

**PLAINTIFF'S
EXHIBIT**

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Comes v. Microsoft

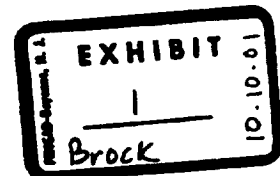
From: Gayle McClain
Sent: Thursday, February 18, 1999 4:30 PM
To: Bill Boyle; Garry Wolfe
Cc: Dennis Clark
Subject: Handouts from today's mid-year review

fyi - here is what we reviewed at today's meeting. If you have any questions just let me know. Thanks


Shortcut to FY99 Acct
Plan - c...


FY99 Mid-Year Acct
Review.ppt

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**Gateway
Mid-FY99 Account Review**

**Gayle McClain, Rob Young,
John Goodsell,
Dennis Clark, Garry Wolfe, Bill Boyle**

Agenda

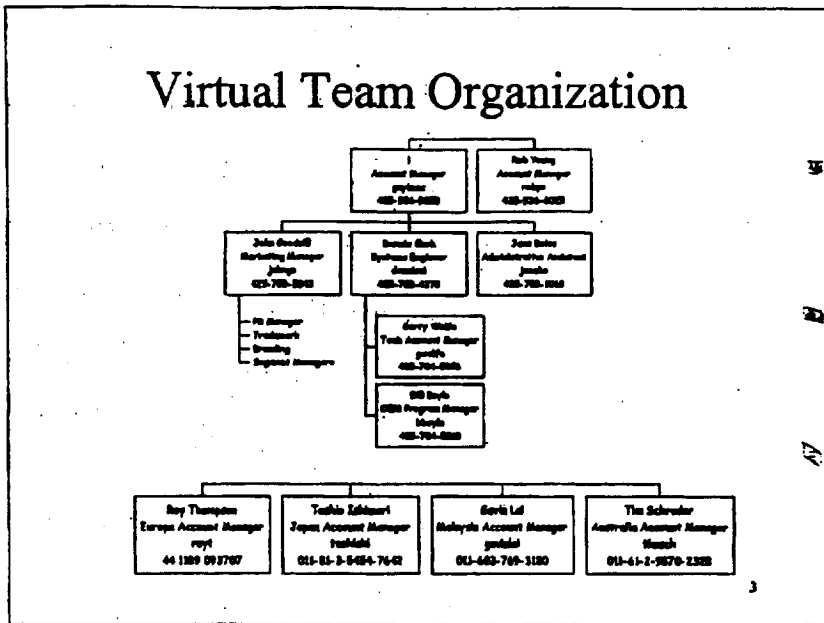
- MS Virtual Team
- GW Business Overview
- GW Product, Mkt, Manuf, Model Strategies
- GW Organization
- Opportunities, Challenges, Trends
- Account Objectives
- Customer Sat Survey and Next Steps
- Budget

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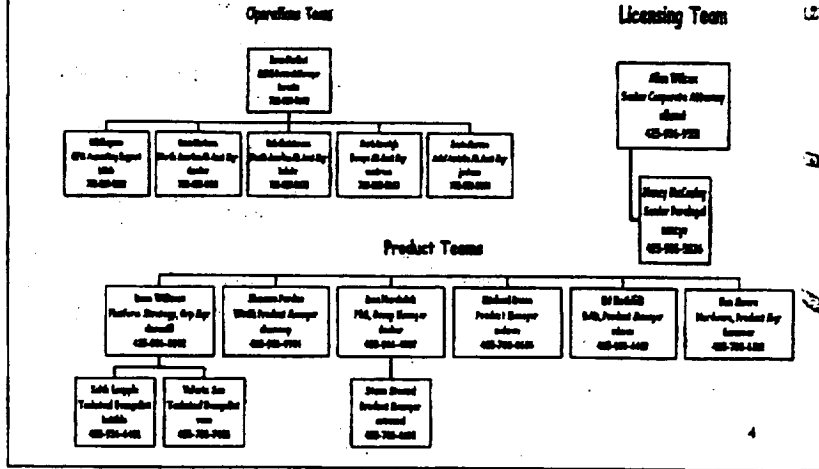
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Virtual Team Organization



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Additional Team Resources



Gateway Business Overview

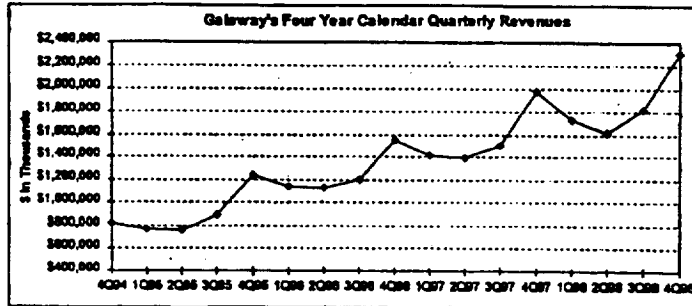
- CY98 \$7.5B revenue (19% YTY growth)
- CY98 3.6M PC shipments (35% YTY growth)
- #3 OEM in US PC shipments
 - CPQ 16.7%, Dell 13.2%
 - GW 8.4%
 - IBM 8.2%, HP 7.8%, PC 6.9%
- #6 OEM in WW PC shipments
 - CPQ 14.8%, IGM 8.8%, Dell 8.5%
 - HP 6.4%, PB 4.2%, GW 4%

GW's Markets/Product Lines

Desktops 80%	LORG 20%	E-Series
	SMORG 25%	G-Pro
	Consumer/ SOHO 55%	GW Performance GW Essentials
Portables 15%	LSMORG	Solos
Convergence	Consumer	Destination
Servers 5%	LSMORG	ALR

Gateway Sales Cycle

- Typical consumer cycle
- Need business sales to even out



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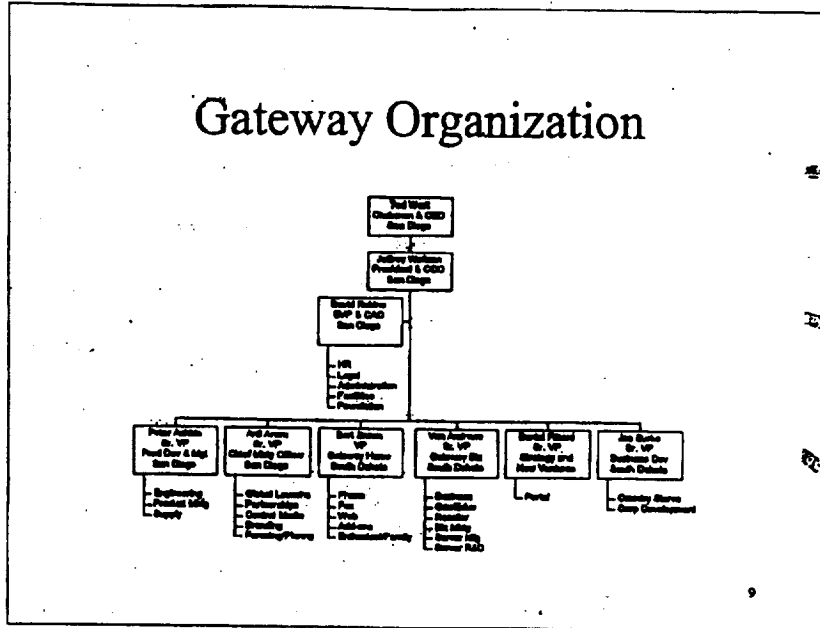
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Gateway Strategic Objectives

- Increase sales to \$25B by 2001
- 300-400 Country Stores by 2000
- Commitment to direct and indirect sales
- Commitment to corporate market
- Expand globally
- Gain serious presence in education market
- Strengthen brand awareness
- Become price leader in corp market
- Continually improve customer service and spt

Gateway Organization



Product Strategy

- Price/perf remains high, but industry is passing them
- GW has reorged to focus on market segments
- Working on new form factor offerings
- Personalization

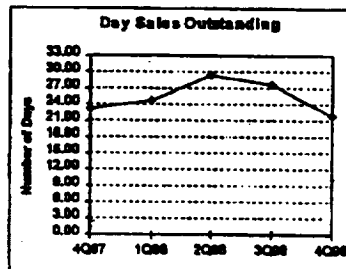
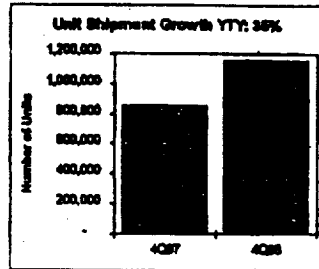
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Market Strategy

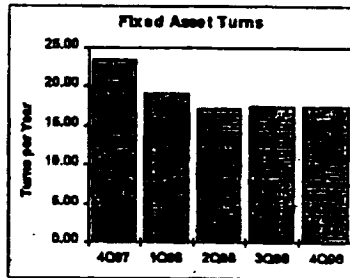
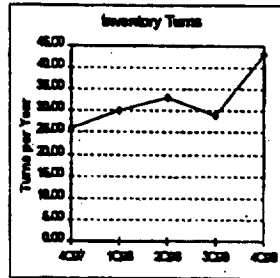
- YourWare = 40% rev ↑, 100% net profit ↑
- Increasing market share



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Manufacturing Strategy

- Dramatic increase in efficiency

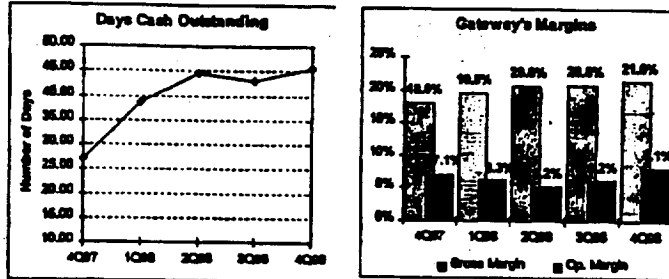


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Business Model Strategy



Q4 margin: desktops 19.2%, portables 32%, servers 28.5%

GW Distribution

- Home and business telesales
- Corporate field sales
- Country Stores
 - 15% of GW's sales
 - Forecast each store will net \$12.5M in 1999
 - Higher than retail AUP (\$2000)
- Pending VAR recruitment campaign

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GW Business Opps/Challenges

- Opportunities
 - Small Business (Cntry Stores, Portal (recmnd))
 - Education market
 - Personalization
- Challenges
 - Small Business (lack of solutions/services)
 - Channel conflict
 - Corporate market
 - International - lack of infrastructure

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Business Trends

- Opportunities
 - Personalization PC
 - Solution oriented marketing
- Challenges
 - Low-end (MS HW and apps)
 - Portal

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FY'99 Revenue Objectives

- **OS:** Increase NTW penetration on biz desktops from 18% to 30% by 6/99
- **Portal:** Migrate GW to MSN co-branded portal coinciding with Apollo 7/99
- **Win Platform:** Drive GW's acceptance by them adopting 2 significant Windows technologies by 6/99
- **Application Suites:** Maintain 100% coverage and a min. of \$33/PC
- **Consumer Apps:** Increase coverage from FY98 10% to 20% in FY99
- **Hardware:** Maintain \$20M rev from FY98 to FY99

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FY'99 Relationship Objectives

- **Marketing:** Secure GW engagement on FY99 marketing programs by 9/1/98, delivering to objectives on quarterly basis
- **Executive:** Obtain GW/MS executive communication and agreement on goals by 10/98 and ongoing regular communication thru FY99

OS Objective

Increase NTW pen. on biz desktops 18% to 30% by 6/99

- Strategy: Direct - Leverage Cntry Stores to enter small biz mkt
- Key Accomplishments
 - NTW penetration program
 - Marketing MOU and projects underway
 - NT4 biz direct sales training completed (200+ reps)
- Key Tactics
 - Resolve technical "NT4 Can't Build" list, Win2k readiness
 - Complete NT4 and server sales and spt training and tools
 - Continue mktg pgms (e.g. VAP engagement, messaging)

Portal Objective

Migrate GW to MSN co-branded portal
coinciding with Apollo 7/99

- Strategy: Direct - Show GW how Apollo is the best strategic solution
- Key Accomplishments:
 - Engaged with GW decision maker
 - GW relayed pros and cons of MSN offer
 - Gained GW's buy-in to continue to discuss opps
- Key Tactics:
 - Apollo meeting w/GW 3/99
 - Clarify key metrics for success

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Windows Platform

Drive GW's acceptance by them adopting two significant Windows technologies by 6/99

- **Strategy:** Divisional - show GW how Win technologies such as IE, active desktop, and ICW can achieve GW's goals of decreasing spt costs and increasing cust. personalization
- **Key Accomplishments:**
 - GW is now standardized on ICW
- **Key Tactics:**
 - Identify new owners after GW's reorg
 - Gain agreement to move forward on key projects (PID, "wait state" sys, IE5)

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Application Suites:

Maintain 100% coverage and a min. of \$33/PC

- **Strategy:** Indirect - Change buy criteria from price to value by showing how MS can provide all apps needs
- **Key Accomplishments:**
 - Increased SBE price thru 8/00
 - Sold GW on the value of Works 2000
- **Key Tactics:**
 - Close GW on full coverage low-end apps deal
 - Engage GW on Office 2000 launch
 - Engage in Office Pro upsell push as appropriate

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Consumer Applications

Increase coverage from FY98 10% to FY99 20%

- **Strategy: Direct - Show how IMG products bring the value, flexibility, and margins GW needs**
- **Key Accomplishments:**
 - Closed Consumer bundle deal thru 8/00
 - Closed on 6 mo. Country Store pilot
- **Key Tactics:**
 - Engage GW in consumer marketing MOU and implement solutions-oriented marketing projects

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Hardware

Maintain \$20M rev from FY98 to FY99

- Strategy: Divisional - show GW how MS's breadth, value, and brand can increase their margins/AUPs
- Key Accomplishments:
 - Have gotten operational issues under control
 - Defined operational processes to work forward from
- Key Tactics:
 - Identify business decision maker(s)
 - Develop commodity solution for new Essentials line
 - Engage GW in leveraged HW plan for other GW lines

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Marketing Relationship

Secure GW engagement on FY99 mktg pgms by 9/1/98, delivering to objectives quarterly

- **Strategy: Indirect** - Increase perception of the value of a strategic relationship w/MS via Fy99 marketing engagement and funds
- **Key Accomplishments:**
 - 1st qtr Small Biz MOU completed and projects underway
- **Key Tactics:**
 - Complete Small Biz projects Q2 MOU (incl. Servers)
 - Expand MS/GW mktg activities to Consumer market
 - Engage GW in Office 2000 launch

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Executive Relationship

Obtain GW/MS executive agreement on goals by 10/98 and ongoing communication thru FY99

- **Strategy: Direct** - Have GW understand a good relationship w/MS is faster path to achieving objs than creating pressure pts via press, etc.
- **Key Accomplishments:**
 - GW "opened up" re: issues at executive review 9/98
 - GW reorganization
- **Key Tactics:**
 - Gain GW's buy-in next review will be jointly presented
 - Create report card of last review's projects
 - Send monthly status report to key MS/GW execs

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Current Challenges

- Issues w/Gateway
 - Differing biz models, e.g. GW supplier mentality
 - Lack of trust
 - Lack of GW business owners and process
- "Delight the customer" MS internal issues:
 - Wizard, Electronic sign-off, Type 1 Billing
 - Lack of notification and input into MS programs
 - Lack of MS operations ownership
 - Lack of MS recognition for global support issues

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Customer Sat Survey Results

- Overall: Keep the account team, MS is too rigid
- Business Relations:
 - Hits: Understand biz needs, empowerment, turnaround
 - Could improve: Win exp policies, ISP com. policies
- Marketing:
 - Hits: quality, follow-thru, value add
 - Could improve: Informed, identify new opps
- Technical:
 - Hits: Installation, testing stds, dist of fixes, ARs
 - Could improve: WHQL, getting QFEs, timely info

Customer Sat Survey Results

Plan Moving Forward

- **Business Relations**
 - Evangelize progress/success to GW
 - Gain buy-in to work with biz decision makers
- **Marketing**
 - Direct contact between MS/GW mktg dec mkr
 - Bi-annual Marketing Reviews (BMRs)
- **Technical**
 - Quarterly Technical Reviews (QTRs)
 - Identify 3-5 key projects to complete

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FY'00 Budget/Forecast

- Report Units/Revenue: FY'98 Actual
 - 3M client systems (9% NTW), \$356M revenue (\$117/PC)
 - Apps
 - Units: Pro 611, SBE 1298, H/E 579, Works 358
 - Revenue: Pro \$69.4, SBE \$70, H/E \$11.4, Works \$2.2
 - Server Units/Revenue: 7k units, \$4M
- FY'99 Actual/Forecast
 - Actual rev. 15% over budget, forecast 3.5M units
- FY'00 Estimate
 - 25% unit growth for clients, 10% server growth
 - 4.381M desktop units, 12.4k servers
 - \$487M revenue
 - \$111/PC (highest \$/PC in MS OEM)

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Gateway/ALR Forecasting Tool Based on FY98Q2 Financial Data

Forecasting Factors	
Estimated Units	800,000
Win95 Royalty	55.5
NTW Royalty	120.5
NTW Penetration	35%
Revenue Ratio	67%

Product Family	Unit Penetration	Avg Price/Unit	% of Total Revenue	Revenue	Est. \$s Based on Forecasting Factors
Q2FY98 Total # of Gateway systems 737,800					
OSs	100%	\$50.23	47%		
Win95	91%	\$44.80	38%	\$30,078,630.40	\$28,230,000.00
NTW	9%	\$110.16	9%	\$7,314,844.32	\$14,860,000.00
OS Total				\$37,393,474.72	\$52,200,000.00
Apps	75%				
Office Pro	13%	\$80.41	10%	\$7,712,444.74	\$8,362,640.00
Office Pro w/Bookshelf	3%	\$60.00	1%	\$1,328,040.00	\$1,230,000.00
SBE	48%	\$52.78	24%	\$18,691,720.32	\$16,691,447.20
H/E	11%	\$20.15	2%	\$1,635,333.70	\$1,221,012.00
Apps Total				\$29,367,538.76	\$27,505,099.20
Hardware					
Mouse	93%	\$5.98	5%	\$4,103,200.92	\$1,249,120.00
Keyboard	3%	\$34.02	1%	\$752,998.68	\$818,400.00
Gaming	2%	\$83.87	2%	\$1,237,585.72	\$341,920.00
Hardware Total				\$6,093,785.32	\$2,409,440.00
Consumer					
Dreamworks	8%	\$9.44	0.7%	\$557,186.56	\$604,160.00
All Other	203%	\$3.92	2%	\$5,871,117.28	\$356,640.00
Consumer Total				\$6,428,303.84	\$960,800.00
Estimated total revenue for this period				\$79,438,570.38	\$108,664,136.40
Total \$s/PC				\$107.67	\$129.53

Estimated total revenue for this period

Product Family	Unit Penetration	Avg Price/Unit	% of Total Revenue	Revenue	Est. \$s Based on Forecasting Factors
Servers					
NTS (all proc combos)	0.02%	\$1,053.59	0.15%	\$155,467.74	\$155,467.40
Server Total				\$155,467.74	\$155,467.40