

From: Richard Fade
Sent: Wednesday, October 22, 1997 8:46 AM
To: Joachim Kempin; Bengt Akerlind
Subject: RE: Compaq SBE

I am supportive of doing this deal, including in Europe, especially as a deal which expires at the end of CY98 (meaning Office 9 is not included in this license). I like the term you added about yanking any reseller who fails to meet the spirit of the deal, that should be clearly understood and knowingly selling repeat units to large accounts.
 It is true I think Kenny's approach is the most reasoned that we have seen from Cpq and lets be honest, he was told to go get a deal with us (including a reasonably high price) so that made it easier for him and I to see eye to eye.
 I am willing to go meet with Steve in person on this and have time today to do so (don't know about Steve's calander) I think we want to have perhaps 2 slides which list the major elements of the deal (from your mail below). You should send mail to Michel I think so we can confirm to Steve that both he and Orlando have agreed.
 Get Sherrie to set up a brief meeting and I am happy to go.

-----Original Message-----
From: Joachim Kempin
Sent: Wednesday, October 22, 1997 7:40 AM
To: Bengt Akerlind; Richard Fade
Subject: RE: Compaq SBE

I agree with Bengta- totally.

-----Original Message-----
From: Bengt Akerlind
Sent: Tuesday, October 21, 1997 5:20 PM
To: Richard Fade; Joachim Kempin
Subject: RE: Compaq SBE

I think this is wrong business decision... for the following reasons:

1. **\$ per PC in Small Biz.** I understand from Richard that DAD is making an average of \$40 per new PC from the small business market in the US. I don't have any specific data from other parts of the world, but I would be very surprised if we made more elsewhere. In NA (\$120) and Europe (\$150/200) we are high above the \$40 on a true Per System preinstalled arrangement. So from a pure \$ for \$ position, we come out way ahead, even if we discount Compaq's (diminishing) advantage on o/s-rate.
2. **Leakage into LORG and MORG.** The SKUs will be pretty polluted and they will be clearly branded for Small Biz. Compaq agreed to include a modem in North America. They did not agree in Europe due to the fragmented standards and we did not absolutely insist on it due to the higher price points for Office Small Biz. If leakage is of major concern, there are actually three pretty good case studies. Both Dell and GW have been shipping Office Small Biz in broad bundles in both NA and Europe at considerably more aggressive royalties. Compaq is shipping Office Small Biz in the UK at a \$150 royalty rate. GW has been shipping on a Per System license across their entire line (royalty \$60 in the US and \$75 in Europe), and Dell has been shipping on all Dimension PCs (\$70 in the US and \$85 in Europe). Judging from email from the field, there has been very limited leakage in North America and no leakage in Europe. Especially Dell is very established in the LORG and MORG markets, but it does not appear that we have an issue with leakage. This is a dramatic contrast to a year ago, when Dell was shipping Office Pro and everybody were yelling at us. We have also put a clause into the proposed Compaq Small Biz agreement in order to contractually obligate Compaq to yank any reseller that is violating the Small Biz spirit of the deal.
3. **Competition.** Compaq has not threatened us with competition in this negotiation. Compaq has been very up front with us stating that they want to work with us. However, Compaq is dead serious about getting into the small business market. They have failed twice in 18 months in coming out with a compelling offering. From what we know, Eckhard is very upset over this. Eckhard has personally put Kenny Kurtzman on fixing this. Kenny is not allowed to fail (that is the reason that he has been pretty agreeable to our demands). Beyond a modem, some specific Small Business services, and "Small Biz" branded SW, there is not a whole lot you can do with the PC HW in order to make it small business specific. The Small Biz SW is probably the most important ingredient. They will come out with a branded Small Business line in March next year - so it is us or somebody else. Keep in mind that they are reengineering their logistics backend in order to accommodate BTO/CTO requirements from the Small Business Market. I also think that Richard and Kenny got their thinking aligned pretty well. I hate to see that go away. Richard will have to speak to the details.
4. **Level Playing Field.** Not sure it is the right thing to deny Compaq a license in Europe given the DG IV situation.
5. **System Builder Piracy.** We know from the o/s market, that when the Multinationals move into remote markets with high piracy rates, they establish a standard and help us win business in the DSP segment.
6. **Revenue recognition.** We have agreed with Compaq to only do NA and Europe agreements in the first round, since these two markets are the most developed (the pilot is limited to US). OEM Europe has been agreed in negotiating the European agreement. Europe will get the revenue. For FE and ICON we have agreed with Compaq to negotiate these agreements locally at the regional level. Local revenue recognition will apply. Nobody will send flame mail to Steve.

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Akerlind
10-22-97

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7. **Helping Compaq grow.** This is the only downside. We are helping Compaq grow in the small business segment on behalf of the System Builders. Compaq becomes stronger overall. Not in our long term interest.

What is the best course of action? Should JK go up and talk to Steve? Should I put together a presentation about the whole Compaq small business deal and go up to Steve and review it?

Orlando is fully onboard. Should I call Michel and get his buy in? I just think Steve is make the wrong decision. Please advice.

Thanks

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

From: Richard Fade
Sent: Monday, October 20, 1997 5:54 PM
To: Bengt Akerlind
Cc: Sherrie Sanders
Subject: FW: Compaq SBE

Sherrie I have Bengt's OOF message so I realize he may not get this today can you help it reach him ? thanks

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

From: Steve Ballmer
Sent: Monday, October 20, 1997 12:26 PM
To: Richard Fade
Cc: Bengt Akerlind
Subject: RE: Compaq SBE

Limit to us

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

From: Richard Fade
Sent: Monday, October 20, 1997 12:05 PM
To: Steve Ballmer
Cc: Bengt Akerlind
Subject: RE: Compaq SBE

I am nervous about the having Office SBE bundled on any machine which goes broadly to distribution I admit.
It being for \$120, on a reasonably polluted machine, and not extending to Office 9 is how I have gotten conformable with this.
The request from OEM is to do this at as a WW deal , I am fine to limit to US if that is what you want to do. Cpq may escalate to you as they want WW deal (and are willing to pay \$200 for non UK).

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

From: Steve Ballmer
Sent: Monday, October 20, 1997 9:24 AM
To: Richard Fade
Subject: RE: Compaq SBE

I do not like it really but lets proceed I think we should not expand beyond us and us

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

From: Richard Fade
Sent: Thursday, October 16, 1997 3:02 PM
To: Steve Ballmer
Subject: Compaq SBE

I never received your response to my mail - Deb read it to me over the phone - I am now told mail may have been deleted in the global mail problem we are having.

Will this be a small niche product offer no one cares about ?
in the November - March it would be limited distribution, (US and UK) through specific Distis.

The second phase would be WW distribution. You have to look at the products

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and SBE and ask yourself if these would really be attractive to LORGs. The segment they claim to want to target we average about \$40 per PC, so getting 100% bundle at \$120 is really good for us if we don't have significant leakage into LORG. You can build a table which indicates the % of the systems they forecast to sell which do leak into LORG and convince yourself that under 20% leakage it is still good business for us. The problem of course is not the marginal units but the impact that would have on LARS and customers more broadly. We have to make the judgement call if these models with SBE, Antivirus, Help Desk and Modems will be "polluted" enough to use Joachim's terms, where they will not really be appealing to LORGs. At \$120 and the configuration below I am tempted to try this prior to Office 9 (the license is not for Office 9).

I mailed you late Friday on this, doubt you have had time to read. We met Compaq Friday on the small business bundle below. We were trying to get high enough price and "small business pollution" to make this deal work. I held on the \$120 price for SBE (was harder because they know Dell price) they have agreed this morning. We also insisted they include modems, which they agreed for phase 2 machines below, which they will launch under Cpq sub brand in March. They will offer incident based support, we have asked them to include an introductory number of incidents in the base machine as well. (not confirmed yet). This deal breaks ground in that it establishes Office SBE bundle with hardware which can get sold broadly through the channel in the US. If it goes where it is supposed to go, I think it can help us, but if it just becomes a cheap way to get Word and Excel for LORGs/ MORGs then obviously bad. I feel the level of pollution and price is at the threshold where I favor the deal. Bengt is trying to reach agreement with Compaq today, Joachim is out ... Bengt and I both would love your feedback on this bundle. I have been very open with Compaq our SBE plan is likely to change, and the direction is adding more functionality and moving toward Pro pricing (or more), so this deal would be through October of next year, we would renegotiate for Office 9 generation. You must be swamped but appreciate your feedback
thanks

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

From: Bengt Akerlind
Sent: Monday, October 13, 1997 12:11 PM
To: Richard Fade
Subject: Compaq SBE

Per our discussion this morning:

The Compaq program has two phases to it:

1. **Branding:** Compaq Deskpro 2000 SB
Markets: US and UK only
Channel: BTO thru MicroAge and Ingram to VAR. The VAR has to identify each opportunity
Period: Launch in Nov -97. Program is replaced in with unique Small Biz brand in March -98
Volume: ~65k
Differentiators from standard DeskPro 2000: different disk configurations, will attempt modems on high end
MS Intellimouse, Office SBE, Norton Antivirus, Bundled IT Help Desk
Office SBE: \$120 (US). \$? To accrue for launch of uniquely branded Small Business SKU
\$150 (UK)

2. **Branding:** Unique
Markets: WW
Channel: Broad based on Compaq CTO
Period: Launch in Mar -98
Volume: 400k thru Oct -98
Differentiators: Unique brand, different disk configurations, adds modem to all models
MS Intellimouse, Office SBE, Norton Antivirus, Point B software (?), Enhanced helpdesk (incident based?), 1 year warranty, Remote diagnostics
Office SBE: \$120 (US).
\$150 (UK, Holland, Spain)

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\$200 (Europe)
TBD (RoW).

Orlando is onboard. His regional people will work with Compaq (and DAD) and decide how to implement the program at the local level.

Thanks

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