

From: Brian Ball (Exchange)
Sent: Tuesday, February 09, 1999 12:35 PM
To: Bill Gates; Paul Maritz; Joachim Kempin; Carl Sittig; Richard Fade
Cc: Greg Maffei; Steve Ballmer; Jim Allchin (Exchange); Brian Valentine (Exchange); David Vaskevitch; Paul Flessner; Brad Chase; Laura Jennings
Subject: RE: Compaq meeting

-----Original Message-----

From: Bill Gates
Sent: Tuesday, February 09, 1999 11:49 AM
To: Paul Maritz, Joachim Kempin, Carl Sittig; Richard Fade, Brian Ball (Exchange)
Cc: Greg Maffei, Steve Ballmer, Jim Allchin (Exchange), Brian Valentine (Exchange), David Vaskevitch, Paul Flessner, Brad Chase, Laura Jennings
Subject: Compaq meeting

I spent 2 hours talking with Echard Pfeifer and Andreas Barth while flying from Zurich to Paris last Monday.

Echard feels like they are gaining share against everyone now. In the 3rd and 4th quarter he said Compaq was the only one gaining share in PCs. Dell was flat he says.

He is very keen on us getting some agreement on high end NT. He is very interested in having his people understand our "Parade" messages. He says they have to be pretty direct and simple messages for Compaq to be able to help push them with us.

I probed whether they were "focusing back on UNIX" as Hasso Plattner from SAP had said. He says no - they have their field focused on NT and that is where they can win and assuming this high end deal goes through this will be even clearer.

I am at Compaq on April 14 and he was saying we should announce the new relationship stuff as part of that day.

I raised the database work they are doing as a problem I said it is our view that enough additional work has to be done that they should just give up on it. I said we think we are within 2 years of having distributed query and we think they will take almost that long to get their thing done.

[Brian Ball (Exchange)] They have code running on Windows2000 now (Beta quality) and their NSK customers need to see a believable future for their database applications. Most of those customer will just stay on the NSK platform and only move to NT when we have the right availability and scalability in both Windows2000 and SQL Server. But the marketing story is important to them and although we will have distributed query we have a long way to go to establish credibility with their NSK customer set.

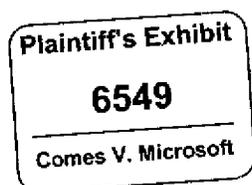
As a partner I said we should make clear that the MX thing doesn't help us mutually as much as they think and it does complicate things. Apparently Strecker called Martiz and had had my comments translated as suggesting an increased interest in being involved with MX which is actually not what I said. I didn't mean to cause confusion on this. I just wanted Echard to understand our view that they would be better off to give up on MX and they can do as they choose but the part of the deal we like is the part related to non-stop NT. I guess we are not trying to license that trademark from them although we should consider that again perhaps.

We need to get Brian Ball to understand technically what Compaq is going to do.

[Brian Ball (Exchange)] I'm pretty current on this. I've participated in the Sculptor deal with Tom Phillips since last fall. And I know the Tandem part of Compaq pretty well (that's where I was the 12 years before joining Microsoft). We need to take some risk is letting them go off on their own. The same issue is coming up with the other high end players.

Paul updated me today on the state of the deal and it all sounds fine to me. \$17.5M loan forgive plus \$10M funding to get the NT stuff with us getting back rights to us if when we want and no exclusivity is my understanding. The way the database piece is worked out we cross license some technology to each other. Apparently Strecker thinks they should go ahead with the Database even though he is the one who killed RDB* at Digital.

Once we get our parade thinking together we need to really expose it to Compaq and HP and get their agreement and involvement.



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We talked a lot about how they manage the company. We talked about getting the perception that NT deserves to own the high end and how that will be tough and we need their help.

I asked Echard to come visit a fall staff meeting. He said he would be glad to do so. Bob Herbold - I didn't have the dates with me at the time so we need to give those to his office if he hasn't already asked for them

We also discussed the consumer space. I reiterated how key our relationship on portal PCs and appliance servers was to us. I probed to understand what the relationship between the spun off company is and Compaq - does the spinoff get free portal promotion so that Compaq's consumer PCs don't get the same subsidy that their competitors get? Echard said that for a period this is the case. I said we needed to understand this better to decide whether to invest and we needed to do better somehow than the IPO price. He said they would work with us on this. I made it clear that if the investment doesn't happen it is not a disaster from our point of view. I mentioned that in their Windows contract we do get some rights to promote Microsoft properties and that was important to us.

I also asked him when they are going to spin of the company doing display technology. They want to run it by us to see if we want to be a minority investor. I am not sure whether that makes sense for us or not.

It was a friendly meeting with lots of discussions about how we go to market better than we have.