Eckhard,

Following is a summary of the recent (January 12th and 13th) meetings held with Microsoft's new OEM Account Team. This will provide you a good summary of the open items we are currently working with Microsoft in preparation for your meeting with Joachim Kempkim.

We have many projects currently underway with Microsoft and I believe these meetings resulted in some positive clarification on where amny of them stand.

Jan Claesson (pronounced: yawn claw-son) is Microsoft's new OEM Group Manager for the Compaq account and reports to Joachim Kempin, Senior VP, Worldwide OEM Sales. Don Hardwick reports to Jan and is also new to the Compaq account.

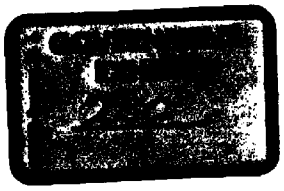
Jan's objectives in coming to Compaq for these meetings was to understand his customer's business objectives - in particular as relates to working with Microsoft. My team set up 3 full days of meetings for Jan and Don.

> Jan felt that he may need to make changes in his team or in the processes the OEM account team has employed in working with Compaq. He wanted to meet the key Compaq players and understand their business goals. He then will develop his organization to work with us and also processes to support a better relationship.

At each meeting we clearly communicated to Jan our expectations of his team, the priority of the important issues and what sort of process we expect him to put into place to work with us in the future.

The main issues were:

- Past transactions which have resulted in a lack of trust and open communication
  - Royalties
  - Consent Decree
  - STAC Deal
  - TAZZ Schedule
- Lack of completion of agreements in a timely manner
  - TAZZ
  - Consumer Product
  - MS Office
  - Back Office
  - Windows 95 Marketing plan



Systems Division Management Meeting

Attendees

Gary Stimac
Mike Lambert
Jeff Erramouspe
Lori Day
Brian Chladny

I understand the major issue is resolving what makes sense for Compaq and Microsoft to do together on Back Office.

Brian and Lori are out of town - on the way to Microsoft. Judy Alam has left voicemail for Brian to lcall me with a summary of only the most important issues. If I get an update before your meeting, I'll let you know.

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Desktop Division Management Meeting

Attendees

John Rose
Kevin Bohren
Andrew Watson
Pat Day
Jim Odom
Judy Alam

Jan stated his desire to improve the working relationships with Compaq and pledged his team would work hard to make these improvements happen. He asked patience as he will need to find the right individuals to join his team to support us.

The key Desktop Division issues identified to Jan and Don were:

TAZZ:

Pat Day outlined that TAZZ has started off very well as a joint project. He said that Compaq has spent $3+M on TAZZ and was extremely concerned that the situation had fallen to the current situation. Jan felt it was encouraging that after all we have put the MS and Compaq TAZZ teams thru, they still liked working together and were positive about the project. When asked, Pat felt we could get back on track with the right management attention.

ACTION: The situation is to be escalated.
John Rose call with Brad Silverberg on 1/18.

Windows 95

Compaq clearly focused on Windows 95. MONOPOLY Client Manage is a Windows 95-only option. This is an area for joint promotion: Microsoft (as a Compaq customer) using this Client Management to manage their network and Compaq (as a MS customer) transitioning quickly to Windows 95.

We re-interated the top Windows 95 technical concerns: ECI, PCMCIA, Network Client Management and help with OPK for pre-installation. Jim Odom said SE needs more attention on the OPK. MS has assigned one person to work on OPK: Peter Denniston. He is working with our folks.

Communications

Kevin clearly pointed out that communications need to be open. We do not want the OEM team to be a funnel thru which all communications must take place. (Note: I found them very open to this approach.)

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Portables Division Management Meeting

Attendees

Hugh Barnes
Lorie Strong
Jim Hartzog
Cynthia Schrock
Cindy Box
CJ Salzman
Tom Bunch
Judy Alam

Jan stated his desire to improve the working relationships with Compaq and pledged his team would work hard to make these improvements happen. He asked patience as he will need to find the right individuals to join his team to support us.

The key Portable Division issues identified to Jan and Don were:

Windows 95 Discussed continued Compaq Windows 95 focus. Tom outlined a number of problems in providing modem support with Windows 95. Tom had been working with individual contributors and also trying to get focus on UNIMODEM issues with the TAZZ team. Don agreed to escalate these issues to the Windows 95 product team. It was clear that without management focus, Windows 95 will not fully support our portable communications.

ACTION: Don to escalate communications issues to Brad Silverberg. Judy to followup to ensure the right attention is being given and monitor progress. Don and Tom to meet and move ahead on a UNIMODEM agreement

Consumer There was discussion of portable consumer requirements. The message was sent that we wanted to work with Microsoft in new areas - not just traditional portable PC areas.

ACTION: Don to arrange for Tom Bunch and Kim to visit the "future home" that MS has setup on their campus. Don to setup meeting on Handheld direction.

NT Discussed the recent events at Microsoft where the purchasing group wanted to have support for NT on Elites, but Microsoft NT group had not included PCMCIA support within NT. Also discussed the desire to have NT fully support Compaq portables.

ACTION: Setup development relationship with NT group. It would help to emphasize this with Joachim.

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Windows 95 and Business Issues

Attendees
Lorie Strong
David Cabello
Judy Alam

Major issues over the past months stress that there is need for trust and open communications between the two companies. We agreed that when we are going to work together we need to outline common objectives first - before work begins; we did not reach agreement that that means a signed license prior to work beginning.

Jan felt that we needed to look at all joint projects with a project management focus and review progress, status, issues periodically.

Jan said that the biggest issue Microsoft has is worldwide piracy.

Windows 95

Discussed the joint marketing plan. Jan asked Lorie to sign the plan as soon as possible and to promote the joint marketing plan with press release, etc. Jan indicated that no other OEM has currently signed a Windows 95 agreement - or marketing plan. Obviously a press release that Compaq has would give them added pressure on the other OEMs.

Currently the plan confirms that Compaq will ship Windows 95 within 3-5 weeks of Microsoft's release on most systems, 8-10 weeks on systems with ECI (Presario) and Network Client Management (MONOPOLY). At this time, SE has indicated that it will take some months to transfer pre-install to Windows 95 on all systems, with the first systems in 10 weeks. Lorie did not provide this information to MS, but indicated that we were re-assessing our schedule and transition in light of the recent Windows 95 schedule delay.

Royalty

Jan provided very confidential information about Windows 95 royalties in regards to other OEMs. The bottom line message was that Compaq still has a significant price advantage.

Justice Dept. Ruling

Jan said that few OEMs had re-negotiated their licenses after the consent decree. He said most compannies are still paying on a processor basis; some with a 5% exclusion. Jan indicated that a Compaq request for a "per copy" license would be viewed as a major issue at Microsoft. David is planning to propose language changes to see if our proposals would be acceptable to Microsoft.

Other Issues

Jan agreed to look into the possibility of having one Microsoft attorney work on all Compaq licenses.
Jan agreed to look into any addition replication site requests that we have
Marvel was not brought up.

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Consumer Meeting

Attendees

Susan Vinci
Scott Holder

Susan and Scott wanted to meet with Jan to discuss the potential for Compaq exclusivity and other differentiation if we chose to use "BOB" (Utopia). Jan felt that exclusivity would not be possible as BOB will be available some time before the Presario products that Susan thought she might use them on. Jan was open to discussing other alternatives. Don Hardwick will get back with Susan to discuss potential working agreements.

MS Office Business Issues Meeting

Attendees

Bob Jackson
Steve Decker
Terri Golas
Justine Warburton

This is being drive by NA. I believe they are still considering multiple alternatives.

Consumer Products Agreement Meeting

Attendees

Bob Jackson
Steve Decker

This has been a very difficult situation since Microsoft signed an LOI that they were unable to fulfill. While an understanding of their situation has been achieved (primarily surrounding thie inability to provide support on the applications), the agreement remains unsigned even though the promotion has been going on for months.

Direct Plus

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Attendees

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Lynn Schleymeyer
LaVonne Mullet

Lynn was requesting clarification on the Direct Plus terms with Microsoft. I do not have an update on this.

NA Marketing

Attendees

Gian Carlo Bisone
Jerry Meerkatz
Joe Sparks
Greg Young

Gian Carlo felt that we were not working closely enough in NA on joint marketing activities. Don agreed to prodce a one page list of Microsoft NA activities within one month. Jerry Meerkatz will lead the team in coordinating activities with Microsoft. Results would be measured quarterly; with Ross and Steve Ballmer getting together fairly often

Jan also had a one-on-one with Ross Cooley.

Customer Support

Attendees

Gus Kolias
Neo Azemian
Judy Alam

Gus discussed concerns about preparations for Windows 95 support. Don agreed to setup a meeting between the two support groups to discuss creative ways to handle support of Windows 95. (Joint goal is to support Windows 95 as shipped with Compaq systems - but not to have to support Microsoft's retail upgrade product.)

Don also agreed to work with the MS support goup to update the Technical Support Alliance.

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OTHER

In addition, Bob Stearns and Steven Flannigan have begun to establish a relationship with Microsoft's long range planning groups.

We also continue to communicate on our handheld directions. As you probably know, Microsoft "shelved" Winpad late last year. This has been replaced with Pulsar. We received updates on this project, but have no current commitements in place.

Please feel free to call me if you have any questions at X44781. Let me know if there is anything I can follow-up on after your meeting.

Lorie Strong

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