CONFIDENTIAL

To: Vaughn Rhodes@Desktop@PCMkt Hou
Bob Jackson@Staff@Corp Hou
Greg Memo@Desktop@PCMkt Hou
George Favaloro@Corp Dev@Corp Hou
Nemo Azamian@DIR STF@CS Hou
Cc:
Bcc:
From: Steve Decker@Pur@Pur Hou
Subject: re: Fwd:re: MS Pricing
Date: Monday, December 19, 1994 2:13 PM
Attach:
Certify: N

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Vaughn,

I agree 100%, no 1000%. As you know the on-line model that we have established with the other service providers is not "in the MS model". Since MS has positioned MS-Network as part of the OS, I'm afraid it may get lost in all the Windows 95 issues and be considered not worth fighting with MS on.

If other OEMs will be shipping MS-Network, I'm not sure how realistic the stripping out scenario may be (from a Marketing perspective not an Engineering one). My suggestion for the reduction of OS royalty was as a BATNA for Compaq rather than caving into MS and potentially getting nothing for distributing this potentially very valuable tool for MS.

I'm completely in support of your approach, will we be pitching this to MS soon?

Steve

Vaughn Rhodes@Desktop@PCMkt Hou Wrote:

| All,
|
| One of the dangers in pursuing a cost reduction on the OS
| as a means of compensation for MS Network is that it
| obscures the true compensation Compaq receives for the
| service. When Microsoft rolls out Windows 95.1 (Windows
| 96?) and creates a new pricing structure, it will be easy

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GOVERNMENT EXHIBIT 135

| for them to remove any favorable pricing we received as
| compensation for MS Network, since MS Network is now
| firmly entrenched as a part of our OS.
|
| I strongly recommend that we take the position of
| negotiating distinctly for the MS Network. This
| accomplishes two purposes:
| 1) It forces Microsoft to reveal exactly how much
| they are offering us for bundling their online service
| client, which enables us to compare it with the offers
| from the other online services. This is key to our
| potential strategy of selecting a "preferred" online
| service partner, which we may feature prominently on our
| startup screen and in our marketing communications. The
| bottom line is: Compaq should have each online service
| (America Online, MS Network, Prodigy, etc.) prepare a
| proposal which indicates what they can offer Compaq (in
| terms of revenue sharing, bounty, special features to
| facilitate our online efforts, marketing development
| funds, etc.). Compaq can then evaluate each service on its
| own merits, and select which ones to offer on our
| machines, which ones will get favorable positioning, which
| ones get less favorable positioning, and which ones don't
| go on at all.
| 2) It reinforces the message to Microsoft that Compaq
| does not agree with their positioning that an online
| service is "part of the OS". Compaq feels that
| communications "hooks" are appropriate OS extensions, but
| online service client software is not because it is in
| effect a marketing vehicle. We need to nip this dangerous
| trend in the bud.
|
| Regards,
|
| Vaughn
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| Bob Jackson@Staff@Corp Hou Wrote:
||
|| Comments by: Bob Jackson@Staff@Corp Hou
|| Originally To: Bob Jackson@Staff@Corp Hou, Philip
|| Wheeler@Portable@PCMkt Hou
|| Original Date: Friday, December 16, 1994 at 9:33:18 am CST
|| Originally From: Steve Decker@Pur@Pur Hou
|| Comments:

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|| Folks,
|| I am embarrassed I didn't think of the support angle.
|| If we don't support the other guys, we certainly have
|| merit in a position of not supporting Marvel.
||
|| Bob
||
||
|| ----------[Original
|| Message]----------
|| Bob/Phil,
||
|| One other thing to consider. I have been constantly
|| reminding people about Marvel/MS Network. I know you spoke
|| to Greg about what we have done with our other on-line
|| suppliers. My thought is that if it becomes impossible to
|| get MS to agree to revenue participation for Compaq
|| delivering this service to potential MS customers, we
|| should at least be able to play this into a cost reduction
|| on the OS. Remember we will also be asked to support MS
|| Network and pay for whatever additional material costs
|| that will be included, something that we do not do for the
|| other services. With MS positioning MS Network as a part
|| of the OS, perhaps this can be our way of opening up
|| negotiations for an OS price reduction.
||
|| Steve
||
|| Bob Jackson@Staff@Corp Hou Wrote:
|| |
|| | Phil,
|| | I agree with your BMail with one caveat:
|| |
|| | We need to be real careful here for lots of reasons. MS
|| | will, of course, take offense should we press them.
|| | Secondly, we may well have a good price and they have been
|| | known to drive renegotiations because a deal no longer
|| | "works" for them. Thirdly, we will likely only get one shot,
|| | so let's be well prepared. Fourthly, the most favored
|| | language only goes to "core products" which are DOS, Win3.1
|| | and WFW. A major piece of the value in the agrmt is they
|| | cannot raise the price on us, which I believe they can do in
|| | all other agreements. And, there is "mix and match".