

Confidential Memo

To: Microsoft Internal
From: Walmart/Linux Taskforce: Robin Bradshaw, Christine Briggs, Mark Croft, David Hoffman & Tom Pernier
Executive Sponsor: Steve Schiro
CC: Rogers Weed
Date: May 16, 2006
Re: Walmart.com Linux PCs

Summary

Microtel PCs without an operating system ("naked") first started appearing on Walmart.com in CY 01. We responded by working with Walmart.com on the language that was used to market those PCs. The focus was on "anti-piracy" messages.

The first Microtel Windows PCs appeared on Walmart.com in June 2002. We are responding with a taskforce and coordinated efforts to understand the situation and intentions of all parties involved.

To date, there has been a lot of press about the Linux PCs selling on Walmart.com. (See attached list of articles.) The media has been mixed, some telling a positive story about the Linux efforts and some pointing out the flaws in the offerings. One consistent message is that these are "substandard" PCs based on today's technology advances.

There is one critical data point we are missing: volume. Walmart will not disclose the volume of Microtel PCs they are selling, and Microtel has told us they are under a "non-disclosure agreement with Walmart." We have been working on some tactics to attempt to obtain volume estimates, but at this time, we can't confirm any numbers.

- We understand that Microtel is shipping approximately 1000 units per week on Walmart.com orders.
- We understand that most of that volume is at the \$199 price point.
- We understand that most of those systems are shipping with NO OS. (Naked Systems)
- We understand that there has not been a customer satisfaction issue. Walmart sets fairly strict standards for customer return rates and service calls.

The PR activity and focus from Walmart has definitely increased our efforts to understand the Linux threat on the desktop. Several Linux PCs were purchased and evaluated. See the summary of those findings below.

Linux on the Desktop

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Plaintiff's Exhibit

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Microtel

Microtel is a small system builder in the City of Industry, California. A couple of the principals in the company came from a previous OEM, Mitsuba. Microsoft filed suit against them in _____ for piracy and they went out of business. They haven't been proponents of Microsoft, their volumes haven't warranted direct account management, and we just began to engage and build a relationship with them in June 2002.

We started to engage with Microtel in the beginning of FY02, but the AM was met with a closed door, and had little if no success. When the Lindows issue broke, Tom Pernier (tpernier), Microsoft System Builder RSM, discovered that Rich Hindman was their VP of Sales/Marketing (from Mitsuba). Tom had worked with Rich prior at AST Computer. That got us in the door, and Rich is open to work on the relationship with Microsoft and Tom, but isn't sharing any information regarding their plans or volume. This is a summary of his progress with Rich:

- 1.) Continue the engagement with Rich Hindman to focus on strategies to differentiate the offerings as Microtel introduces a new wave of SKU's. This will separate the offerings and focus on the added value of the Windows based systems. (Avoid the current situation where the \$299 Windows Home SKU is the same config as Lindows model, but \$100 more for the same model with XP Home, with no other differentiation). This can be accomplished with scenarios like the Office XP 30-Day trial (in place today).
- 2.) They are still very "non-disclosure" oriented. I tried and tried, but could not get Rich to divulge any shipment data. I continue to think that the shipments out of their facility in City of Industry are small. In addition, Rich would not give me any real data for the current PRM Account Profiling that we are doing.
- 3.) All of the conversations with Microtel are centered on growing their Microsoft business, and improving the relationship between Microtel and Microsoft. We avoid any direct conversations on Lindows.
- 4.) Rich realizes and states that Microtel is getting increased focus and attention based upon their offerings on the Wal-Mart.com site. He will continue to take advantage of these opportunities as they arise.
- 5.) In developing the relationship with the local VIA Sales Rep, Roger Goh (rogergoh), System Builder AM was able to determine that the systems built for Walmart.com are built somewhere on the east coast, and the volume is approx 1000 a week. He was not able to get the mix.

Tom has been working closely with the taskforce team and David Hoffman on driving a longer term strategy with Walmart.com. Microtel seems willing to do the implementation.

Walmart.com

Retail relationship efforts have been historically focused on Walmart corporate not walmart.com. There is a high level of autonomy at walmart.com. They are not managed under the same guidelines and processes as Walmart corporate. They are making their own decisions about product offerings. Luke Ellison is the Technology Manager at Walmart.com. David Hoffman, Microsoft HRD Account Manager, has developed a relationship with Luke. He is eager to work on some additional Microsoft programs with David, but isn't sharing too much regarding their Linux plans. This is a summary of his meetings with Luke:

- 1.) Luke is concerned that Microsoft is mad at them for selling Linux PCs
 - a. He wanted to make sure that we knew that www.wal-mart.com is very "pro-Microsoft"
 - b. They feel that customers that purchase Linux PCs were never a "Microsoft" customer anyway, and that by offering Linux PCs, they are broadening their customer base
 - c. Their goal with Windows was to hit a very low price point – if it sold, they would keep it, if it didn't they would dump it after 90-120 days. It is selling.
- 2.) "Naked PCs" (no O/S) are still outselling Linux PCs (but not by much)
 - a. They plan to start selling Windows XP OEM (bundled with mouse) as a standalone product (technically this is legit)
- 3.) All the machines are build-to-order and that www.wal-mart.com carries no inventory
- 4.) They are currently working on a way to offer additional software bundles with all their PCs (like Office, Anti-Virus, etc.)
- 5.) He mentioned that Microtel was upset about the E-machines deal with Wal-Mart retail, but that Wal-Mart didn't think Microtel could handle being a retail partner – it was just too big of a job for them

David is working with Walmart.com to help them promote the Windows XP PCs that are listed on walmart.com today. In an effort to differentiate the Windows XP PC from the Linux PC, we are working on a consumer software title bundle to promote as a part of the purchase of the Windows XP machine.

Next Steps

- 1.) Continue the relationship efforts with Microtel and Walmart.com. (Tom Perrier & David Hoffman)
- 2.) Develop a deeper understanding of the Linux efforts at other System Builders and OEMs in the US. (Datel, ZT Group, MEI, etc.) (Tom Perrier & Ken Goetsch)
- 3.) Work with Windows Team to understand options for a Windows XP eval solution. (Mark Croft)
- 4.) Stay close to HP and eMachines (two OEMs selling PCs at Walmart) to understand their efforts and position in the account.

Press on Walmart.com and Linux



<http://www.startribune.com/stories/789/3341339.html>

<http://mslibrary/news/elecpub/csn/>

<http://msnbc.com/news/813350.asp>

http://www.pcmag.com/print_article/0,3048,a=30914,00.asp

<http://www.desktoplinux.com/news/NS9675669942.html>

<http://www.extremetech.com/article2/0,3973,491621,00.asp>

<http://newsforge.com/newsforge/02/08/22/1855237.shtml?tid=23>

http://biz.yahoc.com/fo/020821/doesn_t_do_windows_3.html

Wal-Mart Sells Window-Less Computers

Associated Press

Silicon Valley.com: <<http://www.siliconvalley.com/mid/siliconvalley/news/3674798.htm>>

USA Today: http://www.usatoday.com/life/cyber/tech/review/2002-07-17-walmart-computers_x.htm

Linux finds fans at Wal-Mart

C/Net: <http://news.com.com/2100-1040-943955.html>

Sun, Lindows.com Strike Deal

Internet.com: <http://www.internetnews.com/ent-news/article.php/1404731>

Mandrake on Lindows

C/Net: http://news.com.com/2100-1040-943955.html?tag=fd_top

<http://www.washingtonpost.com/ac2/wp-dyn/A35576-2002Jul20?language=printer>

http://www.washingtonpost.com/ac2/wp-dyn?pagename=article&node=&contentId=A35576-2002Jul_20¬Found=true

<http://www.pcmag.com/article2/0,4149,470658,00.asp>

http://www.pcmag.com/print_article/0,3048,a=30914,00.asp