

PLAINTIFF'S  
EXHIBIT

2687

Comes v. Microsoft

To: Stuart Weiss@CBCPS3NA Hou  
From: Naila Seif@Comr DT  
Cc: Bob Jackson@Comr DT; Don Weatherson@GEM@NA Hou; Joe Kaplewicz@W BUS  
PLAN@Mfg Hou; Peter Foduin@GEM@NA Hou; Rod Mercer@PCD@NA Hou; Steve  
Decker@Pur@Pur Hou  
Bcc:  
Subject: re: Office 95/97 Offering in the GEM Direct Business Model  
Attachment:  
Date: 4/15/97 8:14 AM

Stuart,

I had a phone conversation with Don Weatherson yesterday in which he outlined to me the very issues you mention in your attached e-mail. It was not clear to me that the GEM group ships direct to customers. As I discussed with Don it may make sense at this point for Compaq in general (with the advent of CTO/BTO) to enter into a LAR (large account reseller) relationship with Microsoft which then allows us to be equivalent to a VAR (i.e. allows us to pre-load etc...). It is my understanding that we (Compaq) are very close to signing a deal with Lotus that would cover the different divisions needs, so this would help our Lotus customers. I do not know what kind of a relationship we have with Corel. Greg Plotner in SW procurement is the point person for the Lotus contract.

Based on my discussion with Don I plan to initiate some discussions with Microsoft to understand the standard LAR business terms and how they fit (or don't fit) our business model. Don has given me your name and Rod Mercer's name as the 2 point people in GEM.

I will give you a call to discuss next steps.

Naila

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Original text  
From: Stuart Weiss@CBCPS3NA Hou, on 4/14/97 7:58 AM:  
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Naila,

Microsoft historically hasn't been the best business partner; their OEM representative had canceled two previously scheduled meetings that Steve Decker had arranged to discuss their programs. The MS VAR edition program might be a viable option if COMPAQ GEM DIRECT could be qualified as the VAR. However, this would only support configure-to-order sales. We also need to support pre-loaded images for factory builds (such as the Presario ES) or BTO type programs.

According to CRN, Microsoft currently has a 60 percent share of the suite market (and an 84.5 percent revenue share), but Corel and Lotus have made aggressive moves to win over users via bundling deals with hardware OEMs. Lotus has an estimated 30% market share; Corel has a 10% market share. We perhaps haven't aggressively pursued other options due to the dominance of Microsoft and in essence we've abandoned some sales opportunities and even (relatively large) niche markets. For example, Corel offers academic product versions and special editions of WordPerfect for medical and legal professionals (Note: Corel WordPerfect is the preferred word processing application in the legal and medical professions.)

Using Don's 240K number, if only 25% of all GEM Direct customers wanted pre-loaded/pre-installed office suite application software, we should expect to

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sell 36,000 copies of MS Office97, 18,000 copies of Lotus SmartSuite and 6,000 copies of Corel Office7 a year. Worst case might suggest a 5% software application attach rate, which would translate into 1,000 total software sales per month. Are these volumes too small to attract any interest from software vendors?

I'd like to help facilitate a meeting to discuss the GEM business requirements related to pre-loaded/pre-installed productivity applications such as Microsoft, Lotus, and Corel with GEM sales, marketing, the order fulfillment operations team and Corporate Procurement. Please give me a call.

Regards,  
Stu

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From Naila Seif@Comr DT@PCMkt Hou, on 4/10/97 3:27 PM:  
To: Don Weatherson@GEM@NA Hou, Stuart Weiss@CBOPS@NA Hou  
Cc: Bob Jackson@Comr DT@PCMkt Hou, Joe Kaplewicz@WW BUS PLAN@Mfg Hou, Peter Poulin@GEM@NA Hou

Don,  
I have called you earlier today. I would like to better understand the GEM needs and explore the alternatives available as far as office is concerned.  
Naila

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From: Don Weatherson@GEM@NA Hou, on 4/10/97 12:31 PM:  
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Below is a communication from Naila Seif that documents current Compaq understanding of the Office 95/97 offering. It points out that:

- a. the Dell/Gateway Office 95 advantage persists through June 97.
- b. Compaq does not have an OEM relationship with Microsoft on Office Products
- c. VARs can be competitive with Dell/Gateway with Office 97

In the meantime, we're running a big Direct operation (we'll ship over 200K units in '97) without an office suite. We need to determine what's need to offer an office suite in our bundles, preferably Microsoft Office. No telling what kind of business we'd see if we offered a unit with working software. What do we need to do to make that a reality? Thanks, Don.

Naila Seif communication reads:

\*Here is a long winded explanation but corrects some of the mis-information that is out there regarding Office.  
With the introduction of the '97 suite of products Microsoft has segmented their commercial offerings into:  
- Office '97 Small Business Edition (SBE) that consists of: Word, Excel, Publisher, Outlook, Small Business Financial Manager, Automap Streets Plus, Doing Business on the Internet  
- Office Standard: Word, Excel, PowerPoint, Outlook  
- Office PRO: Word, Excel, PowerPoint, Access, Outlook

The only product that Microsoft is offering to OEMs is Office SBE. Both Dell

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and Gateway have signed an OEM deal for Office 97 SBE. These deals have restrictions to limit penetration of the SBE suite into large accounts so for example for Dell this is on their Dimension line only (not Optiplex). Moreover the price these OEMs are getting does not provide a significant advantage than buying the product on the open market from resellers-in other words it evens the playing field. Also SBE is not offered as a Microsoft Select product. During a transition period which I believe lasts till June both Dell and Gateway can still offer Office 95 under the old terms. Please be aware that Dell is also a Microsoft LAR (Large account reseller) and therefore can resell and bundle the other Microsoft suites with no price advantage than any Microsoft reseller.

In addition Microsoft has introduced a program in North America called the Microsoft Office VAR edition. This program allows a VAR to select any 4 of 8 predefined Microsoft applications and offer them to customers at some discounted price. The VAR who signs up can pre-install the applications for the customer. This program is designed to provide flexibility to customize solutions to customers and allow our channel partners to effectively compete (at no \$\$ disadvantage) with Dell and Gateway.

Compaq does not have an OEM agreement with Microsoft on any Office products. There were some discussion a few weeks ago regarding SBE for a Direct Plus only limited offering on a couple of SKU's but I do not believe anything was signed.

So as far as GEM is concerned the best approach would be to work jointly with one of our channel partners that may be participating in a VAR edition program.

Give me call if you have any further questions.  
Naila"

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