

PLAINTIFF'S
EXHIBIT
tabbies
2057
Comes v. Microsoft

From: Bill Gates [billg]
Sent: Wednesday, March 23, 1994 6:54 PM
To: Executive Staff and Direct Reports
Cc: Wm. Gary Reed; Jon Shirley; Paul Allen; Steven Sinofsky; David Marquardt; Melissa Waggener; Pam Edstrom
Subject: Novell

Assuming the faxes I got in Beijing weren't a prank I have laid out my thoughts on Novell's new strategy and its impact on us. Please feel free to forward as appropriate.



MS-PCA 1438869
CONFIDENTIAL

From: Bill Gates
To: Executive Staff

Novell-Wordperfect-Quattro

The merger of Novell-Wordperfect and acquisition of Quattro Pro by Novell changes our competitive framework substantially. The already intensely competitive software business has become even more competitive. Novell has adopted our strategy of having a broad product line and offering integration between products as a key benefit just as Lotus has through their acquisitions and Notes strategy. Its great to have people following our strategy as long as we execute a lot better than they do.

I don't see much chance of the acquisition falling apart. Unless Novell's stock price goes down quite a bit I can't see WordPerfect's owners changing their mind.

Key impacts

Office

If Novell executes well they will be able to turn their Office suite into a serious contender which could force price and volume cuts in our Office business. The fading strength of WordPerfect and Quattro could be reversed. Quattro pro and WordPerfect will be integrated far better. Novell could do some strange pricing by bundling their Office suite with Netware like they have bundled DR-DOS.

Mail/Workgroup

The WordPerfect Office product will be integrated with Netware making it a far more serious contender in the workgroup business. We have always felt this is a strong product but WordPerfect did not do a good job selling it.

Marketing/sales/financial scale

Novell will have a stronger global presence and a stronger customer presence. Quattro Pro investments can be increased. The Novell brand can become an umbrella for a wide range of activities.

Technology scale

Initiatives to promote anti-Microsoft platforms/API's/object models become easier to coordinate because fewer companies are involved. Novell itself will be able to set more standards for workgroup, document management, image systems and all of the 'services' they have been moving towards.

Business unknowns

All of the people involved in this acquisition will be diverted for the next 6 months. Remember that WordPerfect is still adjusting to not having support as good as ours and their layoffs. Quattro pro developers are being excised from the barbarians world to a completely new company. Novell totally mismanaged the absorption of Digital Research in every way. Novell's leadership will be stretched incredibly thin by absorbing all of these pieces particularly with the succession plan unclear. Perhaps there is already a plan for who will run this company since its hard to believe they did this without one. Novell might raise the price of Quattro Pro. If Novell applies their financial models to Novell there will be a lot of layoffs coming. Novell and Lotus should become major rivals fighting over the non-Microsoft parts of the application business.

MS-PCA 1438870
CONFIDENTIAL

Technology unknowns

Novell has never had a technical agenda that its products are designed around. Novell will have to come up with some kind of database strategy - the license to Paradox only covers the short term. What automation language will they pursue? Will they divert themselves doing applications for Unixware? What will their approach be to other platforms like Mac, Os/2 and Taligent? Will they try and do Quattro on Mac to have an Office product there? Novell will have even more development sites although their Utah operations are near to WordPerfect's

Borland

Borland becomes a pure competitor to the products in our Developer division. The \$145M eliminates their cash problem. However their scale is reduced and they will have to adjust their worldwide infrastructure. The database front end business is becoming increasingly competitive with Lotus, Powersoft, Oracle and many others coming up with great products. Xbase is becoming less important. The innovation in Paradox has been surprisingly modest. The boundaries between 4GL, Case, Database and Language products are disappearing. I think we will be able to do some great things integrating Excel and Access that Borland cannot. I doubt that Borland will be a major force in interpretive languages which will become more important if we innovate appropriately. Borland has the overhand of the 1million free Paradox licenses they granted to Novell-Wordperfect. Its interesting that the lawsuit liability was not transferred. I wonder if Lotus will make any claims against the Quattro Pro that is now shipping.

Actions

The imperative of winning in the short term with Microsoft Mail and Windows NT is raised substantially by this new development. NT has be to viewed as a major success or Novell will thwart our Workgroup efforts. We should consider increasing our sales investment in these 2 products including buying the installed base of remaining mail companies. How does Davinci view this development? We need to take a harder look at product, acquisition and sales efforts to gain scale in Mail/Workgroup. We need a plan for recruitment at WordPerfect and Quattro Pro. Every group in the company should consider what they can do in the next 6 months including proposals that involve more investment.

MS-PCA 1438871
CONFIDENTIAL