
From: Bill Veghte
Sent: Thursday, November 21, 2002 7:58 AM
To: Bob Kelly Directs, David Thompson (NT); Jim Hebert, Katy Hunter
Subject: FW: Discussions with the press

Please do not forward but the comments in here are excellent.

I do want to have in the notes of the RB deck a price comparison table that he notes (Peter can you have Melba do this).

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

From: Jim Allchin
Sent: Wednesday, November 20, 2002 11:51 AM
To: Chris Jones (WINDOWS); Will Poole; Brian Valentine; Rogers Weed; Bob Kelly; Bill Veghte; S. Somasegar; Mike Nash; David Thompson (NT); Dan Neault
Subject: FW: Discussions with the press

worth reading. . I think the comments are quite good in a number of ways.

We should consider including the pricing comparison he does below in the RD deck.

Also I think I need to work with him on the essence of LH. What he describes is an important aspect, but not how I would personally spin. Maybe it is ok for now, but it must change over time.

jim

From: Bill Gates
Sent: Wednesday, November 20, 2002 10:17 AM
To: Senior Leadership Team
Cc: Orlando Ayala; Kevin Johnson; Jean-Philippe Courtois; Eric Rudder; Sanjay Parthasarathy; Paul Flessner

I wrote up the comments below in summarizing a dinner Steve and I had with about 20 leading editors in Las Vegas Monday night.

Please look them over because I am very interested in whether the way I am positioning things is consistent with all of you. Also you will find some ways of discussing competition that I have had to refine over a period of dozens on interviews boring in on those issues.

What is the state of innovation? I gave them a framework where chip, screen, Wifi, storage, camera imagers and optic fiber advances are full speed ahead in a continuous fashion and those things enable software and scenario advances in a bit of a discontinuous fashion because you need software platforms at critical mass and user penetrarion at critical mass before new scenarios have their full impact.

What is MSFT's view of mesh networks? I got this question a lot more from press than I expected. I made it clear we are doing amazing software work that is a necessary part of this. I need to talk with Craig/Pierre/Tren more about our public message on this. We have to be careful to just say "we are doing the software to allow for this" rather than saying "we are going to make this happen to undermine cable and DSL pricing"

What is Microsoft's role in the enterprise? I got to talk about scalability progress and the longer track to get full credibility for management and reliability and security but explained how serious we are about it and how the web

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services platform will surprise people by how it advances these issues.

What is Microsoft's biggest competitor? I think it is CRITICAL to point out to people that the biggest competitor is our installed base of software. If we don't improve Office and users don't want the new version then people get to use it forever without paying us anything. Competing with the real Office that doesn't wear out is tougher than competing with an inferior clone. Our innovation has to reach the threshold where people not only want to license the new version but install it and learn it and deal with any issues it creates.

What is Microsoft's relationship with IBM? I point to our behaviour relative to Webservices standards as a huge example of new responsible leadership. Rather than implementing these protocols and then taking them to a standards group or keeping them proprietary we work with competitors including IBM and define them together and then both implement in parallel. This some of Microsoft's and IBM's finest work and it is laying the foundation for the dreams of the Internet like Ecommerce to become a reality. I also explain we have a good relationship with them on hardware where they did a nice 16-way server and we meet with them to discuss having the best Windows platforms. I say the competition between Exchange and Notes and Windows.net and Websphere are healthy competition for the customer and because of our pure software focus we have generally done a better job listening and advances software products than IBM (at least off the mainframe).

Will people ever move off of the Mainframe? I don't say anything radical on this but I say many customers are moving a lot of cycles off today including the Danske Bank example I used in the keynote. However getting people to move the "master account record" out of CICS/IMS on the mainframe will take time. However if you think about this decade the use of mainframes will go down a lot.

What is our view of Linux? I point out that Linux like Unix is not a single thing -- it is many different systems that are not the same. The point that Linux is diverse is not one we are good at making. People who develop for RedHat Linux need to test for UnitedLinux. When people like SGI or HP enhance Linux you don't get all those enhancements in one version -- in fact just like Unix each company wants to have something that it does better and even though some pieces of source code are there it doesn't mean that the pieces are integrated and tested together. I explain how the commercial model allows for testing and binary upwards compatibility.

What about Linux price? I explain how Linux plus Websphere is more expensive than Windows equivalent and Linux plus Oracle is more expensive than Windows equivalent. I explain how the richness of the platform that we sell for \$500 just keeps getting richer -- directory, certificates, app server, etc etc. I explain that for most projects the licensed OS is only a few percent of what people spend and getting the right platform can save much more than a few percent on the development, management, richness of the app, hardware flexibility, communications cost etc.. I say that is places where customers are very price sensitive like Education we have had special prices that are 15% of normal and we will keep those prices low enough to get very broad usage in education.

What about platform innovation -- doesn't Linux have more people doing cool stuff? I gave the analogy of someone saying that the new 747 competitor is being designed by an OpenSource Airplane design group. The interdependencies and need for parallel coordinated innovation requires a commercial model with risk taking. A new 747 can't be done by a non commercial model. I say that an opensource model could take an old design and have people do cloning and modest improvements on various aspects independently. I give tablet as an example of something that required changes in many aspects on the system -- getting Office to do its work and handwriting recognition and new platform capabilities. I say that Linux is not where advances like great games, or tablet or management have come or will come despite the openness. I explain the things like community involvement we have learned from Linux. I go back to the argument above that we are forced in to do big advances or else our installed base will have "share" but there will be no revenue for us. I talk about Stallman's view that there shouldn't be jobs doing commercial software and how that would cut off a whole range of innovations that have come from the commercial world.

What about Longhorn? I mostly focus on how the universal store will make it easy to manage and find information across many machines and device types -- being both richer and simpler. I ask people about their problems managing files or finding them in our ugly names space. I also about all the search commands -- mail, music, photos, fonts, printers that are so hard to remember. I admit we don't have a baked plan for the work and that even inside Microsoft it is viewed as very ambitious partly because earlier efforts like Cairo proved premature.

What is SPOT? I admit the announcement was a bit of a teaser and that we will stop teasing them at CES. We talked a lot about personalization and how important that is.

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What about Xbox Live? I admitted I hadn't gotten to use it except in controlled demos yet but showed my excitement for it and encouraged them all to try it.

What about Microsoft in India? Lots of discussion about my trip there and how Indian companies like Infosys and Wipro are growing and proving to be effective.

There were many other topics where I got to show some passion and depth about making software better and enabling new things.

I agree with Mich that their model of how we think and what we care about gets very warped if they don't see us in person. They think everything is a power play and we are using our smarts to outsmart competition more than using it to do cool things for users. The room could have been slightly better. I think through events like this we can get a lot more balance in our image. I think we can get them to include our excitement about new product things and some admiration that we are doing things no one else is doing. The old chestnut about us not innovating will die. There will still be the edge of "Wow they are big and smart and no one is gaining on them except perhaps the Linux model". Ironically as we get our act together in phones/PDAs and TV and MSN/Office subscription this will get even more pronounced.

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