

**PLAINTIFF'S
EXHIBIT**
2506
Comes v. Microsoft

From: Tricia Mayer
Sent: Thursday, June 06, 1996 7:19 AM
To: Carl Gullede
Subject: aha!

ok, here are more details. still not clear on some details, but this is getting close.



final SBSO price quote
revised...

Thanks!
Tricia Mayer
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January 25, 1995

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Mr. Jean-Luc Meyer
Hewlett-Packard Company
Etablissement de Grenoble
5, avenue Raymond Chanas - Eybens
38053 Grenoble Cedex 9

Dear Jean-Luc:

This letter serves as a summary of our agreement for the SBSO Vectra 500 opportunity. I have included below the entire text from my letter dated January 16th. This letter also serves as the statement of intent you had asked for with our proposal. I have added the following clarifications per our previous discussions.

- MS understands that at the time of the US launch, HP's "low-end" SBSO skus will not yet be rolled over to the "MS Branded" configuration. HP will roll the "low-end" skus to the "MS Branded" configurations in the summer 1996 timeframe.
- HP agrees to add questions to the end-user registration form and to conduct and provide end-user research data as part of the metrics to evaluate this test. HP and MS will agree on the types of questions and methods (e.g. call downs) used to collect this data. Initial categories include HP's sales data (which channels, distributors, VARs, etc. etc.) and HP's registration data. MS agrees that MS will only utilize this data from a research perspective and will not use this data for marketing purposes.
- In the Additional Provisions section of Exhibit C67, we have added language describing 1) our issues relating to the non-MS products to be shipped on the systems, and 2) the requirement to ship our keyboard even if our customization efforts are not completed by the time HP starts customer shipments of these systems.

We also need the list of your Customer Systems (Exhibit M26) as soon as possible.

TEXT FROM THE PREVIOUS COMMUNICATIONS:

I am very happy that we have reached an agreement in principle regarding our proposal for the SBSO Vectra 500 opportunity. Microsoft Corporation is pleased to present this price quote¹ for the hardware and software bundle described below for Hewlett-Packard's SBSO initiative. For the sake of clarity, in this price quote I have included many of the points from our previous communications.

MS Brand Awareness

You are probably aware that MS has spent US\$100M promoting Windows 95. This represents the initial phase of a multimillion dollar advertising campaign to strengthen the "Microsoft" brand worldwide. An additional \$45Million dollar print, TV, radio and direct marketing campaign is planned to promote the "Office" brand in the corporate marketplace, including the SBSO segment we are jointly targeting. These campaigns clearly feed the already strong customer and channel recognition for MS solutions. Microsoft plans to continue its name and brand recognition campaigns via extensive worldwide PR, broadcast TV coverage, and print coverage in the future.

The Hewlett-Packard "MS-branded" solution for Small Businesses

This quotation is based on the following assumptions and principles:

- 6 months license term. This is to test the concept of "MS-branded" solutions in the high-end US SBSO market.
- HP agrees to market "MS-branded" solutions in the US market, for both the low-end and high-end offerings. Initial concept of "The Microsoft Ready-to-Work PC by Hewlett-Packard - The Ultimate Solution for Small Business" was discussed.

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- ◆ HP will develop a plan to migrate to a full offering of MS products worldwide, including MS Works, for entire Vectra 500 line of desktop PCs. Target date for completion of migration effort would be August 1996.
- ◆ These systems include only MS products.
- ◆ HP will place the MS name on the system case.
- ◆ Pricing is based on a "Per System" basis under a minimum commitment royalty license and is expressed in US dollars.
- ◆ HP's estimated 12 month volume of 100,000 units was used to determine royalty rate. Minimum commitments will be based on HP's estimated system shipment of 50,000 units for the 6 months license term and 8350 units monthly.
- ◆ Monthly royalty reporting.
- ◆ Royalty rate will be subject to adjustment if HP system volume falls below the estimated monthly units per month in any three monthly periods.
- ◆ HP will provide end-user support.
- ◆ HP preinstalls the software on 100% of its Vectra 500 systems.
- ◆ Associated Product Materials (EULA, "Certificate of Authenticity", etc.) will be sourced from Microsoft Authorized Replicators and delivered with each preinstalled system.
- ◆ HP is committed to aggressive marketing, advertising and PR.
- ◆ HP will assign dedicated resources in the North American Marketing Center to support US launch of SBSO products.
- ◆ HP plans to focus distribution on its two-tier channel (distributors - Merisel and Ingram- and aggregators/franchisees - MicroAge, IE, Vanstar, Entex, etc.) The latter category (aggregators/franchisees) would be of greater importance and would be the primary target for marketing program development.
- ◆ Retail channel distribution will be initially restricted to the Computer Products Superstore segment with outbound corporate sales reps, versus the Office Products Superstores, Consumer Electronics Superstores or Mass Merchants. (i.e. CompUSA vs. Office Depot, Circuit City, or Sears).
- ◆ HP and MS will jointly determine success metrics for the SBSO MS-branded solution. These metrics will be used to evaluate the 6 month test of the "MS-Branded" concept in the high-end SBSO segment.
- ◆ Upon completion of the license for the bundle described in this price quote, Microsoft and HP will enter into good-faith negotiations to address 1) HP's needs in the high-end SBSO segment in key European countries (France, UK, Germany and Sweden initially) and 2) HP's needs in the low-end SBSO segment on a worldwide basis.

The US solution is comprised of the following MS products, HP PC, networking, support and peripheral devices:

1. **Low-end SKUs:** HP Vectra 500, MS Plus! Pack, Mouse, Natural Keyboard, Bookshelf, Publisher, and Works.

NOTE: The estimated MS combined product street prices total US\$378.75.

2. **High-end SKUs:** HP Vectra 500, MS Plus! Pack, Mouse, Natural Keyboard, Publisher and Office Professional & Bookshelf - (Word, Excel, Schedule+, PowerPoint, Access and Bookshelf).

NOTE: The estimated MS combined product street prices total US\$868.80.

The prices reflect the amount an end-user would pay if they walked into a retail store and bought all of those products individually. Each one of these products sell extremely well and have received excellent industry reviews. These products have proven, demonstrated end-user value. As an example, the MS Natural Keyboard is receiving an 85% recommendation rate in end-user call down studies. This is extremely high for a hardware product.

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Price Quote:¹

Description	Products	Royalty
US "high-end" bundle	MS Plus! Pack, Mouse, Natural Keyboard, Publisher and Office Professional & Bookshelf (Word, Excel, Schedule+, PowerPoint, Access and Bookshelf)	US\$183.50

Once again, we are quite pleased with and excited about the opportunities for success this "MS-branded" solution presents for both companies. It promises to be exciting to work jointly with Hewlett-Packard on the *Small Business Small Office* segment and we look forward to our mutual success in this segment.

Sincerely,

Michael Spitz
HP Account Manager
Microsoft, OEM Division

¹ This price quote is valid for thirty days from the date above. The price quote is valid only as outlined above. Subsequent pricing discussions between Hewlett-Packard Company and Microsoft Corporation shall require a new price quote. The above price quote does not constitute an offer by Microsoft Corporation, and does not constitute a license agreement between Hewlett-Packard Company and Microsoft Corporation. Microsoft Corporation shall have no legal obligations to Hewlett-Packard Company with respect to the above products unless and until such time that a new license agreement is executed by Hewlett-Packard Company and Microsoft Corporation.

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