



To: Bill Beers@SMBSD, Hubert Edenfield@SMBSD
 From: Mike Shealy@SMBSD
 Originated by: Carl Sittig <carlsi@MICROSOFT.com>
 Cc:
 Bcc:
 Subject: fwd: RE: CONFIDENTIAL- YOUR EYES ONLY -Status and Question
 Attachment:
 Date: 2/6/97 7:03 AM

Bill and Hubert:

It sounds to me like we are going around in a circle. I suggest the following action:

1. I am going to take forward the strategic questions to John Rose ASAP.
2. I suggest we not count on Microsoft as a partner in the productivity space and Hubert choose what ever path he deems necessary for his business. This will allow flexibility for the GEOs and ourshelves...then let the local partnering make or break the selection.
3. It is obvious that Microsoft will only want to partner with us on their own terms and where is suits them. Carl has no impact on the Global commitments and, therefore, we must truly rethink our reliance on Microsoft as the only partner in this space and any leverage we can have with them. Bill...you were right all of the time!!
4. Bill, it appears that the session suggested maybe interesting if the appropriate players from Microsoft (beyond OEM to Fade's team and Balmer's SMB organizations from their GEOs) and ourselves (SMB types plus the desktop GEO managers/directors and the senior relationship managers...maybe even Mike Pocock's team). This could be billed as a "showdown" or "strategy planning session" ...depending if you are a glass half full or half empty type...and then Carl will have to explain the GAP to the entire Compaq team.

Mike Shealy
 Small and Medium Business Solutions Division
 mshealy@bangate.compaq.com
 713.514.4565 (v)
 713.518.0157 (f)
 800.796.7363 PIN 101 8187 (pager)

 Original text
 From: Carl Sittig <carlsi@MICROSOFT.com>, on 2/5/97 04:01 PM:
 To: "Joachim Kempin" <joachimk@MICROSOFT.com>, "'mike shealy'" <Mike=Shealy%SMBSD%PCPD=Hou@bangate.compaq.com>
 Cc: "Bengt Akerlind" <bengta@MICROSOFT.com>

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Mike,

Perhaps I can help clarify. For an OEM, per-system license, the SKU that Compaq defines, assembles, and pre-installs with MS Word needs to be a

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package. It is Compaq's decision about what that configuration will include (hw, OS, Word, fax board, etc.) but these things cannot be itemized or priced separately and still qualify as a per-system SKU. In other words, if the starting point was a Deskpro 2000 and the only differentiator for making that a SMB SKU was MS Word (i.e. Deskpro 2000+MS Word), that would not be considered a per-system bundle, but rather a per-copy bundle. The customer would choose the Deskpro 2000+Word if he wanted Word, and choose Deskpro 2000 if he did not want Word. This is per-copy.

In a per-system license, the event that triggers an MS Word royalty is not the shipment of a copy of MS Word, but rather the shipment of the defined hardware configuration. The System configuration options in the MS Word license would be for Compaq to license Deskpro 2000 systems, or specifically define a hardware SKU (computer package) that will incur an MS Word royalty each time that SKU ships. The only additional "stuff" you would need to add is the collection of items that would make a Deskpro 2000 a compelling SMB computing platform, and would distinguish it from a standard Deskpro 2000 in order to trigger the MS Word royalty. MS Word is a standard feature of that defined SKU (not an option) much like the power supply or chassis would not be options. These are standard per-system licensing terms.

In the past few weeks we have been discussing the several marketing opportunities with Lavonne Mullet and Bill Peers, and have been working SMB issues with the European GEOs. Some of this was born out of a conf call we held in December with Jeff Raikes (Group VP Sales & Marketing) and Jim Schraith. Bengt, Pete, and I would like to set up a meeting with you, Lavonne, and Eric Boustouller in Houston to review the proposal and answer any remaining questions you have in order to execute the worldwide plan. I understand Eric will be in Houston in a couple of weeks, so we will coordinate around his trip. I will invite Natalie Ayres (my MS counterpart in Europe). I will coordinate with Lavonne and Eric.

We look forward to making this a Compaq opportunity.

Thanks,

Carl Sittig
Group Manager, MS OEM
carlsi@microsoft.com

>-----Original Message-----

>From: Joachim Kempin
>Sent: Wednesday, February 05, 1997
>To: 'mike shealy'
>Cc: Carl Sittig; Bengt Akerlind
>Subject: RE: CONFIDENTIAL- YOUR COMMENTS on the Business Model
>

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us and Question

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>Thank you for your mail.
 >I believe we have explained the model to you. I will repeat myself in
 >saying we believe it is fair and there is no gap in our view. I am
 very
 >excited about the possibility to work with you on a field engagement
 program
 >whereby you license WD and the VARs to sell "it your own" component,
 >which provides for flexible HW and SW pricing as I believe. We will
 not
 >make this program available to the direct channel to the VAR channel. I am
 >trying to convince Europe to enter into the program as well to make this a
 WW
 >effort- but they will want to decide on their own, same as in Compaq. I am
 >unaware of the add on issue you raised. Let me get Carl comment on this.
 >The direct movement is encouraging to us. I guess it will not be in
 >all countries so we have to continue to work together on this.
 >I am happy to see that you see value in our solutions in your offer!

>-----Original Message-----

>From: mike shealy [SMTP:Mike=Shealy@bangate.com;mailto:mike.shealy@bangate.com]@bangate.com
 >Sent: Wednesday, February 05, 1997 11:00 AM
 >To: Joachim Kempin
 >Subject: CONFIDENTIAL- YOUR EYES ON IT - Status and Question

>Joachim:

>First, I feel our teams are effectively working together, and, thanks to your input,
 >are beginning to move in a "joint" way. I understand creatively successful
 >business partnerships do not evolve overnight, as good wine, mature at
 >their natural pace...the major concern in the process is appearing to
 >"drag on" and many of the subsidiaries are beginning to pursue tactical
 >alternatives (Compaq, much like Microsoft, are also pursuing substantial tactical
 >flexibility at the local level). From a global perspective, the good will
 >and strong interworking with yours and ours has continued to
 >underscore our current strategy...to be customer centric as we possibly
 >can be, especially around exploiting our core and core applications.

>Yet, I still have a burning question and I need your help in
 >understanding (both for myself and for our GEOs and
 >corporate management). It appears to me that you have created two sets of
 >rules...one for the "direct" and one for the "indirect" system
 >partners/OEM's. While I understand the rationale for this channelization, what is not
 >clear is how the current "indirect" system is a level playing field for
 >Compaq. From my perspective, the "indirect" system follows: **CONFIDENTIAL**
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> 1. From a pure price perspective, how do we get my team to
 >explain to me how...on a head-to-head basis...under any scenario using
 >the "indirect" channel...can match the "direct"
 >model. In fact, if our goal is to help them meet their corporate target
 >Gross Margins to establish a competitive part of their SKUs, the

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>gap becomes substantial
>
>What I do not understand is how
>justifies the "gap." Our goal is to get
>Compaq to address (or at least to address
>comparison) those competitive products
>increasingly REAL "head-to-head" products
>indirect approaches now being used
>been because of the visibility of the
>in the Small Business space (which is
>get better at serving the small business
>reseller/VAR).

>
> 2. From my understanding, the current
>Microsoft, the core product is the
>WORD on a set of SKUs (including the
>OFFICE VAR edition. The current strategy
>if I were at a direct OEM, I would
>the "completeness" strategy of the
>it brackets the direct OEM's offering
>and its reseller partners (the direct
>direct player. Now, we have to add
>additional "stuff" to the bundle to
>that unless what we are doing is to
>supply the stuff that the direct OEM
>hit a higher configuration level (not
>success) we are being forced to
>offers a entry level offering (which
>the "gap" wider. Help

>
>Joachim, you understand the current
>the current effort and how we are
>operate with Microsoft's content
>given that, we are looking at
>strategies.

>
>Oh, on an additional note, we are
>company's configure-to-order
>product/solutions delivery model
>complete, targeted" (including
>hardware) buy response
>"order-by-order" handling
>CTO capability and
>structured channel
>SMB elements of the
>and in support of the
>discuss with you the
>given a wider access
>
>Thanks,

value proposition that
could allow SMBSD and
in a competitive
gap. We are seeing
in the direct and
is where the focus has
by all concerned), but
as the direct players
that competes with the SB

team is working with
the bundling of MS
upgrades using the MS
apparent (except that
the strategy by pushing
the SB market) by the fact
the objective for Compaq
possible to counter the
that we have to add
D's value. Remember,
our other partners who
is built to truly
may limit entry level
since the direct OEM
D SBE bundle ...drives

a win/win model for
how SMBSD will
Microsoft content.... and,
objectives and

vely to drive the
CTO allows the various
"tightly packaged and
middleware, additional
channels on an
was implementing a
part of their SMB
the model across the
presso style capability
reseller). I need to
our overall relationship

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COM-10-000038

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>Mike Shealy
>Small and Medium Bus
>mshealy@bangate.com
>713.514.4565 (v)
>713.518.0157 (f)
>800.796.7363 PIN 101

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January 24, 1997

Mr. Bill Beers
Compaq Computer Corporation
P.O. Box 692000 * MS560304
Houston, TX 77269-2000

Dear Bill,

This document is an updated summary of the options our teams have discussed and includes adjustments to previous summaries based on changing dynamics on both sides.

1a) NORTH AMERICA: OEM License for Microsoft Word in the US

Microsoft Word would be preinstalled with every licensed configuration Compaq delivers as an SMB platform in the United States. These platforms would provide the basis for Compaq VARs delivering an upgrade SKU for additional Microsoft products, if any. Upgrade SKUs could be Office 97 Pro, Office 97 Standard, Office 97 SBE, or any (4) additional applications configured by the VAR under the "Office 97 VAR Edition" program. In the case of Pro, Standard or SBE, the preinstalled Word application is duplicated in the upgrade product and therefore serves only a single purpose, to provide a basis for the VAR to sell an upgrade SKU vs. a new-user SKU. In the VAR Edition upgrade, preinstalled Word provides two purposes, a) to provide a basis for the VAR to sell an upgrade SKU for (4) additional applications, and b) Word can represent the fifth application. Word would be licensed on standard OEM terms, meaning Compaq would support Word, volume pricing would be commensurate with the US volume commitments, the product would be preinstalled, etc. A new OEM license agreement needs to be executed prior to this business being conducted. The upgrade SKUs would be delivered and priced in the channel by the channel. There are no rebates or other exceptional terms involved or being proposed. Marketing, promotion, advertising and other activities would be conducted in an aggressive way that made sense for both Compaq and Microsoft. An OEM license for Word is not a requirement for any other approach discussed or proposed. *Challenged the VAR.*

1b) NORTH AMERICA: Microsoft Office VAR Edition

This is a program planned for rollout in North America only as a program exclusively for VARs. Allows a VAR to select any (4) of (8) predefined Microsoft applications. VARs would sign-up for the program, receive a kit that would enable them to install the product(s) and deliver appropriate licensing to the end user. Compaq would not participate in transacting the business, effecting the pricing, or physical delivery logistics. The value and participation would come from the dovetailing into the OEM license for Word in the US through marketing, general promotion, advertising and other activities. If there is no OEM license for Word in the US, this is still a great program that provides a great flexible, competitive solution utilizing VARs.

2) UK, FRANCE, GERMANY, and AUSTRALIA: OEM License for OFFICE Small Business Edition

Microsoft Office SBE preinstalled with every licensed configuration sold in these specific Compaq geographical locations. Compaq feels the UK's Espresso model is extensible to these additional country locations. This would be licensed under OEM terms and pricing. Any marketing, promotion, advertising or general support would be agreed to on a country-by-country basis, if and as appropriate. There is no channel or third party element to this program that would apply. Volume commitments in these country locations would determine the minimum commitment and royalty pricing points. A new OEM license agreement needs to be executed prior to this business being conducted. If the UK Espresso model cannot be deployed in these three additional geos until later in 1997 or beyond, they can function under the DSP program below for access to Microsoft products.

3) MEXICO, SWITZERLAND, NETHERLANDS: Purchase/delivery of Office SBE through a Delivery Service Partner (DSP)

This option costs Compaq nothing (DSP product is purchased in the channel by channel partners). Compaq VAR partners would purchase Office SBE product from a DSP and proceed with the installation and configuration on Compaq systems. There is no benefit or requirement to bundle Word on these platforms. Compaq would not participate in transacting the business, effecting the pricing, or physical delivery logistics. The value in these regions would come from the excellent field sales engagement at the subsidiary level resulting from the business happening locally.

Sincerely,

Pete Peter
OEM Account Manager

cc: Carl Sittig

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To: Bill Beers@SMBSD, Mike Shealy@SMBSD
From: Lynne Lewis@SMBSD
Originated by: Flannigan, Steve <SteveF1@XGATE.COMPAQ.com>
Cc: Gerard Vadeboncoeur@SMBSD, Hubert Edenfield@SMBSD
Bcc:
Subject: fwd: FW: Office bundles
Attachment:
Date: 1/27/97 8:54 AM

FYI

Original text

From: "Flannigan, Steve" <SteveF1@XGATE.COMPAQ.com>, on 1/22/97 11:17 PM:
To: <Jean-Christophe=Francois%P%Products%HQ@exgate.compaq.com>,
<Lynne=Lewis%Comr=DT%PCMkt=Hou@exgate.compaq.com>, "Decker, Steve"
<Steve=Decker%Pur%Pur=Hou@exgate.compaq.com>

OK, we need to straighten out some misconceptions.

1. Its important to remember that MS is replacing the Office 95 deals the direct guys have with Office 97 SBE.
2. Office 97 SBE is an OEM product
3. Office 97 Pro and Office 97 Std were just announced and are currently being delivered. These are not OEM products. Yes, I know there is a promotion to upgrade to Office 97 Pro or Std but that is normal transitioning. I believe that ends in March. Office 97 SBE has not been announced and is not being delivered. (Jean-Christophe, can you confirm that the upgrade coupons are for SBE not Pro or Std.)
4. When Office 97 SBE is announced (in March) you should see the Office 95 deals go away in situations where we are in competition with the direct guys for large account business. You may see some letup as soon as February.
5. Both Dell and Gateway have OEMed Office 97 SBE and will be selling this going forward when it becomes available. Large account select agreements no longer will count OEMed Office SBE machines (those from Dell and Gateway, etc) towards fulfilling their commits on Office. I believe you can expect Office SBE on Dells Dimension machines and not on Dells Optiplex machines when this transition takes place over the next few months.

This is a complex area and I hope I don't add more confusion. I just wanted to respond to the misconception "There is a huge concern in all european countries that Dell continues to bundle Office 95 after the announcement of Office 97. We understood from MS that the Dell deal would stop with the announcement of Office 97." These Office 95 deals should stop with the announcement and delivery of Office 97 SBE not Office 97. Now, these comments are in relation to the problem we worked on last year concerning Dell and Gateway killing us in both NA and Europe large account bids.

- *Handwritten signature*

- *Handwritten signature*

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Steve

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

From: Johnson, Tom
Sent: Friday, January 17, 1997 12:25 PM
To: Flannigan, Steve;
Steve=Goldberg@Corp=Dev@Corp=Hou@exgate.compaq.com
Subject: fwd: Office bundles

Is this still in your areas of interest? (I've forwarded to Decker, under the assumption that your answer would be no)

Tom

Original Text

From: Lynne Lewis@Comr DT@PCMkt Hou, on 1/17/97 12:07 PM:
To: Bill Beers@Comr DT@PCMkt Hou, Mike Shealy@Comr DT@PCMkt Hou
Cc: Gerard Vadeboncoeur@Comr DT@PCMkt Hou, Lavonne Mullet@CBDMKT@NA Hou,
Naïla Seïf@Comr DT@PCMkt Hou, Tom Johnson@Corp Dev@Corp Hou, Xavier Caro@BU@LA Hou

This problem is not getting better..... Please address this with Pete Peter when he arrives today.

From: Jean-Christophe Francois@PC Products@HQ, on 1/17/97 3:54 PM:
To: Lynne Lewis@Comr DT@PCMkt Hou
Cc: Steve Decker@Pur@Pur Hou

Lynne,

There is a huge concern in all european countries that Dell continues to bundle Office 95 after the announcement of Office 97. We understood from MS that the Dell deal would stop with the announcement of Office 97. This is obviously not the case. The information is still present on their web site as well.

Even worse, they bundle upgrade coupons to office 97 SEE with every Office 95 box, giving the choice of either the full old package or the new SEE version and they sell these boxes to major accounts (France)! The situation is very worrying for the subs (and-to tell you the truth-for me too) because we don't see anything coming from Compaq side. Is there an agreement in sight? If yes, when? What are the Terms and Conditions likely to look like?

We have to stop them now. They are doing a lot of damage. I start to believe we are not tough enough with them.

I need an update on all this very quickly to be able to keep the situation under control. I see Lotus next Tuesday. I am trying to put 2 options kits together (MA and SMB) with SmartSuite97 as quickly as possible to offer a short term quick and dirty tool to counter the MS-Office 97 offerings. And also to piss-off Microsoft.
Thanks beforehand,

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