new risks and really focus on creating cool and interesting technologies that consumers "really, really want" to buy?

(Core question: Growth: How will we grow? Will we grow?)

- Tie our growth prospects to innovation
  - We are a company that will continue to grow through breakthrough software innovations. Our ability to innovate and deliver on customer needs across these businesses is our growth enabler – and I believe we will meet the challenge.
- What you're doing to drive the innovation – big bets and aggressive R&D
  - When you step back and think about the work underway at the company – not only the advances we are driving in our larger businesses like Windows and Office – but the work underway in our emerging businesses and the big, big bets we are taking in areas like mobile, small and mid-size business, home and entertainment and online – its so clear that we are more dynamic with more opportunities to change the world than ever before.
  - We are aggressive about our innovation investments: $6.1B for FY05.
  - The key is to accelerate the innovation
- The difference of being "First to cool" vs. "first to profit"
- Optimism for growth
  - We're on a trajectory - everyone of our 7 businesses is growing.
  - We are poised to ride a wave of industry growth
  - It took 30 some years for the PC IB to grow to 600M. In the next 6 years, by 2010, it is projected to be 1B. The opportunities for big growth are in our hands.
- Success requires execution excellence

2. If you were projecting our financial figures 5 years out, what would you be happy with in terms of an annual revenue and profit growth over those five years? What would be a stretch target?

(Core question: Growth: Be specific, what is your target, what level of growth should we be happy with?)

- Success metrics
  - I am confident we can continue growing faster than the technology industry.
  - Continued growth of our 7 businesses.
  - During fiscal 2004 our operating income (excluding legal and OTP expenses) was nearly $14 billion. Not many companies make $14 billion in operating income each year. Maybe just three or four worldwide.
- Specific opportunities in the P&L's
  - We can generate meaningful top and bottom line growth. We have strong growth opportunities from our innovation investments across the company, including: PC Market growth, New IW Scenarios, Enhanced Server position, Reducing complexity and costs for IT Pros and Developers, IT Services for consumers and small business, Business Applications, Non-PC electronics, Entertainment, Advertising/information and Communications.
- The target: illustrate the magnitude of growth you will be happy with in 5 years
  - Growing operating income by four billion dollars over the next few years

- o Not many companies today even make $4 billion in *total* operating income? Maybe 40 worldwide.
- o So what is a good growth number for us? Four billion? Five billion?
- o I know that when we think about what is possible that could translate to growing by the annual operating income of a whole Nokia, or a whole Siemens or potentially even a whole Intel.
- o I will say that I would be very pleased if we grew operating income by the size of some of these companies. That would be a pretty tremendous accomplishment.

2a. Follow-on question from Kevin. "You mention the importance of improving our excellence in execution and how this is related to our success. Make this real for people, give an example of what you mean by driving greater excellence.

- Define: When we talk about "excellence," what we mean is consistent, high quality (and low cost) execution in all we do
  - o One example is creating products, serving customers and operating the business.
  - o Our Engineering Excellence initiative is helping the product teams create more secure and reliable products at lower costs and on better schedules. The results show in products such as Windows Server 2003, SQL Server 2000 Service Pack 3, SMS 2003, Exchange 2000 Service Pack 3 and the .NET Framework. The changes the Windows team is making to its development and build processes will have similar great effects
  - o We are also pursuing excellence initiatives in other disciplines, like marketing.
- How we work – clear priorities and accountability
  - o Executing well on our priorities will require shifts in how we work – individually and together, particularly as we continue to grow. Innovating, growing share and profits, and serving customers all ensure that we have no time for wasted motion.
  - o To do this, we need to prioritize the things that matter the most with our customers and for the company, and then be accountable for executing on those choices. We need to reduce churn (e.g., org structure, people and strategy changes) and its impact on productivity, accountability and execution, and do a better job of executing well when change is necessary.
  - o Better accountability means leaders thinking through these changes and priorities better, and all employees executing better on their commitments.

3. I am feeling concerned with the announcement to give back $75 billion back to shareholders. It sounds as if we could not find better ways to invest the money in growing the company.

(Core question: Evolution and Innovation: Why did you do the dividend? What does it say about the company?

- What the dividend represents
  - o The special dividend and buyback are really a reflection of our confidence for our long-term potential. They are indicators of the return we expect from our businesses.
  - o $30 billion of that $75 billion is what we intend to spend on buying back our own stock. And that shows incredible confidence in the future of the company – it basically means we looked around for the best place to invest $30 billion, and we couldn't see a better investment than our own stock.

- The logic for doing the dividend
  - o The $60 billion that we currently have in cash and short term investments is more than the total cash and short term investment balances of Intel, HP, IBM, Oracle,

Dell and Cisco combined. This is a very fortunate situation and one that can't really be compared to cash distribution decisions of other companies.

- o Responsibility to shareholders
- Preserving ability to innovate
  - o We are fortunate to be in the position of being able to return cash to shareholders AND continue to invest aggressively in the business -- in our people, in software innovations, and as appropriate, investing in third party technology and companies that will help us innovate and grow.
  - o This company is built on innovation, have thrived on innovation and our future depends on innovation. We will continue to invest in innovation more than any other company in our industry.
  - o As a company, we have generated roughly $14 billion in cash flow from operations in each of the last three years, even after investing tens of billions of dollars back into product innovation and in running our business. If we continue to perform well, we should expect to continue to generate a lot of cash.

4. How are we doing vs. Linux? Can you give us some specific comparables so we know where we are winning, holding our ground and still losing ground? Do you see a threat from Linux in the home PC market?

(Core question. Winning: Will we win in our competition with OSS?

- Hitting our stride in understand how we meet the challenge
  - o We know how to compete with Linux through innovation, quality support execution, and facts-based customer education.
- Confidence and strategy
  - o I have a lot of confidence in how we stack up competitively with Linux in terms of strategy, sales and marketing, and our product offerings. As the Linux distribution model matures, we see vendors like IBM and RedHat adopting a commercial model around Linux, which, due to high services costs, is quickly putting to bed the notion that there is a cost advantage over Windows.
  - o But we have to keep making sure we're doing the right things:
    - Where we have a good story to tell vs. Linux are we telling it well?
    - Are we talking to customers and engaging on the right fronts?
    - Where Linux has traction, are we delivering the right products for the workloads?
  - o With single-purpose server scenarios such as file/print/web server, it's a battle, no question, but we are responding with very strong workload-specific SKUs such as Windows Server 2003 Web Edition, Windows Server 2003 Storage Edition and an upcoming High-Performance Computing offering.
- The facts are speaking for themselves
  - o We now have independent studies from respected analyst firms like Forrester, IDC, Yankee Group and Bearing Point underscore the advantages over Windows over Linux in key areas such as TCO, performance, reliability, interoperability, security, support, indemnification and a worldwide partner network. Our Get the Facts campaign is focused on educating customers about these facts
  - o Customers are taking notice -- we're making significant strides. (invite employees to look at the site.)
- Specifically, the home market
  - o In the home market, OSS products simply do not provide meaningful customer value on the client compared with our offerings. Customers are demanding easy home networking, great integration with digital media, games, etc., and here, we and our partners are absolutely in a position of leadership. I am confident that will continue as long as we continue to execute well.

- o Most importantly, nobody is really making the investments to completely understand the customer in the home and also investing to make the PC experience easier and easier.

5. As MSFT is a maturing company, certain priorities have seemed to change - the cost cutting initiatives being one of them...what are your concerns about the type of message that things like cost cutting send to employees? Meaning, are we sending the message that working for MSFT is like working for GM - a big stodgy corporation?

(Core questions: Evolution: Is all the cost cutting evidence that we becoming a stodgy corporation?)

- Keeping the company dynamic and agile
  - o We have as much opportunity to grow and are more dynamic than just about any other company in the world. That's a big statement, but the opportunities we've scoped out are very big
  - o Still making the big bets across our businesses.
  - o No other company faces with a similar opportunity to have an impact and change the world through technology.
  - o Evidenced in the products and technologies we have and are bringing to market. I look at that video showcasing our products – a stodgy company does not have the big goals we do and doesn't deliver that excitement and innovation.
- Staying dynamic, while also becoming responsible
  - o Over the past three years, we have invested significantly and as a result our expenses have grown faster than revenues. This obviously is not a trend we can continue.
  - o While we cannot cost-cut our way to greater profitability, it would be irresponsible if we did not pay continued close attention to how we can continue to tighten our cost structure
  - o The bigger picture is this: Either we're competitive in the marketplace or we're not. If our expenses are out of whack, competitors will offer prices, services or innovations that we cannot afford to match. Other companies have been severe in tightening costs the last few years - layoffs, major benefit reductions, etc. We have not done those things and want to be prudent now so we avoid severe measures later.

6. Cross group collaboration consistently rates as one of the lowest scoring areas within Microsoft on the Company poll, and one would assume that to keep organization structure seams out of our designs it would need to be one area where Microsoft must excel. What steps are we taking to make sure that Microsoft's organization structure is also not showing through in the design of our products? Do you feel these steps are sufficient and how do you think we are doing?

- Steps you are taking·
  - o Beginning with your staff, holding everyone responsible for clear commitments and sharing those commitments.
  - o Clarity on shared commitments.
  - o Ensuring those commitments make their way through the organization.
- Why cross-group is important:
  - o As our customers needs become more complex and we work to make their experience with our products seamless, cross group collaboration becomes one of our most important values that gets us to where we need to be.
  - o It is fundamental to our ability to deliver on the vision of integrated innovation. We cannot build an integrated platform from silos.

- Make it clear that cross-group collaboration will be an on-going requirement for the business. It will require each individual to understand your dependencies be accountable to your cross group commitments

Joint Questions

1. What are the 3 crucial things you want employees to focus on in FY05 for our collective success? What will you do to ensure that we can execute on those 3 crucial things?

1. Innovation and Growth
2. Business Performance:
   - Revenue and Profit, Share, CPE, Growth of Client, Server segment growth, Office 2003 deployment and Developer appeal.
3. How we work:
   - Excellence in execution.
   - Our responsibility to one another, and as a global citizen

2. You talk a lot about commitments. Do you have specific commitments?
- Bill and Steve to talk to their commitments (from offsite)
- I want you to point to key commitments that other execs are responsible for. Example: Jim Alchin/Security. I think its important that across the company there is an awareness of disciplined commitment setting.

3. What is your vision for the company in ten years, and what is it in 20 years?
- I was doing lunch a few weeks ago with a group of folks who started a year ago in marketing right out of school and we were talking and somebody said, "Well, I've heard you talk about growth and technology and innovation over the next three years, but tell me about 13 years from now, what's the world going to be like 13 years from now? Technology, growth, company size, and the rest."
- I see us continuing to invest, making big, strategic bets and doing innovative work.
- Bringing in talent that ensures we have necessary abilities to seize opportunities
- An interesting indicator for me is a recent study in which Microsoft is the #1 ranked company, of college students when asked where they want to work. #1. Bringing in excellent people talent ensures we have the necessary abilities to seize our opportunities.
- I will tell you if we keep getting the kind of people that we have right here, right now coming to Microsoft and we make the right bet on software continuing to be a great business, ----- I believe we're going to write more, better, greater software than other company out there.
- People come here to work for a dynamic company – a company that changes the world. And its this kind of vision I have for MSFT in 20 years – still dynamic, still delivering breakthroughs that change the world, and still one of the best places on earth to come work and have that level of impact.