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**From:** Mike Oldham  
**Sent:** Friday, November 22, 2002 4:50 PM  
**To:** Orlando Ayala; Jim Allchin; Brian Valentine; Bill Brammer; Rodrigo Costa; Sanjay Parthasarathy; Paul Flessner; Pieter Knook; Gayle Brock; Bob Muglia; Kim Muromoto; Mike Sinneck; Jared Wheeler; Ludovic Fourrage; Marc Rankin; David Thompson (NT); Jeff Price; Bruce Olson; Tom Phillips; James Duffus; Chris Jones (WINDOWS); Will Poole; Vinay Kumar; Manish Sharma; Rajiv Popli; Lars Boesen; Rogers Weed; Joe Eschbach; Jeff Blumer; Kevin Eagan; Steve Schiro; Lisa Brummel; Dale Watanabe; Christian Johanneson  
**Cc:** Debbie Hill; Dorothy Veith; Patty Carlson; Tina Krallis (BRUSCA); Susan Boyd; Celeste Russell; Rebecca Mueller; Melissa Howe; Mike Oldham; Jolie Enos; Dianna West; Cathy Porter; Tari Beck; Patty Jackson; Kimberly Butler; Deborah Hanson; Elisa Shotwell; Jeannine Dougherty; Sue Warnke; Miriam Muller; Elizabeth Davis; Carl Sittig  
**Subject:** HP Nov 25th 9x9 Meeting- Agenda, Backgrounder & Partner Scorecard  
**Attachments:** Revised HP Scorecard.ppt; Agenda and Backgrounder - November 25 - ver. 3.doc; Agenda and Backgrounder - November 25 - ver. 3.doc; Revenue to Date.doc

I have attached the Agenda, Backgrounder and Partner Scorecard for the HP meeting. The Backgrounder is an internal document only. Please contact me over the weekend or Monday morning if you have any questions.

The agenda for the day is below:

**HP-Microsoft 9X9 Executive Review**  
 November 25, 2002

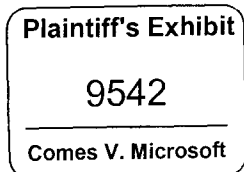
**Microsoft Executive Briefing Center**  
 Evergreen West Room  
 12:30 – 4:45

**12:15 – 12:30 – Lunch Served**

**12:30 – 12:50 - Business Update**

- **Peter Blackmore and Steve Ballmer – general business update**
- 12:50 – 1:10 – Partnering Progress Report (Mike Oldham, Steve Flannigan)**
  - **PC/Imaging Partnering**
  - **Enterprise Offerings**
  - **Markets/Operations**
- 1:10 – 2:10 - Enterprise GTM opportunities & discussion**
  - **Storage partnering - Server Consolidation - (Joint -Howard Elias/Bob Muglia)**
  - **NET Results Strategic direction (HP -David Stubbs)**
  - **IPF GTM opportunity (HP – Rick Becker)**
  - **Enterprise Exchange Customer Update (HP – Rick Becker)**
  - **.NET Server launch partnering opportunity (MS – Jeff Price )**
- 2:10 – 2:40 – PC Innovation ( Tom Phillips )**
  - **Update and open discussion**
- 2:40 – 2:50 - Break**
- 2:50 – 3:30 - Emerging Markets Partnering (MS - Vinay Kumar)**
  - **Program opportunities and partnering proposal**

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- **Education opportunity**
  - 3:30 – 3:50 – Office 11 Strategy & Opportunity (MS - Joe Eschbach)**
  - 3:50 – 4:30 Promoting Great Solutions at Retail (MS - Steve Schiro, Kevin Eagan)**
    - **Selling “Scenarios” at retail & educating consumers**
    - **Partnering with HP’s PC and Hard Copy teams**
    - **Showcasing HP’s “Better Together”**
  - 4:30 – 4:45 Actions**
    - **Top Priorities for next 6 months**

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**Partner Scorecard**

	June	November
<b>PC/Imaging</b>		
XP Pro on Biz PCs	■	▲
Tablet PC	■	▼
Pocket PC	■	▲
Media Center	■	▶
PC Innovation	■	▶
64-bit Workstation	■	▶
Imaging Innovation	■	▶
Mobility Device Innovation	■	▶
<b>Enterprise Offerings</b>		
Mgmt. SW/iBIG Engagement	■	▲
NAS Engagement	■	▲
Orca/Titanium	■	▲
Enterprise/Exchange Issues	■	▲
Data Center/Mission Critical	■	▼
.NET Results	■	▲
<b>Markets</b>		
SMB		
*North America	■	▲
*EMEA	■	▲
*Asia	■	▲
Enterprise	■	▶
Consumer	■	▶
Emerging Markets	■	▼
<b>Operations</b>		
Audit Closures		
*Compaq	■	▲
*HP	■	▲
IP/Collaboration	■	▼

**Partner Scorecard Key**

Item - Current Status	Summary of activity from June - November
<b>Client &amp; Imaging</b>	
XP Pro on Business PCs	Increased the XP Pro mix on Biz PCs from 60% in June to become one of the industry leaders at 92% mix.
Tablet PC	Great design, strong engagement with product teams and successful launch event. Unable to meet demand.
Pocket PC	Losing channel momentum and market share; lack of products available.
Media Center	Great retail partnering that included joint sales calls; downside has been missed opportunity with under supply.
PC Innovation	Took action from last meeting and can discuss some creative ideas that warrant exec feedback.
64-bit Workstation	Desired features: Japanese version, DirectX, native VS & DDK, 64-bit Java plug-in to IE, Restore, NetMeeting.
Imaging Innovation	HP continues to execute well on driver delivery; trending upward based on recent Jsmall-VJ desire to do more.
Mobility Device Innovation	HP roadmap appears thin and missing some key product offerings such as Smart Phone.
<b>Enterprise Offerings</b>	
Mgmt SW/iBIG engagement	Executive teams met in August; a lot of work to be done creating cohesive strategy with iBIG.
NAS Engagement	Teams have worked closely and turned around some differences in strategy to be closely aligned.
Orca/Titanium	Great improvement considering that MS had none of these systems in house in June.
Enterprise Exchange	HP Server team has fixed Exchange issues that were causing data integrity problems.
Data Center/Mission Critical	HP shipments are down 30-40% monthly; need a clear owner in Services org to drive and own.
.NET Results	Program launched and gained good industry visibility; certifications are behind plan.
<b>Markets</b>	
SMB - North America	Results are stable and trending upward based on HP's recent growth in Call Center.
SMB - EMEA	Good progress and engagement with EMEA SMB teams that have jointly invested in driving sales.
SMB - Asia	Trending upward based on Emerging Market plan that has recently launched; much work to be done.
Enterprise	Summit has served as a bonding for joint teams and offset some of the merger confusion.
Consumer	Great partnering with MCE; can improve apps partnering; working closer on product and marketing issues.
Emerging Markets	Not aligned on joint strategy to achieve both our goals; Some progress in SE Asia pilot.
<b>Operations</b>	
Compaq Audit	Executed and closed a five year period with excellent reporting and structure.
HP Audit	Has been on hold and will now work toward closure.
IP/Collaboration	PCL closure positive; need more training within HP product orgs on process; recent PCL issues.

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November 25, 2002

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**12:30 – 12:50 - Business Update**

- Peter Blackmore and Steve Ballmer – general business update

**12:50 – 1:10 – Partnering Progress Report (Mike Oldham, Steve Flannigan)**

- PC/Imaging Partnering
- Enterprise Offerings
- Markets/Operations

**1:10 – 2:10 - Enterprise GTM opportunities & discussion**

- Storage partnering - Server Consolidation - (Joint -Howard Elias/Bob Muglia)
- NET Results Strategic direction (HP -David Stubbs)
- IPF GTM opportunity (HP – Rick Becker)
- Enterprise Exchange Customer Update (HP – Rick Becker)
- .NET Server launch partnering opportunity (MS – Jeff Price)

**2:10 – 2:40 – PC Innovation (Tom Phillips)**

- Update and open discussion

**2:40 – 2:50 - Break**

**2:50 – 3:30 - Emerging Markets Partnering (MS - Vinay Kumar)**

- Program opportunities and partnering proposal
- Education opportunity

**3:30 – 3:50 – Office 11 Strategy & Opportunity (MS - Joe Eschbach)**

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- Selling “Scenarios” at retail & educating consumers
- Partnering with HP’s PC and Hard Copy teams
- Showcasing HP’s “Better Together”

**4:30 – 4:45 Actions**

- Top Priorities for next 6 months

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**HP Attendees:**

Attending Entire Meeting:

Shane Robison, Senior Vice President, Corporate Strategy and CTO  
Mike Winkler, Executive Vice President, Worldwide Operations  
Peter Blackmore, Executive Vice President, Enterprise Systems Group  
Ann Livermore, Executive Vice President, HP Services Group  
Vyomesh Joshi, Executive Vice President, Imaging & Printing Group  
Duane Zitzner, Executive Vice President, Personal Systems Group  
Mary McDowell, Senior Vice President & General Manager, Industry Standard Servers  
Howard Elias, Senior Vice President & General Manager, Network Storage Solutions  
J. Steven Flannigan, Vice President, Global Microsoft Alliance  
Jim Robinson, Director, Software Procurement

**HP Attendees in Agenda Segments:**

Rick Becker, CTO, Industry Standard Server (GTM presenter for IPF & Exchange)  
John Crandall, Alliance Manager, Imaging and Printing Group (Retail Solutions)  
Dorothy Deringer, Alliance Manager, Personal Systems Group (Emerging Markets & Retail)  
Rick Fricchione, Vice President, Enterprise MS Services (GTM NET Results)  
David Stubbs, NET Results Program Manager

**MS Attendees:**

Attending Entire Meeting:

Steve Ballmer, CEO  
Orlando Ayala, Group Vice President, SMSG  
Jim Allchin, Group Vice President, Windows Division  
Brian Valentine, Senior Vice President, Windows Division  
Bill Brammer, Director, HP Alliance  
Rodrigo Costa, Vice President, OEM Sales  
Mike Oldham, General Manager, OEM Sales  
Sanjay Parthasarathy, Corporate Vice President, .NET Strategy (12:15 – 3:45)  
Paul Flessner, Senior Vice President, .NET Enterprise Server (12:15 – 2:40)

Agenda Segments and Attendees:

**12:50 – 1:10 - Partner Scorecard**

Pieter Knook, Corporate Vice President, Mobility  
Gayle Brock, Senior Account Manager, OEM

**1:10 – 2:10 – Enterprise GTM opportunities and discussion**

Bob Muglia, Senior Vice President, Storage Products (Storage Partnering)  
Kim Muromoto, Account Manager, OEM Sales (Storage Partnering)  
Mike Sinneck, Corporate Vice President, WW Services (NET Results)  
Jared Wheeler, Director, Global Partners (NET Results)  
Ludovic Fourrage, ESC/PSC Consultant (NET Results)

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Mark Rankin, Business Dev. Manager, Global Partners  
David Thompson, Corporate Vice President, Server Product Group (IPF)\  
Jeff Price, Senior Director, US- Windows Server (GTM Server)  
Bruce Olson, Senior Account Manager, OEM Sales (GTM Server)  
Christian Johanneson, Business Development Manager

**2:10 – 2:40 PC Innovation**

Tom Phillips, General Manager, Windows Hardware  
James Duffus, Lead Program Manager, Windows Hardware  
Chris Jones, Corporate Vice President, Windows Client  
Will Poole, Corporate Vice President, Windows Digital Media  
Rogers Weed, Corporate Vice President, Windows Client

**2:50 – 3:30 Emerging Markets Partnering**

Vinay Kumar, Director, Windows Marketing  
Manish Sharma, Senior Product Mgr, Windows Marketing  
Rajiv Popli, Director SE Asia, OEM Sales  
Lars Boesen, Senior Account Manager, OEM Sales  
Rogers Weed  
Chris Jones

**3:30 – 3:50 Office 11 Strategy and Opportunity**

Joe Eschbach, Corporate Vice President, Information Worker  
Jeff Blumer, Account Manager, OEM Sales

**3:50 – 4:30 Partnering for Great Retail Solutions**

Kevin Eagan, General Manager, eHome Division  
Steve Schiro, Corporate Vice President, Retail Sales & Marketing  
Lisa Brummel, Corporate Vice President, Home Products Division  
Dale Watanabe, Group Manager, OEM Sales  
Rogers Weed

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## **Agenda Topics and Desired Outcomes**

### **12:50 – 1:10 Partnering Progress Report (Mike Oldham, Steve Flannigan)**

See attached Partner Scorecard with Red/Yellow/Green and Trend lines (color print outs will be available at the meeting). A brief explanation of the Scorecard items is included.

#### **Desired Outcomes:**

1. Generate high level dialog on these key partner areas.
2. Highlight areas that need attention and gain HP's agreement to move toward closer partnering where possible.

### **1:10 – 2:10 - Enterprise GTM opportunities & discussion**

- **Storage partnering - Server Consolidation - (Joint -Howard Elias/Bob Muglia)**
- **NET Results Strategic direction (HP -David Stubbs)**
- **IPF GTM opportunity (HP – Rick Becker)**
- **Enterprise Exchange Customer Update (HP – Rick Becker)**
- **.NET Server launch partnering opportunity (MS – Bob Kelly)**

#### **Desired Outcomes:**

1. **Storage Strategy:** Convince HP that there is still a need for a low-end entry NAS device in the \$2.5 to \$5K price range
2. **NET Results:** Ensure that HP begins executing on NET Results certification commitments to put the plan back on track.
3. **IPF:** Listen to HP IPF GTM proposal and propose we create HP.com as a showcase site for IPF running Windows Server and SQL.
4. **Enterprise Exchange:** Understand HP's solutions for addressing the failures that Enterprise Exchange customers were experiencing in earlier this year.
5. **.NET Server Launch:** Gain HP's commitment to do "above-and-beyond" partnering associated with the .NET Server launch this April.

### **1. Storage Partnering - Storage Consolidation (HP-Howard Elias; MS-Bob Muglia)**

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Howard and Bob will outline the framework for the storage strategy we are jointly deploying. This is an example of a successful engagement between the companies as we have overcome some initial hurdles prior to HP making broad commitments to Windows-based NAS devices. HP still has a gap on the low end of its product line that needs to be filled by a Windows NAS device.

#### **Windows Powered product set**

- B2000 – entry NAS file server. Not cluster capable. Current entry point for HP NAS offering in the \$25K range. Introduced in July 2002.
- B3000 – entry NAS/SAN device which SAN access for NT/W2K servers. Includes legacy MA1000 SAN in the enclosure as well as fiber attachment to external SANs. Can be clustered. \$75-100K. Introduced in April 2002.
- E7000 – NAS/SAN head. Similar to the B3000 bit without the internal SAN. Cluster capable. Usually proposed as part of SAN solution. Introduced in September 2001.
- S1000 – Discontinued low-end entry NAS in the \$3K range. This was an ODM device provided by Maxtor. HP did not replace when Maxtor exited the marketplace.

#### **Unix powered product set**

- HP 8000 (pre-merger HP product) Entry to mid range NAS device – price varies
- EVA Series (pre-merger CPQ) Mid to high end NAS/SAN device

#### **Positioning**

HP Account Managers and Storage Specialist look for SAN opportunities almost exclusively. When needed, HP will engage in NAS discussion but often only when pushed by competitive account activity. When they are engaged, HP determines the product offering based on the customer environment. In UNIX and mainframe environments, HP will always lead with the HP8000 or EVA depending on customer familiarity with existing HP or CPQ product. In Window centric environments, HP will lead with E7000 and SANs and/or B series for NAS only opportunities.

#### **Background**

When the product roadmap was announced in May 2002, HP was committed to only the low-end entry WP-NAS devices (S1000) and the high-end NAS/SAN fusion device (E7000). The HP plan of record was to bring a new Linux powered device into the mid-range marketplace (12K-100K) Since that time we have convinced HP to continue with the engineering and marketing of the B Series. In addition, we emphasized the need for an offering below the \$25K entry point. Just recently, HP determined that it could scale down the B2000 into the \$7.5K range. While this is a step in the right direction, we still believe that HP needs to provide a very low-end offering in the \$2.5-5K range to compete on the low end. We believe that without a low end offering, MS reps will be forced into a mixed vendor message where certain customer requirements demand a low-end NAS offering. This includes key enterprise opportunities in the branch office environments found in industry sectors such as retail, insurance and finance. Without an HP offering, the only offering to compete with low-end Linux offerings will be from other OEMs. This poses the big threat to the HP Server group as a HP will lose account control in these mixed vendor shops. Rick Becker, (VP Software CTO, ISS) understands this deficiency and will to work with us to influence the NAS roadmap. But, we still need an executive sponsor in the NSS team specifically Howard Elias or Roger Archibald

## **2. NET Results Status**

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**Highlights:**

- Marketing engine in place in Americas for .NET
- EMEA - good business planning process
- America's Field conference - high Microsoft content in HP America's Sales training - includes NET Results and all MS Battlecard training
- EMEA A Team complete - 8 members
- NET Results Dedicated Sales Force and hiring process in place. ON track to make year end goal

**Lowlights:**

- Certifications – this is a big issue**
  - o FY03 WW Goal 1100. YTD=0.
  - o HP told us on Monday 11/4/02 that they didn't expect to make the 1100 number and are going to re-forecast that number.
  - o Rick Fricchione is putting an additional person in place to fix their existing process.
  - o HP has pointed to a missing exam (number 70-300: "Analyzing Requirements and Defining Microsoft .NET Solution Architectures") as an issue. This, in fact, is the final exam and they do not have people waiting to take this exam. The exam is available as a beta version now and the final version is due in January. Will discuss in a Nov 18 review and want to highlight in 9x9 as an issue.
- Reporting**
  - o HP is working on improving their reporting processes. They did not have the reporting processes in place for the scorecard they signed up for. This is in work and expected to be working by end of December.
- Late engagement with Japan and APD: APD and Japan ramping quickly on business planning, but we started late.**

**Other NET Results info:**

- Wins**
  - o EMEA FY03 Goal 76, 26 YTD
  - o Americas FY03 Goal 71, 4 YTD
- References/Case Studies**
  - o EMEA FY03 Goal 15, 2 YTD
  - o Americas FY03 Goal 14, 2 YTD

**Dedicated Sales Force**

EMEA FY03 Goal 36, 16 YTD

Americas FY03 Goal 40, 9 YTD

**3. IPF GTM Background (HP- Rick Becker)**

Rick will highlight four areas for collaboration that HP desires for advancing IPF. He may ask for funding in these areas, but they were still debating this internally. They are:

- 1) Deliver a #1 TPCC benchmark – they may suggest splitting the cost on this effort, which could be \$1M to MS.
- 2) Build a strong Ecosystem for IPF – HP will suggest greater investments in SQL, enhancing SAP work, recruiting 2<sup>nd</sup> tier ISVs
- 3) Provide customer testimonies and evidence. We are working on this with an

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initiative in EMEA seeding 64-bit HP systems to run SAP and SQL. There are 11 target customers for this effort, which is jointly funded by HP/Intel/Microsoft. We are looking to move this effort to APAC and Americas. These are proof of concepts that will be used to build evidence for the .NET server launch and SQL 64bit (liberty) launch. We think proposing that they showcase HP.com as a premier IPF site would be a great customer testimony.

4) Aggressive .NET Server/Madison – HP is asking for stronger 64-bit messaging; strong support for SQL message and wants to show a 64-bit Windows on Orca demo. He sees this as the most expensive of the asks.

**4. HP Enterprise Exchange Customer Response Plan.** Rick Becker will outline the work that HP has done to address the issues that Enterprise Exchange customers were experiencing early this year. HP is confident they have resolved the hardware issues that were contributing to the data integrity and errors that were occurring in these high end customer environments.

**5. Windows .NET Server Launch Opportunity.** Bob Kelly and Jeff Price will describe the framework for an OEM partner participating in the .NET Server launch as a Platinum Partner level. He will outline the current thinking on the elements associated with this level of commitment, which would include \$350K of OEM funding to participate. In addition to the Platinum opportunity, we would like to partner with HP on an “above-and-beyond” effort to raise the visibility for HP and Windows .NET Server. We should gain feedback and direction from Mary and Peter and MS team on a set of ideas that we will propose to them.

Some key deliverables as proof points for a greater visibility program will be announcing a diverse and impactful set of customers that are using Windows .NET Server on HP Servers. There will be programs such as RDP to accelerate the adoption of “key win” customers and both MS and HP should drive and manage these efforts closely.

#### **Additional HP Server Background**

##### **The business:**

Prior to merger Compaq shipped approximately 100K servers a month and HP 20K servers a month. The post-merger combined number would be expected to be approx 120K servers a month. Tracking information MS receives show that ProLiant (essentially Compaq) server shipments have dropped by approx 20K units/mo and that they are not seeing an incremental 20K servers/mo from the HP NetServer Line. The HP NetServer line, except for a very low end series, was terminated September 1<sup>st</sup>.

<u>FY03</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>
ProLiant Shipments	79,225	76,240	84,328

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Based on HP's server shipments, HP reports Windows share is up one point to 73%, Linux is also up one to two points to 12-13%. This represents approx 200K Linux servers in the next year. HP believes that a substantial part of the Linux growth is due to the declining share for Novell. However they believe there is a growing Linux threat in the enterprise space – especially financial accounts.

#### **64b/Itanium**

A 64b/Itanium/Orca machine was delivered to MS on the 1<sup>st</sup> of September. Testing is going well and the relationship with the teams has improved.

There are 4 Itanium/Orca machines planned for deployment in Redmond. Orca 1 which is already on campus, is for kernel testing – this machine has had its memory extended to 512GB so that large memory extensions could be tested for the .Net launch, and the cost was approx \$1.1M shared equally between HP and MS. Orca 2 is scheduled to arrive in early '03 for performance testing, cost \$855K and Orca 3 in the spring 03 for HCT testing, cost \$550K. Orca 4 will arrive late spring '03, this machine will cost \$3.4M and will be paid for by HP.

The current plan is for MS to announce support for 64 CPU support at the .Net launch, with performance testing continuing into '03. At the HP Orca launch in summer '03, we will publish new TPC benchmarks that are targeted

#### **Management - MOM & HP Openview**

What we need from this meeting is: 1) Definition of a core technology or technologies in the management space we can work on together & bring to the market and 2) a clear way to position our technologies together - so we don't confuse customers

On August 29th there was an executive review with Billg of the joint strategy for both companies regarding management.

MS pointed out that our relationship with NetIQ was coming to an end and also that our strategy will be to build new technologies beyond MOM that would improve operational management of Windows servers. HP reviewed their plans for Openview for Windows and their desire to grow their management software business. HP pointed out they derive \$500M/year from this business and that they were worried new functionality provided by MS would reduce the needs for their customers to buy these products.

HP agreed to provide a list of key technologies that would be Internet/XML based for a fee and also those features they would provide for free. MS agreed to provide a list of key functions/features that would be needed for Longhorn which could be provided by HP. From this sharing of information would come some ideas on where we could work together in this space.

Since the meeting there has been some discussion, but no firm commitment from HP as to what they really want to work closely with us on. Also they have indicated they still intend to compete strongly with our offerings.

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**2:10 – 2:40 PC Innovation Discussion (Tom Phillips)**

**Desired Outcome:**

1. Understand HP's feedback and provide some thinking and direction on the issues they are facing with regards to the PC Innovation challenges.

**ROI for Product engagements.** HP feels that they have technology and customer expertise and when they choose to engage early with MS in a product cycle; they are not rewarded for those efforts. They feel there is little financial gain for them for being early adopter. HP is asking "should HP be a fast follower instead of product leader?" They feel that they bring major credibility to new product categories such as Tablet and Media Center, but they don't see any measurable upside for those investments.

On the flip side, HP missed major revenue opportunities with MCE and Tablet, as they opted to be very conservative in the channel. With Media Center, they have gained huge visibility with the press - all reviews have been favorable and have emphasized that HP is the only supplier - yet many retail locations have been sold out and they face long lead times on key components. With Tablet, they have recently pulled all their advertising as they have concluded that they won't be able to meet the product demand and don't want to waste funding demand creation.

**2:50 – 3:30 Emerging Markets Partnering (Vinay Kumar)**

**MS Goal: Reduce Windows piracy by partnering with HP to ensure that legal Windows on HP PCs continues to grow in Emerging Markets.**

**Desired Outcomes:**

1. Agree on establishing a joint Emerging Market fund to be invested in joint Emerging Market Client PC programs that are currently being designed by BRIC, OEM and regional teams.
2. Convince HP that their strategy to win as a cost leader vs. white box suppliers will not be successful; convince them to promote a longer term branded product strategy to Emerging Markets.

**Top Priorities for working with HP in Emerging Markets:**

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- **Small Business Programs:** Execute jointly funded programs in BRIC/South East Asia by offering Windows (rather than Linux) to a broad set of customer offerings.
- **Education:** - Share with HP the Education initiative that MS is considering launching in February.
- **Home:** Microsoft to financially invest and support HP Home PC relaunch in China starting May 03.

**Current MICROSOFT – HP Emerging Markets efforts:**

- **South East Asia.** HP discontinued its Linux SKUs beginning on November 18<sup>th</sup>. This is based on joint marketing effort that spans six months to promote low cost Windows SKU's with \$30 extra channel incentives that focus on white box resellers. The goal is to enable the whitebox resellers to offer HP branded PCs instead of naked PCs.
- **India.** The plan is to jointly build a 2<sup>nd</sup> tier HP branded SMB channel using competence training/solution/demand generation to provide a profitable way to sell branded HP products with legal software. Target launch : January '03.

**Data points:**

- HP ships Business OS with +90% of all their Business PCs sold in all regions of the world incl. China and South East Asia. This reflects that HP's has been unsuccessful in SMB in the Emerging markets. Duane Zitzner has targeted HP to gain share against White Box vendors in all regions but most specifically in China/Asia.
- As a merged HP + CPQ company PSG is under pressure to maintain volume. The top two priorities are: 1) selling direct; and 2) winning share against white box manufacturers. White Box require <\$400 price point which drives HP's behavior to ship Linux drop in box to avoid paying the Windows royalty. Currently, HP's Linux PCs have a higher margin than their low cost Windows PCs. HP acknowledge that they are leveraging piracy in the channel but claim that software piracy is not HP's responsibility.
- HP PCs will never win on price against local white box manufactures. HP is today \$300-400 higher than white-box suppliers but hope with new product range to get into a \$100-200 price delta. HP's subs claim a \$50-80 (8-12%) premium is acceptable.
- HP ships today ~20k Linux per month World Wide vs 10k six months ago. We estimate HP will ship up to 45k Linux a month Summer 03 ~ 3% of HP's overall PC volume. The growth is generated by a world wide effort to target White Box volume which mainly ship without legal OS. HP has in the last 6 months created Linux Desktop PC sku's in 20+ new countries across all regions, including most recently the US.
- HP is not advertising Linx sku's in NA and EMEA. However, they are advertising Linux sku's in Latam America, Asia, China. There is one Linux sku on HP's NA web site today at \$520. Their lowest priced \$899 notebook ships with Windows XP HE.

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Average Monthly Linux PC volumes	Fall 02	Summer 03
China Big Bids	3k	6k
China SMB Channel	5k	6k
South East Asia Big Bids	2k	5k
South East Asia channel	2k	0k*
India Big Bids	0k	4k
India Channel	1k	6k
EMEA Big Bids	2k	4k
EMEA SMB Channel	4k	8k
Americas Big Bids	1k	3k
Americas SMB channel	1k	3k
<b>Total</b>	<b>21k</b>	<b>45k</b>
<b>Monthly volume</b>	<b>Fall 02</b>	<b>Summer 03</b>
China	8k	12k
"Big Bids" total excl. China	5k	16k
SMB Retail Channel excl. China	8k	17k

\*) Assumes our joint Initiative continues. If not, HP's Linux Channel volume in SEA will be 5k/month Summer '03.

- HP will launch lower cost desktop PC in January 03 targeting a \$300-399 street price incl. cpu and monitor excl. OS. Design target is material cost of \$230 excl. cpu, monitor and processor vs today \$350 up. Jeri Callaway' organization has decided to provide Linux preload images in all regions 1H '03. There will be no promotion of sku's in Mature markets but the Linux offering will be available in all regions on Evo Desktop D300. We also expect Linux preload on future notebooks and consumer desktop PCs.
- Local country/region PSG managers will decide degree of active promotion. HP has been selling Linux models actively in China, Germany and parts of Eastern Europe for two years. Monthly run rate has been ~10k of which 60% was from China.
- HP has since July 02 launched \$600 Linux SMB sku's in 2<sup>nd</sup> tier channel in Indonesia, Thailand, Malaysia, Philippines, Vietnam, Taiwan, Korea, Greece, Middle East and Consumer PCs with Linux in India. These are seen as test cases for future low prices efforts. This effort has hurt local MS subsidiary engagement as it is perceived as HP endorsing piracy in these markets.
- HP is using low cost Linux Pavilion sku in India in ads to generate traffic to HP branded retail stores to upsell to Windows PCs to fight local manufactures \$400-\$600 price points.
- HP's lowest cost Windows XP Pro Desktop PC in the US is \$499 excl. monitor incl. Celeron 1.8Ghz.

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### 3:30 – 3:50 Office 11 Strategy and Opportunity (Joe Eschbach)

#### Desired Outcomes:

- 1) Convince HP that Office 11 product roadmap is HP-channel friendly due to trial version. That new roadmap means more joint Office business helping to increase ASP.
- 2) Position Works with Office Trial and Firefly as more profitable alternatives than competitive offerings in the industry.

#### Office Revenue History and Forecast

Office	HPQ FY02	HPQ FY03 Budget	HPQ FY03 YTD (incl. Oct)
Office revenue	\$17.5M	\$20.2M	\$13.2M (172% of budget. 211% of same period last year)
Office licenses	159,754	174,900	80,900

#### Background

HP is focusing its efforts on competing against Dell in their fiscal year beginning November 1, which includes focusing on their direct business. HP has changed their pricing, sku management, and GTM strategy in order to mirror Dell. Duane Zitzner has chartered all Sr Mgrs in PSG (Personal Systems Group) with increasing volumes and Average Unit Price. Office is now a major component of HP's AUP strategy.

#### Recent Successes

- New 18 mo. Office license in NA starting 12/1/2002. \$21M min commit on volumes of 225K min. commit.
- EMEA \$4M license expires 6/30/03. Active negotiations for first HP Latam and AP Office license each \$1M min.
- Competitive immunity: HP initially chose Corel as the base application upselling to MS Office on commercial Skus targeted to SMB (EVO D310) in their configurator. Starting December 1st, HP will be licensing Works as the base app instead of Corel. HP will default the Small Business D310 line to Works/Office and upsell Works sku's in call center to Office. Similar to Dell.
- HP has redesigned its direct website in order to increase Office attach at the point of sale.
- MS recently funded 2 Sales Specialists at HP's SMB Direct Call-Center in Colorado Springs. Reps are focused on driving Office attach on HP HW. Office attach is currently 25% in their direct business

#### Weaknesses

- Corel on HP Pavilion home PCs' in NA only- lost vs Works not Office. MS Office is sold online and in kiosk offerings.
- Difficult for HP to sell Office skus into channel (DMR-VAR)

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-HP is the leading HW supplier to CDW, Insight, etc, but they have 0% office attach rate with these key HW suppliers.

### **3:50 – 4:30 Promoting great solutions at retail (MS -Steve Schiro, Kevin Eagan)**

#### **Joint Program Goals:**

1. Reduce repurchase cycle for existing consumers buying new PCs
2. Find new PC buyers (new uses) – and increased use of HP consumables

#### **Desired Outcome:**

- Gain HP's agreement on committing resources to do great PC and Imaging Products together and jointly promote great solutions to retailers (leveraging on the Media Center success model at retail).

**Key Premise:** By uniting HP and MS, we are assuming the following should take place:

- 1) **Great Products:** MS and HP create great PC products (such as Media Center and Tablet and follow on products), but also ensure that Imaging products perform very well with Windows.
- 2) **Joint Solution Sales:** MS and HP call on retailers to create joint solutions that satisfy "scenarios" such as Digital Photography, which could be accomplished by bringing HP PCs, printers and cameras with MS offerings to retail.

To sell more items at retail requires a level of "scenario development" and consumer education that few retailers are good at presenting to consumers. The retailers are looking to vendors to supply the products, expertise and money to help make this happen. The retailers see the MS product offers but don't see MS and the OEM come to them with an integrated story.

Both HP's consumer printer and PC divisions have earmarked significant incremental funds next year to promote scenarios, such as Digital Photography. MS and HP jointly leverage their brands to make this appealing for consumers.

**Offers:** Both companies will create unique offers that will be promoted by joint retail sales and marketing efforts:

MS and HP should use both companies' products to create "unique" solutions. These offerings would include:

#### Product Offerings:

- HP PC's, printers, scanners, cameras and other peripherals.
- Windows and applications software, services (MSN), hardware (mice, keyboard, game controls, etc.)

#### Joint Collaboration:

- Cooperative development work to ensure great functionality with HP peripherals and Windows.

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- Promoting the “Better Together” theme that highlights HP peripheral functionality with Windows. HP PCs with MS applications software need to be showcased as complimentary to the strategy.

**Leveraging Recent Successes:**

**Windows Media Center Edition:** MS and HP have gained great visibility with the recently introduced Media Center Edition PC and through joint efforts by both retail sales organizations have gained strategic placement for MCE PCs at retail. The MCE project was a result of almost 2 years of engagement with the HP and MS product teams to ensure HP would ship a great product. HP launched with 4 retailers in North America (Best Buy, CompUSA, and Circuit City in the US, Future Shop in Canada).

- Results to date have over half the Best Buy and CompUSA outlets sold out of product. Though data from the others is sketchy, we believe they are in similar situation.
- HP’s VP of NA sales noted that sales are very good and they are “supply constrained.”
- HP only planned to build 18,000 units for the holiday period fearing to commit too highly on new product with many specialized components where oversupply would have meant high financial risk for HP.
- Though early in the selling cycle, sales results are well ahead of HP projections.

**Tablet PC:**

HP participated in the Nov. 7<sup>th</sup> launch event with Carly being the executive involved in the MS venues at the event. HP currently is not planning to make its Tablet PC available at retail for another six months. However, it will become part of an overall HP offering that we could jointly promote later next year.

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HP-Microsoft 9X9 Executive Review  
November 25, 2002

Microsoft Executive Breifing Center  
Evergreen West Room  
12:30 – 4:45

**12:15 – 12:30 – Lunch Served**

**12:30 – 12:50 - Business Update**

- Peter Blackmore and Steve Ballmer – general business update

**12:50 – 1:10 – Partnering Progress Report (Mike Oldham, Steve Flannigan)**

- PC/Imaging Partnering
- Enterprise Offerings
- Markets/Operations

**1:10 – 2:10 - Enterprise GTM opportunities & discussion**

- Storage partnering - Server Consolidation - (Joint -Howard Elias/Bob Muglia)
- NET Results Strategic direction (HP -David Stubbs)
- IPF GTM opportunity (HP – Rick Becker)
- Enterprise Exchange Customer Update (HP – Rick Becker)
- .NET Server launch partnering opportunity (MS – Jeff Price)

**2:10 – 2:40 – PC Innovation (Joint Discussion)**

- Update and open discussion

**2:40 – 2:50 - Break**

**2:50 – 3:30 - Emerging Markets Partnering (MS - Vinay Kumar)**

- Program opportunities and partnering proposal
- Education opportunity

**3:30 – 3:50 – Office 11 Strategy & Opportunity (MS - Joe Eschbach)**

**3:50 – 4:30 Promoting Great Solutions at Retail (MS - Steve Schiro, Kevin Eagan)**

- Selling “Scenarios” at retail & educating consumers
- Partnering with HP’s PC and Hard Copy teams
- Showcasing HP’s “Better Together”

**4:30 – 4:45 Actions**

- Top Priorities for next 6 months

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**HP Attendees:**

Attending Entire Meeting:

Shane Robison, Senior Vice President, Corporate Strategy and CTO  
Mike Winkler, Executive Vice President, Worldwide Operations  
Peter Blackmore, Executive Vice President, Enterprise Systems Group  
Ann Livermore, Executive Vice President, HP Services Group  
Vyomesh Joshi, Executive Vice President, Imaging & Printing Group  
Duane Zitzner, Executive Vice President, Personal Systems Group  
Mary McDowell, Senior Vice President & General Manager, Industry Standard Servers  
Howard Elias, Senior Vice President & General Manager, Network Storage Solutions  
J. Steven Flannigan, Vice President, Global Microsoft Alliance  
Jim Robinson, Director, Software Procurement

**HP Attendees in Agenda Segments:**

Rick Becker, CTO, Industry Standard Server (GTM presenter for IPF & Exchange)  
John Crandall, Alliance Manager, Imaging and Printing Group (Retail Solutions)  
Dorothy Deringer, Alliance Manager, Personal Systems Group (Emerging Markets & Retail)  
Rick Fricchione, Vice President, Enterprise MS Services (GTM NET Results)  
David Stubbs, NET Results Program Manager

**MS Attendees:**

Attending Entire Meeting:

Steve Ballmer, CEO  
Orlando Ayala, Group Vice President, SMSG  
Jim Allchin, Group Vice President, Windows Division  
Brian Valentine, Senior Vice President, Windows Division  
Bill Brammer, Director, HP Alliance  
Rodrigo Costa, Vice President, OEM Sales  
Mike Oldham, General Manager, OEM Sales  
Sanjay Parthasarathy, Corporate Vice President, .NET Strategy (12:15 – 3:45)  
Paul Flessner, Senior Vice President, .NET Enterprise Server (12:15 – 2:40)

Agenda Segments and Attendees:

**12:50 – 1:10 - Partner Scorecard**

Pieter Knook, Corporate Vice President, Mobility  
Gayle Brock, Senior Account Manager, OEM

**1:10 – 2:10 – Enterprise GTM opportunities and discussion**

Bob Muglia, Senior Vice President, Storage Products (Storage Partnering)  
Kim Muromoto, Account Manager, OEM Sales (Storage Partnering)  
Mike Sinneck, Corporate Vice President, WW Services (NET Results)  
Jared Wheeler, Director, Global Partners (NET Results)  
Ludovic Fourrage, ESC/PSC Consultant (NET Results)

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Mark Rankin, Business Dev. Manager, Global Partners  
David Thompson, Corporate Vice President, Server Product Group (IPF)\  
Jeff Price, Senior Director, US- Windows Server (GTM Server)  
Bruce Olson, Senior Account Manager, OEM Sales (GTM Server)  
Christian Johanneson, Business Development Manager

**2:10 – 2:40 PC Innovation**

Tom Phillips, General Manager, Windows Hardware  
James Duffus, Lead Program Manager, Windows Hardware  
Chris Jones, Corporate Vice President, Windows Client  
Will Poole, Corporate Vice President, Windows Digital Media  
Rogers Weed, Corporate Vice President, Windows Client

**2:50 – 3:30 Emerging Markets Partnering**

Vinay Kumar, Director, Windows Marketing  
Manish Sharma, Senior Product Mgr, Windows Marketing  
Rajiv Popli, Director SE Asia, OEM Sales  
Lars Boesen, Senior Account Manager, OEM Sales  
Rogers Weed  
Chris Jones

**3:30 – 3:50 Office 11 Strategy and Opportunity**

Joe Eschbach, Corporate Vice President, Information Worker  
Jeff Blumer, Account Manager, OEM Sales

**3:50 – 4:30 Partnering for Great Retail Solutions**

Kevin Eagan, General Manager, eHome Division  
Steve Schiro, Corporate Vice President, Retail Sales & Marketing  
Lisa Brummel, Corporate Vice President, Home Products Division  
Dale Watanabe, Group Manager, OEM Sales  
Rogers Weed

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## **Agenda Topics and Desired Outcomes**

### **12:50 – 1:10 Partnering Progress Report (Mike Oldham, Steve Flannigan)**

See attached Partner Scorecard with Red/Yellow/Green and Trend lines (color print outs will be available at the meeting). A brief explanation of the Scorecard items is included.

#### **Desired Outcomes:**

1. Generate high level dialog on these key partner areas.
2. Highlight areas that need attention and gain HP's agreement to move toward closer partnering where possible.

### **1:10 – 2:10 - Enterprise GTM opportunities & discussion**

- **Storage partnering - Server Consolidation - (Joint -Howard Elias/Bob Muglia)**
- **NET Results Strategic direction (HP -David Stubbs)**
- **IPF GTM opportunity (HP – Rick Becker)**
- **Enterprise Exchange Customer Update (HP – Rick Becker)**
- **.NET Server launch partnering opportunity (MS – Bob Kelly)**

#### **Desired Outcomes:**

1. **Storage Strategy:** Convince HP that there is still a need for a low-end entry NAS device in the \$2.5 to \$5K price range
2. **NET Results:** Ensure that HP begins executing on NET Results certification commitments to put the plan back on track.
3. **IPF:** Listen to HP IPF GTM proposal and propose we create HP.com as a showcase site for IPF running Windows Server and SQL.
4. **Enterprise Exchange:** Understand HP's solutions for addressing the failures that Enterprise Exchange customers were experiencing in earlier this year.
5. **.NET Server Launch:** Gain HP's commitment to do "above-and-beyond" partnering associated with the .NET Server launch this April.

1. **Storage Partnering - Storage Consolidation (HP-Howard Elias; MS-Bob Muglia)**

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Howard and Bob will outline the framework for the storage strategy we are jointly deploying. This is an example of a successful engagement between the companies as we have overcome some initial hurdles prior to HP making broad commitments to Windows-based NAS devices. HP still has a gap on the low end of its product line that needs to be filled by a Windows NAS device.

#### **Windows Powered product set**

- B2000 – entry NAS file server. Not cluster capable. Current entry point for HP NAS offering in the \$25K range. Introduced in July 2002.
- B3000 – entry NAS/SAN device which SAN access for NT/W2K servers. Includes legacy MA1000 SAN in the enclosure as well as fiber attachment to external SANs. Can be clustered. \$75-100K. Introduced in April 2002.
- E7000 – NAS/SAN head. Similar to the B3000 but without the internal SAN. Cluster capable. Usually proposed as part of SAN solution. Introduced in September 2001.
- S1000 – Discontinued low-end entry NAS in the \$3K range. This was an ODM device provided by Maxtor. HP did not replace when Maxtor exited the marketplace.

#### **Unix powered product set**

- HP 8000 (pre-merger HP product) Entry to mid range NAS device – price varies
- EVA Series (pre-merger CPQ) Mid to high end NAS/SAN device

#### **Positioning**

HP Account Managers and Storage Specialist look for SAN opportunities almost exclusively. When needed, HP will engage in NAS discussion but often only when pushed by competitive account activity. When they are engaged, HP determines the product offering based on the customer environment. In UNIX and mainframe environments, HP will always lead with the HP8000 or EVA depending on customer familiarity with existing HP or CPQ product. In Window centric environments, HP will lead with E7000 and SANs and/or B series for NAS only opportunities.

#### **Background**

When the product roadmap was announced in May 2002, HP was committed to only the low-end entry WP-NAS devices (S1000) and the high-end NAS/SAN fusion device (E7000). The HP plan of record was to bring a new Linux powered device into the mid-range marketplace (12K-100K) Since that time we have convinced HP to continue with the engineering and marketing of the B Series. In addition, we emphasized the need for an offering below the \$25K entry point. Just recently, HP determined that it could scale down the B2000 into the \$7.5K range. While this is a step in the right direction, we still believe that HP needs to provide a very low-end offering in the \$2.5-5K range to compete on the low end. We believe that without a low end offering, MS reps will be forced into a mixed vendor message where certain customer requirements demand a low-end NAS offering. This includes key enterprise opportunities in the branch office environments found in industry sectors such as retail, insurance and finance. Without an HP offering, the only offering to compete with low-end Linux offerings will be from other OEMs. This poses the big threat to the HP Server group as a HP will lose account control in these mixed vendor shops. Rick Becker, (VP Software CTO, ISS) understands this deficiency and will to work with us to influence the NAS roadmap. But, we still need an executive sponsor in the NSS team specifically Howard Elias or Roger Archibald

## **2. NET Results Status**

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**Highlights:**

- Marketing engine in place in Americas for .NET
- EMEA - good business planning process
- America's Field conference - high Microsoft content in HP America's Sales training - includes NET Results and all MS Battlecard training
- EMEA A Team complete - 8 members
- NET Results Dedicated Sales Force and hiring process in place. ON track to make year end goal

**Lowlights:**

- Certifications – this is a big issue**
  - o FY03 WW Goal 1100. YTD=0.
  - o HP told us on Monday 11/4/02 that they didn't expect to make the 1100 number and are going to re-forecast that number.
  - o Rick Fricchione is putting an additional person in place to fix their existing process.
  - o HP has pointed to a missing exam (number 70-300: "Analyzing Requirements and Defining Microsoft .NET Solution Architectures") as an issue. This, in fact, is the final exam and they do not have people waiting to take this exam. The exam is available as a beta version now and the final version is due in January. Will discuss in a Nov 18 review and want to highlight in 9x9 as an issue.
- Reporting**
  - o HP is working on improving their reporting processes. They did not have the reporting processes in place for the scorecard they signed up for. This is in work and expected to be working by end of December.
- Late engagement with Japan and APD: APD and Japan ramping quickly on business planning, but we started late.**

**Other NET Results info:**

- Wins**
  - o EMEA FY03Goal 76, 26 YTD
  - o Americas FY03 Goal 71, 4 YTD
- References/Case Studies**
  - o EMEA FY03Goal 15, 2 YTD
  - o Americas FY03 Goal 14, 2 YTD

**Dedicated Sales Force**

EMEA FY03Goal 36, 16 YTD

Americas FY03 Goal 40, 9 YTD

**3. IPF GTM Background (HP- Rick Becker)**

Rick will highlight four areas for collaboration that HP desires for advancing IPF. He may ask for funding in these areas, but they were still debating this internally. They are:

- 1) Deliver a #1 TPCC benchmark – they may suggest splitting the cost on this effort, which could be \$1M to MS.
- 2) Build a strong Ecosystem for IPF – HP will suggest greater investments in SQL, enhancing SAP work, recruiting 2<sup>nd</sup> tier ISVs
- 3) Provide customer testimonies and evidence. We are working on this with an

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initiative in EMEA seeding 64-bit HP systems to run SAP and SQL. There are 11 target customers for this effort, which is jointly funded by HP/Intel/Microsoft. We are looking to move this effort to APAC and Americas. These are proof of concepts that will be used to build evidence for the .NET server launch and SQL 64bit (liberty) launch. We think proposing that they showcase HP.com as a premier IPF site would be a great customer testimony.

4) Aggressive .NET Server/Madison – HP is asking for stronger 64-bit messaging; strong support for SQL message and wants to show a 64-bit Windows on Orca demo. He sees this as the most expensive of the asks.

**4. HP Enterprise Exchange Customer Response Plan.** Rick Becker will outline the work that HP has done to address the issues that Enterprise Exchange customers were experiencing early this year. HP is confident they have resolved the hardware issues that were contributing to the data integrity and errors that were occurring in these high end customer environments.

**5. Windows .NET Server Launch Opportunity.** Bob Kelly and Jeff Price will describe the framework for an OEM partner participating in the .NET Server launch as a Platinum Partner level. He will outline the current thinking on the elements associated with this level of commitment, which would include \$350K of OEM funding to participate. In addition to the Platinum opportunity, we would like to partner with HP on an “above-and-beyond” effort to raise the visibility for HP and Windows .NET Server. We should gain feedback and direction from Mary and Peter and MS team on a set of ideas that we will propose to them.

Some key deliverables as proof points for a greater visibility program will be announcing a diverse and impactful set of customers that are using Windows .NET Server on HP Servers. There will be programs such as RDP to accelerate the adoption of “key win” customers and both MS and HP should drive and manage these efforts closely.

#### **Additional HP Server Background**

##### **The business:**

Prior to merger Compaq shipped approximately 100K servers a month and HP 20K servers a month. The post-merger combined number would be expected to be approx 120K servers a month. Tracking information MS receives show that ProLiant (essentially Compaq) server shipments have dropped by approx 20K units/mo and that they are not seeing an incremental 20K servers/mo from the HP NetServer Line. The HP NetServer line, except for a very low end series, was terminated September 1<sup>st</sup>.

<u>FY03</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>
ProLiant Shipments	79,225	76,240	84,328

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Based on HP's server shipments, HP reports Windows share is up one point to 73%, Linux is also up one to two points to 12-13%. This represents approx 200K Linux servers in the next year. HP believes that a substantial part of the Linux growth is due to the declining share for Novell. However they believe there is a growing Linux threat in the enterprise space – especially financial accounts.

#### **64b/Itanium**

A 64b/Itanium/Orca machine was delivered to MS on the 1<sup>st</sup> of September. Testing is going well and the relationship with the teams has improved.

There are 4 Itanium/Orca machines planned for deployment in Redmond. Orca 1 which is already on campus, is for kernel testing – this machine has had its memory extended to 512GB so that large memory extensions could be tested for the .Net launch, and the cost was approx \$1.1M shared equally between HP and MS. Orca 2 is scheduled to arrive in early '03 for performance testing, cost \$855K and Orca 3 in the spring 03 for HCT testing, cost \$550K. Orca 4 will arrive late spring '03, this machine will cost \$3.4M and will be paid for by HP.

The current plan is for MS to announce support for 64 CPU support at the .Net launch, with performance testing continuing into '03. At the HP Orca launch in summer '03, we will publish new TPC benchmarks that are targeted

#### **Management - MOM & HP Openview**

What we need from this meeting is: 1) Definition of a core technology or technologies in the management space we can work on together & bring to the market and 2) a clear way to position our technologies together - so we don't confuse customers

On August 29th there was an executive review with Billg of the joint strategy for both companies regarding management.

MS pointed out that our relationship with NetIQ was coming to an end and also that our strategy will be to build new technologies beyond MOM that would improve operational management of Windows servers. HP reviewed their plans for Openview for Windows and their desire to grow their management software business. HP pointed out they derive \$500M/year from this business and that they were worried new functionality provided by MS would reduce the needs for their customers to buy these products.

HP agreed to provide a list of key technologies that would be Internet/XML based for a fee and also those features they would provide for free. MS agreed to provide a list of key functions/features that would be needed for Longhorn which could be provided by HP. From this sharing of information would come some ideas on where we could work together in this space.

Since the meeting there has been some discussion, but no firm commitment from HP as to what they really want to work closely with us on. Also they have indicated they still intend to compete strongly with our offerings.

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**2:10 – 2:40 PC Innovation Discussion (Joint Discussion)**

**Desired Outcome:**

1. Understand HP's feedback and provide some thinking and direction on the issues they are facing with regards to the PC Innovation challenges.

**ROI for Product engagements.** HP feels that they have technology and customer expertise and when they choose to engage early with MS in a product cycle; they are not rewarded for those efforts. They feel there is little financial gain for them for being early adopter. HP is asking "should HP be a fast follower instead of product leader?" They feel that they bring major credibility to new product categories such as Tablet and Media Center, but they don't see any measurable upside for those investments.

On the flip side, HP missed major revenue opportunities with MCE and Tablet, as they opted to be very conservative in the channel. With Media Center, they have gained huge visibility with the press - all reviews have been favorable and have emphasized that HP is the only supplier – yet many retail locations have been sold out and they face long lead times on key components. With Tablet, they have recently pulled all their advertising as they have concluded that they won't be able to meet the product demand and don't want to waste funding demand creation.

**2:50 – 3:30 Emerging Markets Partnering (Vinay Kumar)**

**MS Goal: Reduce Windows piracy by partnering with HP to ensure that legal Windows on HP PCs continues to grow in Emerging Markets.**

**Desired Outcomes:**

1. Agree on establishing a joint Emerging Market fund to be invested in joint Emerging Market Client PC programs that are currently being designed by BRIC, OEM and regional teams.
2. Convince HP that their strategy to win as a cost leader vs. white box suppliers will not be successful; convince them to promote a longer term branded product strategy to Emerging Markets.

**Top Priorities for working with HP in Emerging Markets:**

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- **Small Business Programs:** Execute jointly funded programs in BRIC/South East Asia by offering Windows (rather than Linux) to a broad set of customer offerings.
- **Education:** - Share with HP the Education initiative that MS is considering launching in February.
- **Home:** Microsoft to financially invest and support HP Home PC relaunch in China starting May 03.

**Current MICROSOFT – HP Emerging Markets efforts:**

- **South East Asia.** HP discontinued its Linux SKUs beginning on November 18<sup>th</sup>. This is based on joint marketing effort that spans six months to promote low cost Windows SKU's with \$30 extra channel incentives that focus on white box resellers. The goal is to enable the whitebox resellers to offer HP branded PCs instead of naked PCs.
- **India.** The plan is to jointly build a 2<sup>nd</sup> tier HP branded SMB channel using competence training/solution/demand generation to provide a profitable way to sell branded HP products with legal software. Target launch : January '03.

**Data points:**

- HP ships Business OS with +90% of all their Business PCs sold in all regions of the world incl. China and South East Asia. This reflects that HP's has been unsuccessful in SMB in the Emerging markets. Duane Zitzner has targeted HP to gain share against White Box vendors in all regions but most specifically in China/Asia.
- As a merged HP + CPQ company PSG is under pressure to maintain volume. The top two priorities are: 1) selling direct; and 2) winning share against white box manufacturers. White Box require <\$400 price point which drives HP's behavior to ship Linux drop in box to avoid paying the Windows royalty. Currently, HP's Linux PCs have a higher margin than their low cost Windows PCs. HP acknowledge that they are leveraging piracy in the channel but claim that software piracy is not HP's responsibility.
- HP PCs will never win on price against local white box manufactures. HP is today \$300-400 higher than white-box suppliers but hope with new product range to get into a \$100-200 price delta. HP's subs claim a \$50-80 (8-12%) premium is acceptable.
- HP ships today ~20k Linux per month World Wide vs 10k six months ago. We estimate HP will ship up to 45k Linux a month Summer 03 ~ 3% of HP's overall PC volume. The growth is generated by a world wide effort to target White Box volume which mainly ship without legal OS. HP has in the last 6 months created Linux Desktop PC sku's in 20+ new countries across all regions, including most recently the US.
- HP is not advertising Linx sku's in NA and EMEA. However, they are advertising Linux sku's in Latam America, Asia, China. There is one Linux sku on HP's NA web site today at \$520. Their lowest priced \$899 notebook ships with Windows XP HE.

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Average Monthly Linux PC volumes	Fall 02	Summer 03
China Big Bids	3k	6k
China SMB Channel	5k	6k
South East Asia Big Bids	2k	5k
South East Asia channel	2k	0k*
India Big Bids	0k	4k
India Channel	1k	6k
EMEA Big Bids	2k	4k
EMEA SMB Channel	4k	8k
Americas Big Bids	1k	3k
Americas SMB channel	1k	3k
<b>Total</b>	<b>21k</b>	<b>45k</b>
<b>Monthly volume</b>	<b>Fall 02</b>	<b>Summer 03</b>
China	8k	12k
"Big Bids" total excl. China	5k	16k
SMB Retail Channel excl. China	8k	17k

\*) Assumes our joint Initiative continues. If not, HP's Linux Channel volume in SEA will be 5k/month Summer '03.

- HP will launch lower cost desktop PC in January 03 targeting a \$300-399 street price incl. cpu and monitor excl. OS. Design target is material cost of \$230 excl. cpu, monitor and processor vs today \$350 up. Jeri Callaway' organization has decided to provide Linux preload images in all regions 1H '03. There will be no promotion of sku's in Mature markets but the Linux offering will be available in all regions on Evo Desktop D300. We also expect Linux preload on future notebooks and consumer desktop PCs.
- Local country/region PSG managers will decide degree of active promotion. HP has been selling Linux models actively in China, Germany and parts of Eastern Europe for two years. Monthly run rate has been ~10k of which 60% was from China.
- HP has since July 02 launched \$600 Linux SMB sku's in 2<sup>nd</sup> tier channel in Indonesia, Thailand, Malaysia, Philippines, Vietnam, Taiwan, Korea, Greece, Middle East and Consumer PCs with Linux in India. These are seen as test cases for future low prices efforts. This effort has hurt local MS subsidiary engagement as it is perceived as HP endorsing piracy in these markets.
- HP is using low cost Linux Pavilion sku in India in ads to generate traffic to HP branded retail stores to upsell to Windows PCs to fight local manufactures \$400-\$600 price points.
- HP's lowest cost Windows XP Pro Desktop PC in the US is \$499 excl. monitor incl. Celeron 1.8Ghz.

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**3:30 – 3:50 Office 11 Strategy and Opportunity (Joe Eschbach)**

**Desired Outcomes:**

- 1) Convince HP that Office 11 product roadmap is HP-channel friendly due to trial version. That new roadmap means more joint Office business helping to increase ASP.
- 2) Position Works with Office Trial and Firefly as more profitable alternatives than competitive offerings in the industry.

**Office Revenue History and Forecast**

Office	HPQ FY02	HPQ FY03 Budget	HPQ FY03 YTD (incl. Oct)
Office revenue	\$17.5M	\$20.2M	\$13.2M (172% of budget. 211% of same period last year)
Office licenses	159,754	174,900	80,900

Background

HP is focusing its efforts on competing against Dell in their fiscal year beginning November 1, which includes focusing on their direct business. HP has changed their pricing, sku management, and GTM strategy in order to mirror Dell. Duane Zitzner has chartered all Sr Mgrs in PSG (Personal Systems Group) with increasing volumes and Average Unit Price. Office is now a major component of HP's AUP strategy.

Recent Successes

- New 18 mo. Office license in NA starting 12/1/2002. \$21M min commit on volumes of 225K min. commit.
- EMEA \$4M license expires 6/30/03. Active negotiations for first HP Latam and AP Office license each \$1M min.
- Competitive immunity: HP initially chose Corel as the base application upselling to MS Office on commercial Skus targeted to SMB (EVO D310) in their configurator. Starting December 1st, HP will be licensing Works as the base app instead of Corel. HP will default the Small Business D310 line to Works/Office and upsell Works sku's in call center to Office. Similar to Dell.
- HP has redesigned its direct website in order to increase Office attach at the point of sale.
- MS recently funded 2 Sales Specialists at HP's SMB Direct Call-Center in Colorado Springs. Reps are focused on driving Office attach on HP HW. Office attach is currently 25% in their direct business

Weaknesses

- Corel on HP Pavilion home PCs' in NA only- lost vs Works not Office. MS Office is sold online and in kiosk offerings.
- Difficult for HP to sell Office skus into channel (DMR-VAR)

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-HP is the leading HW supplier to CDW, Insight, etc, but they have 0% office attach rate with these key HW suppliers.

### **3:50 – 4:30 Promoting great solutions at retail (MS -Steve Schiro, Kevin Eagan)**

#### **Joint Program Goals:**

1. Reduce repurchase cycle for existing consumers buying new PCs
2. Find new PC buyers (new uses) – and increased use of HP consumables

#### **Desired Outcome:**

- Gain HP's agreement on committing resources to do great PC and Imaging Products together and jointly promote great solutions to retailers (leveraging on the Media Center success model at retail).

**Key Premise:** By uniting HP and MS, we are assuming the following should take place:

- 1) **Great Products:** MS and HP create great PC products (such as Media Center and Tablet and follow on products), but also ensure that Imaging products perform very well with Windows.
- 2) **Joint Solution Sales:** MS and HP call on retailers to create joint solutions that satisfy "scenarios" such as Digital Photography, which could be accomplished by bringing HP PCs, printers and cameras with MS offerings to retail.

To sell more items at retail requires a level of "scenario development" and consumer education that few retailers are good at presenting to consumers. The retailers are looking to vendors to supply the products, expertise and money to help make this happen. The retailers see the MS product offers but don't see MS and the OEM come to them with an integrated story.

Both HP's consumer printer and PC divisions have earmarked significant incremental funds next year to promote scenarios, such as Digital Photography. MS and HP jointly leverage their brands to make this appealing for consumers.

**Offers:** Both companies will create unique offers that will be promoted by joint retail sales and marketing efforts:

MS and HP should use both companies' products to create "unique" solutions. These offerings would include:

#### Product Offerings:

- HP PC's, printers, scanners, cameras and other peripherals.
- Windows and applications software, services (MSN), hardware (mice, keyboard, game controls, etc.)

#### Joint Collaboration:

- Cooperative development work to ensure great functionality with HP peripherals and Windows.

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- Promoting the “Better Together” theme that highlights HP peripheral functionality with Windows. HP PCs with MS applications software need to be showcased as complimentary to the strategy.

#### **Leveraging Recent Successes:**

**Windows Media Center Edition:** MS and HP have gained great visibility with the recently introduced Media Center Edition PC and through joint efforts by both retail sales organizations have gained strategic placement for MCE PCs at retail. The MCE project was a result of almost 2 years of engagement with the HP and MS product teams to ensure HP would ship a great product. HP launched with 4 retailers in North America (Best Buy, CompUSA, and Circuit City in the US, Future Shop in Canada).

- Results to date have over half the Best Buy and CompUSA outlets sold out of product. Though data from the others is sketchy, we believe they are in similar situation.
- HP’s VP of NA sales noted that sales are very good and they are “supply constrained.”
- HP only planned to build 18,000 units for the holiday period fearing to commit too highly on new product with many specialized components where oversupply would have meant high financial risk for HP.
- Though early in the selling cycle, sales results are well ahead of HP projections.

#### **Tablet PC:**

HP participated in the Nov. 7<sup>th</sup> launch event with Carly being the executive involved in the MS venues at the event. HP currently is not planning to make its Tablet PC available at retail for another six months. However, it will become part of an overall HP offering that we could jointly promote later next year.

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**Microsoft OEM Revenue Summary Report**  
**Revenue by Product YTD through October FY03**  
 All OEM Customer Type Revenue / Big Area: (All) / Area: Yes / Sub: (All)

(SM-E) Product	Revenue											License				Rev Op			
	FY03		FY03				FY02			FY03		FY02		FY03			FY02		
	% Gross	Revenue	Actual	Budget	Var	Var %	Area	Cost	Grwth%	Actual	Budget	Var %	Cost	Grwth%	Actual	Budget	Var %	Cost	Grwth%
Consumer Windows	29%	179.2	219.9	(40.7)	-19%	226.7	(47.5)	-21%	3,452.5	4,210.8	-18%	4,740.0	-27%	51.90	52.23	-1%	47.82	9%	
Business Windows	65%	405.4	271.0	134.4	50%	216.9	188.4	87%	3,914.8	2,848.1	37%	2,272.9	72%	103.55	95.15	9%	95.44	8%	
32 Bit Desktop OS Total	94%	584.6	490.9	93.8	19%	443.6	141.0	32%	7,367.3	7,058.9	4%	7,012.8	6%	79.34	69.55	14%	63.28	25%	
Desktop OS Total	94%	584.7	490.9	93.8	19%	444.0	148.8	32%	7,487.9	7,058.9	5%	7,183.2	4%	78.93	69.55	13%	62.50	26%	
Windows 2000 DC Svr	0%	0.1	1.3	(1.2)	-92%	1.4	(1.3)	-92%	0.0	0.1	-93%	0.1	-92%	14,928.57	13,765	8%	16,464	-9%	
Windows NT3/2000 Svr	1%	4.6	6.5	(1.8)	-28%	3.2	1.4	45%	8.5	11.0	-23%	5.5	55%	546.40	588	-7%	586	-7%	
Windows Adv Svr	0%	0.4	0.0	0.4	920%	0.1	0.4	567%	0.2	0.0	921%	0.0	593%	2,173.51	2,175	0%	2,257	-4%	
SQL Server	0%	-	-	-	0%	-	-	NA	-	-	0%	-	NA	-	-	0%	0	NA	
Windows Svr Appliances	0%	0.3	0.2	0.1	45%	0.1	0.1	105%	1.1	0.6	71%	0.5	105%	230.00	296	-15%	230	0%	
Small Business Server	0%	0.3	-	0.3	0%	(0.0)	0.3	-2071%	0.5	-	0%	(0.0)	-3977%	643.04	-	0%	1,265	-49%	
Server Other	0%	-	-	-	0%	0.0	(0.0)	-100%	-	-	0%	0.0	-100%	-	-	0%	1,028	-100%	
Server Total	1%	5.7	8.0	(2.3)	-28%	4.8	1.0	28%	-	-	0%	0.0	-100%	-	-	0%	1,028	-100%	
Office SBE	1%	6.2	4.8	1.5	30%	4.7	1.6	34%	54.2	52.2	4%	39.1	39%	115.23	91.75	26%	119.42	-4%	
Office Pro	1%	6.9	2.9	4.1	142%	1.6	5.4	341%	26.8	11.0	143%	6.0	343%	258.51	259.69	0%	260.00	-1%	
Single Office Apps	0%	1.2	1.7	(0.5)	-30%	3.0	(1.8)	-59%	200.7	291.0	-31%	352.5	-43%	6.12	6.00	2%	8.57	-29%	
Other DAD	0%	-	-	-	0%	-	-	NA	-	-	0%	-	NA	-	-	0%	0.00	NA	
Desktop Apps Total	2%	14.4	9.4	5.0	53%	9.3	5.1	55%	-	-	0%	-	NA	-	-	0%	0.00	NA	
Hardware Total	6%	6.1	-	6.1	0%	0.0	6.1	178%	-	-	0%	-	NA	-	-	0%	0.00	NA	
Home and Retail Software	1%	5.4	8.0	(2.6)	-32%	9.8	(4.4)	-45%	-	-	0%	-	NA	-	-	0%	0.00	NA	
HPD Total	1%	5.5	8.0	(2.5)	-31%	9.9	(4.3)	-44%	-	-	0%	-	NA	-	-	0%	0.00	NA	
Embedded & Mobility	1%	6.2	9.3	(3.1)	-33%	6.4	(0.2)	-3%	-	-	0%	-	NA	-	-	0%	0.00	NA	
Other OS/Upgrades	0%	2.3	-	2.3	0%	2.3	(0.0)	-2%	-	-	0%	-	NA	-	-	0%	0.00	NA	
Other	0%	-	-	-	0%	-	-	NA	-	-	0%	-	NA	-	-	0%	0.00	NA	
Press	0%	0.0	-	0.0	0%	-	0.0	NA	-	-	0%	-	NA	-	-	0%	0.00	NA	
Other	0%	2.3	-	2.3	0%	2.3	(0.0)	-2%	-	-	0%	-	NA	-	-	0%	0.00	NA	
Unspecified Product (UPB)	0%	0.2	-	0.2	0%	(6.7)	6.9	-103%	-	-	0%	-	NA	-	-	0%	0.00	NA	
Other	1%	8.7	9.3	(0.6)	-7%	2.0	-	35%	-	-	0%	-	NA	-	-	0%	0.00	NA	
Gross Revenue	100%	619.1	525.7	93.4	18%	469.8	149.2	32%	-	-	0%	-	NA	-	-	0%	0.00	NA	

Business Windows Penetration  
 Office Pro/SBE Penetration

53.1% 40.3% 32.4%  
 1.1% 0.9% 0.6%

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