



Microsoft HP Joint Teleconference- January 13, 2010

Steve Ballmer, CEO of Microsoft

Bob Muglia, president of the Server and Tools Business, Microsoft

Mark Hurd, chairman and CEO, HP

Dave Donatelli, executive vice president and general manager, Enterprise Servers and Networking, Enterprise Business at HP

PAUL MILLER: Thank you, Operator. And thank you for joining us today to hear more about this groundbreaking agreement between HP and Microsoft, where the two companies will partner across engineering, sales, and services to integrate the world's leading infrastructure with the top business applications.

This agreement touches on every aspect of HP and Microsoft's enterprise business from servers to storage and networking, to the data management and virtualization software, to the operating system and applications, direct in-channel sales, and marketing, and even professional services. This call is designed to be a question and answer session. Hopefully you were able to review the press release issued earlier today, as well as the press package, which contains additional details on today's announcement, including pre-recorded remarks from Steve Ballmer, CEO of Microsoft, and Mark Hurd, Chairman and CEO of Hewlett-Packard.

Joining me on today's call from Microsoft are Steve Ballmer and Bob Muglia, President of Microsoft's Server and Tools business; and from HP we are joined by Mark Hurd, and Dave Donatelli, Executive Vice President and General Manager of Enterprise Server, Storage and Networking.

Today, HP and Microsoft are announcing that the companies will deliver solutions built on a new infrastructure to application model that represents the most integrated technology stack in the industry today. This will substantially improve our customer's experience developing, deploying and managing IT environments. This is a multi-year agreement, which will result in many product announcements.

First, you will see HP and Microsoft integrate management and virtualization solutions across the data center from the infrastructure to the application. In fact, several of these integrated solutions will be available immediately.

Next, HP and Microsoft will deliver pre-packaged, turnkey solutions for data warehouse, business intelligence, and online transaction processing. These data management and e-mail machines

from Microsoft's SQL Server and Microsoft Exchange Server will deliver push-button simplicity and optimized performance.

And to ensure customer investments are ready for the cloud, HP and Microsoft will collaborate on the Windows Azure platform with HP and Microsoft offering services, and Microsoft continuing to invest in HP hardware. Together, HP and Microsoft, along with our 32,000 joint frontline channel partners will provide extensive global services and support offerings delivered in more countries around the world than any other provider.

I want to emphasize while this deal is exciting for us, the real win is for our customers, who will be able to deploy and manage applications faster, at a lower cost, and enjoy a faster return on investment.

With that, I would like to invite your questions for Steve, Mark, Bob and Dave.

Operator, can you please repeat the instructions on how to ask a question.

PAUL MILLER: While we're compiling those questions, why don't we take one from the Web. I'll throw it out to you, Steve. Why are HP and Microsoft doing this agreement at this time?

STEVE BALLMER: Certainly we have worked together so extensively for many, many years. And Mark Hurd and I almost, I think, from the time Mark came to HP, we've been talking, and moving effectively to get closer and closer in terms of enterprise and data center solutions. I guess last April, Mark and I were in one of our regular sort of three or four time a year meetings that we do, and we said, look, the world is accelerating, the movement to modern data center approaches is absolutely accelerating. That really means the movement to a cloud model based upon kind of well-defined and well-integrated virtualization and management approach, and with a new application model that's really tailored to make sense both in the cloud and in these new private clouds that really use these new virtualization and management techniques.

And we said the time is now, let's get after it. Let's see if we can't get our technical teams to get strong alignment on app model, virtualization and management, and if we can then we can drive it all the way forward up to the application level with pre-configured push-button type solutions. And at the same time, we can enable our partners and our own sales forces to tell that story together.

And we spent a good amount of time to make sure we could absolutely get the alignment on the application model, on the virtualization and management integration across the two companies. Microsoft has best of breed solutions for virtualization and management of Microsoft environments, and HP has been a leader in heterogeneous environments, and really stitching those things together has been kind of a desire for a long time.

But it's clear that if we look at the modern world, we are able to build on our incredible 25-year partnership, and the relationship that Mark and I and others in the two companies put together to drive this forward.

PAUL MILLER: Mark, do you want to add anything to Steve's comments?

MARK HURD: I think that's a great synopsis of where we are. I mean the important thing is to remember these companies have had a relationship for a long time. I think over the past four or five years, you've seen lots of collaboration between Microsoft and HP. Last week on our Slate product, what we announced in Unified Communications, these are all things that have come out of the meetings that Steve and I and our teams have all the time. And I think to the point of your question it was time for us to really align our enterprise businesses.

We think this is just a great opportunity. You've got the largest software company in the world. And the largest technology company in the world with an opportunity we think to bring great value for customers. And for us getting our engineering teams aligned, getting our go to market teams aligned. It's work, but we think worth it for what we can do for customers. In the end this is all about integrating technologies to make these things as close to plug and play as we possibly can, giving customers a choice at delivery models as they choose to how they want to build out their IT infrastructures.

And, again, Paul, to the point earlier, I mean, we are talking about here aligning 11,000 HP Service professionals to this initiative. So, we're going to invest not 250 million, I want to make sure I'm clear with this, \$250 million of incremental dollars unique to this program. So, there already are hundreds of millions of dollars spent between Microsoft and HP every year, bringing solutions for our customers.

So, this is \$250 million incremental dollars, alignment between engineering teams, services teams, go to market teams, all with the desire to make things simpler and easier for our customers, get the deeper levels of integration to optimize machine capability with software capability.

Steve's point about our management software I would tell you, this is a, we think, best in the world kind of solution for customers. We think Microsoft is the best in the world at managing Microsoft environments. We think HP is the best in the world at managing heterogeneous environments. Marrying those two capabilities up at the management level, we think just brings customers tremendous benefit. So, we think these are two great companies that are lined up to make some great stuff happen.

PAUL MILLER: Great. Operator, can we have our first question from the phone, please?

RICK MARIN: Hi, good morning, everybody. Could you just give some more specific details about what you expect to do when?

PAUL MILLER: Bob, do you want to take that one?

BOB MUGLIA: Sure, I'll start on this. Basically, the first thing is that our teams have been working very closely together for a long time and so in a number of ways there are solutions that are available right now, starting with, for example the alignment of products from HP in the management space, like HP Insight Manager and Microsoft System Center, where we can provide virtualization solutions to the market and go together to provide leading solutions for our customers right now and today.

In terms of our work together in areas like Windows Azure, we have been working very closely together. That includes Microsoft purchasing HP hardware for our Windows Azure environment. And it also includes a work together to help customers think about how they will take advantage of the next generation cloud application.

A very large part of the work that HP and Microsoft are doing are in the application space and thinking about how we can help our customers to take advantage of this next generation application model that the cloud brings and so a key part of this will be helping our customers to deploy solutions on premises with products like System Center - with products like SQL Server and Exchange and today we are already offering some prepackaged solutions with HP around SQL Server. We'll be bringing out solutions over the next year, both in terms of high-end data warehousing for SQL Server, as well as Exchange prepackaged solutions.

PAUL MILLER: Great. Thank you, Bob.

QUESTION: If I may just follow up that with sort of the market side of your collaboration, can you give any detail about any technical collaboration?

PAUL MILLER: Okay, Dave, why don't you jump on that one?

DAVE DONATELLI: Sure, this is Dave. When we talk about management software that's integration of the products. Those products aren't stand-alone. It's how we integrate them together to offer the customer a seamless solution. As far as what we termed the application machine, what's unique here is we are now marrying the infrastructure. So, when we talk about infrastructure we're talking about the server, the network, the storage, through the operating system, all the way up through the applications. The two Bob mentioned, obviously are two of the most popular in the world when you talk about SQL Server and Exchange. And there what we're looking to do is make the customers environment seamless from an approach for the two companies, and also optimized.

So, what we mean by seamless is the two companies are working together from an engineering perspective to optimize how that physical infrastructure and that application worked together so that it works in a faster way, it's easier to deploy, it costs less money to deploy. We're even looking to see how to make it easier to even ship to the customers. So, with SQL Server, for example, you can ship the hardware with the software already preinstalled from an HP factory to

the customer. So, again, the idea here is full solutions, both from a design perspective, as well as all the way through order.

PAUL MILLER: Thank you, Dave.

Operator, can we have our second question from the phone, please?

KEN ANDERSON: Hi. Yes, a quick question about how significant the cloud is in the agreement that's been announced today. It's not very clear to me reading the press release to what extent this is a continuation of what HP and Microsoft have been doing for many years in computing environments, and to what extent this is a new thing really aimed at a migration to the cloud or hybrid solutions with Azure and on-premise infrastructure. So, could you expand on how significant the role of Azure is in the new agreement.

PAUL MILLER: Steve, why don't you grab that one, please.

STEVE BALLMER: There's a lot -- if the world wasn't changing, I think Mark and I would agree there was a lot we could and should do together. The fact that we are two companies, Hewlett Packard and Microsoft are very directed at the cloud is the driving force behind this deal at this time. The cloud means two things. The cloud really means a modern architecture for how you build and deploy applications. If you build and deploy them to our service that we operate, that's called Windows Azure. If a customer wants to build those and deploy them inside their own data center, or some other hosted environment, they need a stack on which to build. Hardware-software service, the instances, the same application model that we'll have on Windows Azure. In my own mind I think about it as the private cloud version of Windows Azure, but that thing is going to need to be an integrated stack from the hardware, the virtualization layers, the management layer, and the app model. And it's on that that really we are focusing the technical collaboration here. There will be environments that are heterogeneous for sure. We understand that. Our customers are going to need hardware that is optimized to fit into this application and management model that Microsoft and HP are working on.

We, Microsoft, need to evangelize that same application model, whether you choose to host in the cloud or inside your own premises. So, in a sense this is entirely cloud motivated. When you put it out in our public service it runs Windows Azure, a lot of HP hardware powering Windows Azure. If you choose to put it in your own data center it runs on HP and Microsoft technology. So, it is absolutely cloud-driven.

MARK HURD: Hey, Ken, this is Mark. One thing I would not want you to write when you opened up your question of, it sounds a lot like what Microsoft and HP have been talking about for years. It's -- this is the deepest level of collaboration and integration and technical work we've done that I'm certainly aware of. I mean, we're talking about the aligning big parts of our go to market capability with this. This is very deep levels of integration. We're talking about how optimizing machine capability around SQL Server. We're talking about packaging that up from an availability perspective, from a performance perspective, being able to align logistics

capability around it, being able to align our implementation capability, our service ability capability, talking about bringing 11,000 people and optimizing that to benefit for the customer.

It doesn't mean things we've done over the years haven't been great, it's just the natural evolution of deeper and deeper levels of integration. So, I would hope when you read it, and maybe we haven't done a good job describing. This is breakthrough stuff for us. And it's a different thing than you've seen from the two of us before. So, it may be hard to get through in the way we write the things, but I guarantee you, Steve and I would not be on this phone call if this was just another press release from HP and Microsoft.

PAUL MILLER: Thank you, Mark. Operator, how about another question from the telephone line?

ASHLEY VANCE: Hi, guys. It is a little bit hard to sort of discern any specifics from the material that was out there so far. Could you guys talk a little bit about are there any changes to the way sales people are compensated if they sort of sell these bundles, and is there anything here about Hyper-v kind of becoming the default on HP hardware going forward or any specifics there?

PAUL MILLER: Dave, why don't you take that one?

DAVE DONATELLI: Sure. As part of this agreement, we are increasing our investment in our go to market by 10X what we're already doing. And that means, specifically to your question, we'll have new dedicated sales reps who are going to be out helping customers take advantage of these technologies, included in that technology is Hyper-V, and you'll see us sell more Hyper-V through these dedicated reps as well as through our global channels around the world.

So the agreement is targeted at all the facets of our business from the enterprise customer all the way through the medium-sized business through what we call our SMB customers as well.

So 32,000 channel partners, more dedicated sales reps all bringing all these technologies to market.

ASHLEY VANCE: Can you be specific, though, do the sales people get sort of better conversation if they sell a bundle, and is Hyper-V the default across all HP hardware moving forward?

MARK HURD: It's not a default deal, but we will have dedicated sales reps who will get paid just by selling these technologies. So from their perspective, their compensation is going to be solely driven by driving these HP and Microsoft solutions.

DAVE DONATELLI: But, actually, let me try this, Mark. A couple of things. One, think about when you're in the channel, one of the big issues if you're a channel partner is ease of doing business, simplicity, promotion, et cetera. All of that gets optimized here.

Most of our partners are a big partner of Microsoft and a big partner of HP. The fact that I can now get a bundled solution that's been tested, that's been optimized, that's got collateral material around it, that's got promotion dollars aligned to it, that's aligned to both sales forces, you've now just simplified my life enormously. You've given me a simple offer coming from both companies that both groups get compensated around a similar set of specs and capability that not only you put together, we put together for you. We pre-tested. We pre-packaged. We made pre-ready to go to market.

So you've now taken lots of complexity, supported that with lots of simplicity to go to market. So, listen, don't minimize how much work that is to get out into the market, and how much we've simplified now people's lives, and made it easier for our partners, who in turn make it easier for our customers.

ASHLEY VANCE: I guess, I'm sorry. Just one last follow-up, Mark.

MARK HURD: Sure.

ASHLEY VANCE: It's just like I feel like you guys have done these types of bundles for years and years and years.

MARK HURD: I think that there are bundles, and I think that your point is probably right as there have been several bundles over the years. There's a difference between a bundle and the opportunity now on how deep it gets integrated, and how much true engineering work gets done. And maybe that's what gets lost a little in just the words, because here you're talking about putting millions and millions of dollars now around not just bundling, but engineering alignment, testing, aligning thousands of service people around it. Now, we're talking about 11,000 people, pre-testing, pre-loading, lining up logistics, et cetera, et cetera, and maybe it's the scale that we need to get across in the messaging, because this is to my knowledge, actually, the biggest alignment of infrastructure we've ever put behind any kind of enterprise offer that we've had.

PAUL MILLER: Mark, if I could add something here.

MARK HURD: Sure.

BOB MUGLIA: Dave's engineers and my team have been working to integrate the work that we do with System Center and Hyper-V together with HP ProLiant hardware. And as an example of that, the sorts of things we'll be delivering in the very short-term timeframe are a set of power management capabilities that will be unique on HP hardware where System Center will be able to directly control an overall data center. This is because of enhancements that have been done with joint work together with our two engineering teams to reduce the power utilization of a data center. And that's one of the first things that we'll be delivering over the next few months.

We have a whole set of milestones that will be coming associated with incremental deliveries to that virtualization environment. Things like Run Book Automation to help simplify the management of both a Windows environment and a heterogeneous environment, as well as the next set of steps as we begin to implement that private cloud infrastructure that Steve mentioned.

ASHLEY VANCE: Okay, thank you, guys.

PAUL MILLER: Operator, another one from the telephone, please.

PAUL MCDUGAL, InformationWeek: Hi. I'm wondering if Mark could update us on the status of HP's technology alliance with Oracle, and how the arrangement announced today with Microsoft might affect that?

MARK HURD: Well, listen, Oracle is a great partner of ours, but I'm here to talk about Microsoft, to be very frank. This is, again, I don't want to repeat everything we've done, but this is a partnership that's been a long time in coming in terms of the evolution of our relationship. We feel great about it. I, again, think Oracle will continue to be a very important partner of ours going forward. But, frankly, today we're talking about Microsoft.

PAUL MCDUGAL: So there's no situation here of this is being, or this has partly arisen due to perhaps a backing away from Oracle given Oracle's acquisition of Sun?

MARK HURD: You know, listen, I think the way you should think about this is the natural evolution of a great relationship between Microsoft and Hewlett-Packard. And from our point of view, you've got the number one software company in the world, the number one technology company in the world aligning.

The point I think Steve brought up earlier, we've been talking about this for a long period of time. It was April or so when Steve and I were in a room and decided, we're going to go make this go. So, if you sort of went through the process, this has been months and quarters really getting ready to happen. So, I wouldn't want you to think of this as a reaction to anything as much as our opportunity, we think to drive a pretty cool position in the market by aligning our two capabilities to make a difference for customers. That's the key driver as opposed to react to this thing, or that thing.

We actually, I think back to the question Ashley had, doing something at a level of integration that we're not aware of any two companies on the planet ever having done before, and at this level of integration.

PAUL MCDUGAL: And just a quick follow-up for Steve.

Similarly, does this imply that Microsoft may be backing away from any other industry partners you work with, like a Dell or an IBM?

STEVE BALLMER: We don't have a lot going on with IBM. So let me have the record straight. We're driving ahead aggressively with Hewlett-Packard. Sort of to the question you asked Mark, and the question that you asked me, we are going to do a heck of a lot more together, we respect that HP is still going to work with guys that we compete with, and we're going to work with guys that HP competes with. That's not going to stop us from doing a lot more with HP, or HP doing a lot more with us. So whether it's the work that we're doing to optimize for hardware, on virtualization, the use of HP hardware, or the work we're doing to drive forward at data warehousing, business intelligence with HP, some of that, of course, will overlap with what we're doing with other partners, and with what HP may be doing with others partners. But we're going to drive this stuff forward together aggressively because we think we can make things work really well for customers, and improve both our business and HP's and that's fantastic.

PAUL MCDUGAL: Great. Thanks.

PAUL MILLER: Thank you.

Operator, we have time for one last question. Please start them up.

JENNIFER SCOTT, IT Pro: Hi, guys. It's just a question about future R&D. If, obviously, you guys are talking about current technologies and adjusting them to work better together, but are you going to be putting money into R&D, and we are going to see more interesting, exciting and new technologies from Microsoft and HP together?

PAUL MILLER: Dave, do you want to start that one off, please?

DAVE DONATELLI: Sure. As part of the deal, some of the money we're announcing here is specific, incremental R&D money where both companies will be making investments in their respective technologies as part of these machine deals, and as part of the Microsoft software integration that we've spoken about.

JENNIFER SCOTT: Do you know how much it's going to be that you're putting in?

DAVE DONATELLI: It's all covered in the amount of money we released. But we're not breaking out individual components.

STEVE BALLMER: This is Steve. Let me just add-in, this relates to that which is incremental partnership. The truth is, Microsoft and HP both have R&D that we're investing in public and private clouds that are related to utilization and management, the applications, the business intelligence, transaction processing. If you look for us that's- I was going to say many hundred million, it's a many million dollar base R&D investment. It's large at HP. And now what we need to do is really glue it together, and we are funding that as part of the incremental investment.

BOB MUGLIA: And let me give you a specific example of how we will be investing together. The data center of the future, and the servers in the data center in the future are going to look nothing

like the servers today. We are working together with HP to develop next generation container architecture, which you can think of in many ways as the next generation mainframe, except it will be thousands of times more powerful and a fraction of the cost.

STEVE BALLMER: And with an application model that is very Internet cloud oriented.

BOB MUGLIA: So we're investing together on some very exciting R&D to redefine the way data centers of the future will be built that are optimized for this next generation cloud application model. And frankly I don't think there are any other companies in the market that could really deliver on these things together today.

One of the advantages that we bring is, we actually are running these things ourselves. We really understand very deeply what it takes to make it work. And by partnering with HP, we're very confident that we can take that same knowledge that we're building and deliver it to customers for their own private cloud environments, so that they can get the same benefits within their own data centers.

MARK HURD: You know, one last thing I'd add, if it isn't clear based on the phone call, and press release, and the video, these are two companies that talk a lot. I would describe us as highly collaborative, very open dialogue, don't want to imply that we ever agree on every single thing. But that said, the amount of opportunity for R&D, there isn't a meeting we have together, which happens frequently, where we don't talk about opportunities to further align R&D.

So, I wouldn't want you to think of this as, hey, there's a piece of paper and a contract that defines everything we'll ever do together, because we constantly have ideas for new things we can do together. So I think you should think of this as the deepest relationship ever announced with a plan with a series of features and releases that are coming out.

That said, I would expect there to be a continual incline in the amount of collaboration between the two companies. So this is not the end, this is the beginning, I would say, and I think you should expect to see more from us on the R&D front together a lot.

JENNIFER SCOTT: That's great. Thank you.

PAUL MILLER: In closing, I would like to thank everyone for your participation. And to get more information, please visit the virtual press kit on both the HP and Microsoft Web sites in our respective newsrooms.

Thank you very much.

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