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14 Q. Would you state your full name for the record,
15 please?

16 A. Cynthia Lynn Bate's.

17 Q. Are you currently employed by Microsoft
18 Corporation?

19 A. Yes.

20 Q. What's your title?

21 A. General manager, US small business.

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05 Q. When did you join Microsoft?

06 A. I joined Microsoft in -- it was either January or

07 February of 2000.

08 Q. So early 2000? What was your position when you

09 joined Microsoft?

10 A. I was the director in our corporate development

11 the strategy group.

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17 Q. And when you joined Microsoft, you were director

18 of corporate development and strategic planning?

19 A. There was a period where the title of the group

20 was corporate development and strategy. I can't remember if

21 it was exactly when I joined or shortly thereafter that they

22 added the "and strategy" to the title.

23 Q. For how long were you the director in the

24 corporate development and strategy group at Microsoft

25 Corporation?

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01 A. I was an employee in the group until early
02 February of this year. My title changed over the course of
03 my roughly 4 1/2 years in that group. I believe I was a
04 director for a year before I was promoted to senior
05 director.

06 Q. So approximately early 2001 you became senior
07 director?

08 A. Sometime in 2001, yes.

09 Q. Did you receive any other promotions or titles
10 within that group?

11 A. I became a managing director in the group in
12 October of -- let me make sure I get this right -- in
13 October of 2001.

14 Q. And for how long were you a managing director?

15 A. I was a managing director until I recently took a
16 new position as general manager of our small business in the
17 U.S.

18 Q. When did you become general manager for small
19 business in the U.S.?

20 A. In early February of that year.

21 Q. And do you focus on any particular business units
22 of Microsoft in that position?

23 A. My group is responsible for our P&L serving small
24 companies. That's companies less than 15 employees. And
25 I'm responsible for the full P&L for all of our products.

00013

01 Q. So basically any product for a company less than
02 15 employees, you're responsible for the P&L side of the
03 business?

04 A. Yes. And there are a few small exceptions but
05 generally that's correct.

06 Q. While you were a manager in the corporate and
07 strategy group, to whom did you report?

08 A. I reported to Richard Emerson.

09 Q. What was Mr. Emerson's title during the time you
10 reported to him?

11 A. His title was Senior Vice-President of Corporate
12 Development.

13 Q. And did anyone report to you while you were the
14 managing director?

15 A. I had 2 individuals report directly to me,
16 Tivanka Ellawala and Ken Hastings. And other individuals in
17 the group would work with me on projects, although they
18 didn't report directly to me.

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11 Q. What is the function or role of the corporate

12 development strategy group at Microsoft?

13 A. Our prime -- the group's primary function is to

14 execute investments and joint ventures and divestitures that

15 the company may make. We also work in conjunction with

16 business units in analyzing the industry landscape to assess

17 potential opportunities.

18 Q. The assessment of potential opportunities, is that

19 an ongoing process?

20 A. It's a combination of both.

21 Q. But the primary role is to execute mergers and

22 acquisitions for Microsoft?

23 A. Yes.

24 Q. And --

25 A. Actually, I should clarify.

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01 Q. Sure. Please do.

02 A. The primary role. The role is in both of the

03 components that I've described.

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03 Q. I would like to have you look assist at what I

04 will mark as Plaintiff's Exhibit 58, I believe.

05 (Whereupon, A Deck Document was marked

06 Exhibit-58 for identification.)

07 BY MS. BLIZZARD:

08 Q. Would you take few minutes to look at this and see

09 if it looks familiar to you?

10 A. (Witness complies.) This looks familiar.

11 Q. And what role did you have in the preparation of

12 this document?

13 A. I was very involved, up until I left on a holiday.

14 So generally I was -- there was a couple of slides

15 that was added while I was gone. Slide 16, I'm not familiar

16 with. I didn't do that slide myself.

17 Q. And do you believe this document was prepared in

18 the normal course of business at Microsoft?

19 A. Yes.

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10 Did -- did Steve Ballmer approve this deck before

11 it was presented to the board?

12 A. Again, since I wasn't there at the moment that the

13 deck was stamped final and sent, I can't answer

14 definitively. I do know that he was instrumental and

15 involved in the presentation.

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20 Q. Why don't we turn to the first page? And

21 actually, let me state for the record because I don't think

22 I did before. This is Bate's stamped, MS-OPSUB 678. And it

23 was produced by Microsoft in the course of this litigation.

24 And it runs to page 698. So if we could turn to page 679,

25 the first page?

00146

01 At the very top it says, "Sagittarius is the
02 world's largest Enterprise application vendor."

03 Do you see that?

04 A. I do.

05 Q. What does that mean to you?

06 A. That means if you look at license revenue of SAP
07 in Enterprise applications, that there would not be a
08 company in the world that would have larger license revenue.

09 Q. So largest there refers to revenue?

10 A. Yes.

11 Q. And when it says, "Enterprise application vendor,"
12 does that signify to you a certain type of application
13 vendor?

14 A. It's intended to capture this concept that we've
15 been discussing of applications that target large
16 Enterprise, as opposed to small and medium businesses

17 Q. And I realize what you have been through this
18 several times today. But could you describe for me the line
19 you draw between large enterprises and small and medium
20 businesses?

21 A. Yes. And I'm not -- either of the other gentlemen
22 that you're talking to are better equipped to give you that
23 nomenclature. I believe is the -- I know now that I am in
24 the business group selling this, the definition of
25 mid-market goes up to 1,000 employees. I can't get more

00147

01 specific on the specifics beyond that.

02 Q. So would you then define S&B to be up to 1,000
03 employees and Enterprise to be greater than 1,000 employees
04 roughly?

05 A. In this definition?

06 Q. Well first, just generally?

07 A. Generally. There are varying definitions across
08 the industry. So it's hard to answer that generally. You
09 could ask my opinion and I am happy if you like to give you
10 an opinion.

11 Microsoft defines it. I can give you the names.
12 So I know that our accounts that are sold through our direct
13 sales force are called global strategy and major accounts.
14 And below that category, which is basically what we think of
15 as big Enterprise corporations, where we don't have a
16 product but we don't have an application product, a business
17 application product. We sell Office. Office is obviously
18 an application.

19 Below that is a space that we call CAS, corporate
20 account space -- the corporate account area. And then below
21 that we have mid-market and small.

22 And I'm now a general manager of small, as I said,
23 50 employees or less. I know that mid-market in our
24 definition under S&P, spans from 51 to 1,000. I'm not
25 sure of the exact definition of CAS.

00148

01 Q. Let me break apart a few things you had in there.

02 I think you just said in the business applications

03 Enterprise space that Microsoft does not have a product; is

04 that correct?

05 A. That is correct.

06 Q. And in terms of Enterprise as you were using it

07 there, you were referring to this global strategic and major

08 GSM section of the market?

09 A. I was generally, I was. Although, I was more

10 broadly thinking of just large Fortune 500 complex

11 organizations. But roughly, I think that would align with

12 our global strategic and major classifications.

13 Q. Just so I'm clear. So in your opinion, Microsoft

14 doesn't have a business application product aimed at global

15 strategic and major segments of the market?

16 A. That's absolutely; correct.

17 Q. That segment of the market is associated with a

18 direct sales force?

19 A. Yes. As opposed to the SMS&P organization, where

20 we sell all through partners.

21 Q. And do you have an opinion on why that distinction

22 is made, between the direct sales at the GSM market and the

23 partners at the SMS&P level?

24 A. It's an issue of viable business model, scale.

25 There are millions of S&B companies and there are a few

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01 thousand. I don't know the exact number. Maybe tens of

02 thousands. I'm not sure.

03 Global, strategic and major corporations. So

04 scale feasibility and then complexity of the product as

05 well.

06 When you're dealing with more complex products and

07 more complex solutions, a business model with a direct sales

08 force is required.

09 Q. So if I could tie those pieces together then,

10 would you say that Microsoft doesn't have a business

11 applications product aimed at the global strategic and major

12 Enterprise space, more a direct sales force that would be

13 required to support such a product?

14 A. Correct.

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18 Q. How does complexity fit into this distinction

19 between the global strategic and major supported by the

20 direct sales force and the SMS&P supported by the partners?

21 A. Generally, you should think of a less complex

22 product where the S&B space is -- it lends itself more to

23 being able to be sold through itself through thousands of

24 partners that constitute our partner base. And the level of

25 sophistication of them is thousands of partners. Many of

00150

01 them are 10 to 20-person small IT shops. The level of
02 sophistication needed is much less, fitting with this
03 concept of having a broad chain and serving the clients, as
04 opposed to having to enter a -- enter those sales directly
05 yourself. And they're more complex.

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12 Q. In your understanding of the global strategic and
13 SMS&P is based on your experience at Microsoft in the last 4
14 years?

15 A. 4 1/2 years, yes.

16 Q. 4 1/2 years. And is it based on both your time
17 when you were supporting the MBS unit, as well as your
18 current role in the US small business unit?

19 A. Yes.

20 Q. Let me turn back to the exhibit and that top line
21 again where it says, "SAP is the world largest Enterprise
22 application vendor."

23 In a presentation to the Microsoft board, would
24 that be interpreted to mean that SAP is the largest vendor
25 with selling applications to this GSM level?

00151

01 A. That was the intent. So hopefully that is how it
02 was interpreted.

03 Q. Let me drop down to the third bullet point. It
04 says:

05 "Of the top Enterprise applications vendors" And
06 then it has the 3 code words, which I believe stand for
07 Oracle. Serious is Siebel?

08 A. Yes.

09 Q. And Pegasus is PeopleSoft?

10 A. Yes.

11 Q. "SAP has approximately 57% of the total license
12 revenue in that peer group."

13 What does that mean, you have the top Enterprise
14 applications vendors?

15 A. It means, if you look at revenue in -- in the
16 license revenue in the space serving the large complex
17 corporations, you stack rank the revenue. That these are
18 the companies that basically make up the vast majority of
19 that entire market.

20 Q. When you say, "serving" I believe you said,
21 "serving the large complex enterprises." That again,
22 relates to Microsoft, we'll call, the global strategic and
23 major section of the market?

24 A. Yes.

25 Q. So the companies with the largest market shares

00152

01 would you say were Oracle, PeopleSoft, SAP and Siebel?

02 A. Yes.

03 Q. And who else is in that market?

04 A. It depends a little bit on how you define it.

05 Because there are -- there are some players who offer niche

06 vertical Enterprise applications. So a company like JDA or

07 Retech buy Enterprise applications for one particular

08 vertical. That is a very small percent of the total market.

09 So I think it's fair to say, that at least the way

10 that we view the market, these are the only players.

11 Q. So other than products aimed at narrow verticals,

12 Microsoft views the Enterprise applications market or the

13 GSM market as comprised of Oracle, PeopleSoft, SAP and

14 Seibel.

15 A. Yes. And I -- I knew that. I don't know that I

16 necessarily am speaking for all of Microsoft.

17 But I, in my role of senior executive at

18 Microsoft, have that view. And I think it accurately

19 represents the general firm view.

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25 Q. Looking at those 4 players for a minute, Oracle,

00153

01 PeopleSoft, SAP and Siebel. Which one of those offer a
02 broad variety of human resources and financial management
03 products?

04 A. Since it's been many months since I've dealt with
05 this. And I'm now in a small space. We're not dealing with
06 these players at all.

07 In terms of the real breadth of product, it's SAP
08 and Oracle. I believe that Siebel does have a small HR
09 module, as well as PeopleSoft having a small HR module.

10 But clearly, in terms of offering a broad -- a
11 broad suite, a broad solution, it's just Oracle and SAP.

12 Q. Is Siebel known primarily as a CRM product?

13 A. It is known primarily as a CRM product.

14 Q. Do you believe that's primarily why people buy it?

15 A. Yes.

16 Q. Let me go ahead and turn to the next page which is
17 Bate's number 680.

18 It says in the first bullet there:

19 "SAP and Microsoft operate in large and
20 complimentary segments with minimal product and overlap."

21 What does that mean to you?

22 A. That is representing the fact that Sagittarius, as
23 we said on the previous page, is the largest supplier of
24 complex Enterprise business applications. And Mensa is not
25 in that market but does have through its acquisition of

00154

01 great plains and division, a presence in the S&B as its

02 applications space.

03 Q. So your understanding of Microsoft's existing MS

04 products is, that they are not in the Enterprise section of

05 the market?

06 A. Correct.

07 Q. And SAP is in that section of the market?

08 A. Correct.

09 Q. And that's why this bullet point says, there is a

10 minimal product overlap because SAP is essentially at the

11 Enterprise level and Microsoft is at the S&B level?

12 A. Correct.

13 Q. Let me go ahead and turn to page 681. This is

14 continuing to discuss the strategic rationale for the

15 Microsoft SAP proposal. The first major bullet says:

16 "Achieve leadership in ERP applications for

17 Fortune 500 companies."

18 What does that mean to you?

19 A. That means the strength in this space that we just

20 described that SAP has, would be transferred to Microsoft.

21 Should we acquire SAP, we would then also become a leader in

22 the Enterprise application space.

23 Q. So where it says, "ERP applications for Fortune

24 500 company," is another way of saying that, to use some

25 other terminology on the previous pages, would again be this

00155

01 large Enterprise area?

02 A. Correct.

03 Q. The subbullet under that says:

04 "An objective we will not pursue in the absence of
05 this combination." What does that mean to you?

06 A. That means that should we not acquire SAP, we do
07 not have intentions to -- to get into that market for some
08 reasons which I can articulate. And therefore, we would not
09 meet an objective.

10 Actually, as I read it, it's a little misleading.

11 Because it says, "an" objective.

12 If you say something is an objective, it implies
13 that we absolutely want to do that. And that is not to the
14 best of my knowledge, something that is a definitive
15 objective. We certainly want to have access to solutions
16 for our customers.

17 Q. So you were saying Microsoft wants access to its
18 solutions for its customers but does not necessarily want to
19 enter the Enterprise space as we've been discussing?

20 A. We don't have plans to. We may in a different
21 world want to. But it's a very complex objective to try to
22 replicate and duplicate what SAP primarily and Oracle as
23 well, have built in that space, both in regard to the code
24 base.

25 To the best of my knowledge, our current code base

00156

01 serves small and medium businesses, could not scale to serve
02 large, complex organizations. So we would need to build a
03 new code base. And again I'm not technical. So do
04 something to or start from scratch to address that market
05 from a technological perspective, as well as build out an
06 Enterprise sales force that is capable of selling Enterprise
07 applications. Our current Enterprise sales force does not
08 sell Enterprise applications.

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25 Q. Okay. And I sort of interrupted you. But let me

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01 ask again:

02 What other reasons would Microsoft not pursue the
03 objective of entering the Enterprise application space, in
04 the absence of a merger with SAP?

05 A. Well, overall, it would come down to an economic
06 analysis, which we did not include in any of our analyses
07 because of complexity and just generally sort of dismissing
08 that as an option.

09 A second component, in addition to the technology
10 and code base, would be building out Enterprise sales force.

11 And you know, again, you know, SAP has thousands
12 of people who have many years of experience selling to CXO
13 level executives complex business applications. That's
14 something that would be difficult to create from scratch.

15 Q. So Microsoft does not have a sales force suitable
16 to sell Enterprise applications into the Enterprise segment
17 of the market and it would be very difficult to create that
18 sales force. Is that --

19 A. Correct.

20 Q. Were there any other factors that went into your
21 analysis of whether to pursue the Enterprise market in the
22 absence of the SAP merger?

23 A. Not to my knowledge. Those are the primary

24 Q. Did Microsoft consider purchasing any other
25 applications?

00159

01 A. During the time of this analysis?

02 Q. Yes?

03 A. No.

04 Q. Did Microsoft consider purchasing any other
05 applications vendor, outside the time of this analysis?

06 A. I am aware that we had looked at a few REDACTED
07 years back.

08 Q. What was the result of the analysis at that time
09 of Microsoft purchasing ? REDACTED

10 A. It was something that put materially, we decided
11 was not -- and I did not do that specific analysis. I was
12 just aware that that analysis was done. But it was
13 something that we decided not to pursue. We actually went
14 in sort of a totally different tact and developed
15 organically our own CRM product into a totally different
16 space, which is the S&B/CRM product that we do have today.

17 Q. Has Microsoft ever considered, either in the time
18 frame of this analysis or otherwise, acquiring a company
19 called Lawson?

20 A. This is a similar question that was asked before.
21 My answer would be the same. I'd be happy to repeat it if
22 you'd like me to?

23 Q. Sure.

24 A. I'm not aware of any serious analysis surrounding
25 a possible acquisition of Lawson. I am aware Lawson being

00160

01 presented to me and Microsoft generally from investment
02 bankers.

03 And I am also aware -- I am -- it would not
04 surprise me that Lawson just as a name might be found in a
05 deck that listed 10 or 20 different ERP vendors, if someone
06 was just doing a broad landscape analysis of the myriad of
07 small ERP players. Lawson is a little no fish nor foul,
08 just as a direct sales force.

09 We don't really view them as a competitor directly
10 in the S&B space. Their efforts are more CAS and lower
11 Enterprise. Because they have a direct sales force that was
12 in contrast to our stated strategy. And our strategy of
13 focusing on the S&B space, which is partner-led, not
14 direct-sales-force led.

15 Q. So why was Lawson not considered specifically in
16 this context, as an alternative to SAP for entering the
17 Enterprise space?

18 A. That's a very inconsequential player.

19 Q. What do you mean by, "inconsequential"?

20 A. I can't state their revenues. I think they have
21 very small revenues. I think they don't -- they don't have
22 a client base in the Fortune 500 generally. They may have a
23 few clients but generally they don't.

24 I don't think they have a strong product that
25 could -- that could scale into complex organizations. So

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01 generally, it would not be an attractive target, if one had
02 an objective of wanting to create a successful business in
03 the Enterprise applications.

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11 Q. Let me ask you about another company. Well,
12 actually 2 companies at the moment. There's a company
13 called SSA Global and they purchased Baan, another company
14 during the time of this acquisition?

15 A. Uh-huh.

16 Q. Did Microsoft consider at all either SSA global or
17 Baan as a potential acquisition that would allow them to
18 enter the Enterprise applications market?

19 A. No.

20 Q. And why was that?

21 A. Principally, for the -- the same reasons that I
22 just articulated.

23 Q. And those reasons would be that, they had small
24 revenues, didn't generally serve the Fortune 500 and were
25 not a strong product that could scale to the Enterprise

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01 level?

02 A. Yes.

03 Q. Were there any other companies at all who were on

04 the edges of being considered for possible acquisition

05 target to enter the Enterprise application space?

06 A. No.

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21 Q. If Oracle is successful in purchasing PeopleSoft,

22 will that change Microsoft's assessment of what it will do

23 in the Enterprise applications space?

24 A. To the best of my knowledge, no. It doesn't have

25 an impact one way or the other.

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01 Q. And given that, based on what we've discussed here
02 today, the impetus for looking at SAP as a potential
03 acquisition started as a result of Oracle's proposed
04 takeover, why would now the successful culmination of that
05 merger not have any effect?

06 A. I think that the announcement of Oracle's bid for
07 PeopleSoft not so much -- and I -- I fully acknowledge that
08 is, thinking over this concept. I think it serves as a
09 wake-up call for us to do some basic strategic analysis that
10 we needed to do and we should have done.

11 PeopleSoft and Oracle, neither of them are
12 particularly strong partners of Microsoft. And so even in
13 the worst case that an acquisition happened or an
14 acquisition didn't happen and both of them turned
15 dramatically against Microsoft, it's still on the margin is
16 not that much of an impact.

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25 Q. I'd like to turn actually to the appendix, which

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01 was 1410. And if you look at what's Bate's number 19304 --

02 A. Uh-huh.

03 Q. -- there's a risk on the right-hand side that you

04 discuss several times a day. "Basically the core business

05 of ERP is a mature market," this slide says, "with the

06 Fortune 500 already largely penetrated."

07 First of all, do you have any understanding of why

08 that risk was in the appendix and not in the main body of

09 the presentation?

10 A. I'm not certain.

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05 Q. Was your understanding that the Microsoft team was
06 working on this, was more concerned about that risk or less
07 concerned about it than they had been prior?

08 A. What's going through my mind is the definition of
09 a team. It's obviously composed of different individuals.
10 As a -- I would say that Steve felt that it was less of a
11 risk.

12 Q. Why do you believe Steve felt it was less of a
13 risk?

14 A. Because if I recall correctly, he did have input
15 on this slide. And thus, I am inferring that he thought it
16 was somewhat less of a risk, still work put in the appendix.
17 Because it was not in the main body of the deck.

18 Q. Let me talk a little bit about what it means to be
19 a mature market. When you use that phrase as it's used here
20 in page 19304, what does that mean to you?

21 A. A market that has high penetration and slowing
22 growth.

23 Q. By "slowing growth," what do you mean?

24 A. Year-over-year growth in license revenue that is
25 decreasing.

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01 Q. You don't mean by that though, that it has 0 or
02 negative growth but rather less growth?

03 A. Yes.

04 Q. Objective on the left side estimated available
05 market of 20 billion in license revenue. What does that
06 mean to you?

07 A. That is an estimate over many years of a potential
08 sales of SAPs, business applications products to large
09 corporations. The market that they are able to serve It's
10 not -- in one of the decks. I believe we actually -- it
11 wasn't one of the decks. This was just -- this was a
12 research report that had some very specific analysis around
13 it. As a general, answer to your question, this is meant to
14 describe the market that, you know, has growth over many
15 years that would provide an available market of 20 billion
16 dollars.

17 Q. So why you believe that the Enterprise
18 applications market overall is growing more slowly for SAP
19 alone, you believe, aggregate over many years, there's still
20 a 20 billion dollar license revenue market?

21 A. They have that potential there and that sort of
22 strong upgrade cycle. And they also have a very strong
23 product that has historically been performing well versus
24 competitive products. So the assessment from research
25 analyst reports that we didn't differ with was, they would

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01 continue to get opportunities for growth.

02 Q. When you say, "a strong upgrade cycle," what does
03 that mean?

04 A. That means that they have an installed base of
05 clients that, I don't remember the exact percentages. But a
06 large percentage of their current customer base is using an
07 older version of their product. And they have come out with
08 a new product in recent years, that has potential for
09 increased sales, as customers with older versions upgraded
10 to the newer product.

11 Q. Going down a few bullets, there's a line that
12 says:

13 "Strong new team in the U.S. already demonstrating
14 impressive results. License revenue up 54% in constant
15 currency in quarter 3."

16 A. Yes.

17 Q. When you say, "license revenue up 54%," I assume
18 that's year-over-year, would it be strong growth?

19 A. Yes. But I should actually -- let me see.

20 Yes. In answer to your question, that would be
21 strong growth.

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04 During Ms. Blizzard's questions, she asked you

05 some questions about the GSM space at --

06 A. Yes.

07 Q. -- Microsoft. And that's the global strategic and

08 major account space?

09 A. Yes.

10 Q. And that's essentially, Fortune 500 companies?

11 A. That's my understanding roughly, yes.

12 Q. And it's true is it not, that Microsoft Business

13 Solutions sells into what it calls, the corporate account

14 space?

15 A. Yes.

16 Q. And what is that space?

17 A. That is the space that is below the global

18 strategic and major space. And as I mentioned earlier, I'm

19 not quite sure of exactly how we defined that.

20 I believe -- well, let me just say, I -- I'm not

21 quite sure how we define that.

22 Q. To your knowledge, does Microsoft Business

23 Solutions have direct sales personnel?

24 A. I am not certain of our model in the CAS space.

25 How we go to market there.

00184

01 Q. Are you aware that Microsoft Business Solutions
02 has hired business applications sales personnel from Oracle
03 and other Enterprise application companies?

04 A. I'm not generally aware of that. I may have heard
05 someone say, Bob from Oracle is working at Microsoft. But
06 generally, no.

07 Q. Microsoft Business Solutions has gone to a
08 vertical sales approach, at least for the corporate account
09 space; correct?

10 A. I don't know a lot about how we go to market in
11 corporate account space.

12 Q. In general, have the Microsoft Business Solutions
13 gone to a vertical sales approach?

14 A. That would be an incorrect statement broadly.
15 So for instance, in my space, which is employees
16 and coming fewer employees, we don't go to market
17 vertically.

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17 Q. Microsoft does have a direct sales force that

18 sells database and other products to the Enterprise;

19 correct?

20 A. Correct.

21 Q. And approximately how many people are in

22 Microsoft's direct sales force that sells to the Enterprise?

23 A. Many thousand. But I couldn't pinpoint it

24 specifically.

25 Q. And the Enterprise sales force does make pitches

00186

01 regarding Microsoft Business Solution's products to

02 Enterprise customers; correct?

03 A. Restate that.

04 Q. Sure. The Enterprise sales force does make

05 pitches about Microsoft products to Enterprise customers;

06 isn't that true?

07 A. I -- well, I don't believe they specifically try

08 to sell those products because they aren't quoted to sell

09 those products, to the best of my knowledge.

10 They may say, in fact, this hub and stroke

11 concept, if they're calling on Ford, they may say, you

12 should think about how you can get your suppliers to work

13 with Microsoft products.

14 Q. And going back to the Ford hub and spoke analogy,

15 Ford is a Fortune 100 company, approximately?

16 A. Yes.

17 Q. Many tens of billions of dollars in annual

18 revenue?

19 A. I don't know their exact revenue but I think it

20 would be in that range.

21 Q. And they have many large divisions?

22 A. Yes.

23 Q. And to your knowledge, does Microsoft Business

24 Solutions Enterprise ERP products get sold into any Ford's

25 large divisions, as an example?

00187

01 A. I know that our markets, which are targeted at
02 small companies are sold into some small divisions of larger
03 companies. I'm not sure if we sell into divisions of Ford
04 or not.

05 Q. Are you aware of any sales to larger divisions of
06 enterprises, such as Ford?

07 A. I'm sorry. Can you repeat it?

08 Q. Sure. Are you aware of any sales of Microsoft
09 Business Solutions products, ERP products, to larger
10 divisions of enterprises such as Ford?

11 A. Well, your previous question was around smaller
12 divisions. So no. I'm not aware of sales to large
13 divisions.

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01 Q. And it's true, is it not, that Microsoft is
02 spending approximately 2 billion dollars a year on R&D for
03 Microsoft Business Solutions over the next 5 years?

04 A. I think that number is misquoted. So I would -- I
05 would -- the 2 billion dollar number is -- I have seen it.
06 And I actually used that number because I've seen it before.
07 I think it refers broadly to our investment in the S&B
08 space, not just R&D. Not our investment in the sales force
09 and others. So I personally think people at Microsoft use
10 that number too loosely.

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15 Q. And Ms. Blizzard asked you some questions about
16 Lawson; do you recall that?

17 A. Yes, uh-huh.

18 Q. If you turn to Exhibit 1403. This is your June
19 12th Email to Mr. Ballmer, Mr. Gates and others.

20 A. Yes.

21 Q. And then turn into one of the analyst reports, the
22 Goldman Sachs report?

23 A. What number on the bottom?

24 Q. 18878.

25 A. 188 -- yes.

00189

01 Q. What is the revenue figure reported by Goldman

02 Sachs for Oracle's ERP sales for 2002?

03 A. \$150 million dollars.

04 Q. What is the 2002 revenue figure for Lawson, as

05 reported by Goldman Sachs on page 18878?

06 A. \$114 million dollars.

07 Q. And if you turn to Exhibit 1405, Ms. Bates?

08 A. Yes.

09 Q. Do you have that?

10 A. I do.

11 Q. If you turn -- and this is for the record, the

12 Email of Jason Carter to a variety of people including

13 yourself on June 20th, 2003?

14 A. Yes.

15 Q. Turn to page 14058.

16 A. Yes.

17 Q. Towards the bottom of the page it talks -- do you

18 see the heading, "Additional Information"?

19 A. Yes.

20 Q. And then, "What's Next"?

21 A. Uh-huh.

22 Q. And it says, "This puts several other vendors in

23 play. Lawson is an obvious one. They have strong, vertical

24 solutions that make them an attractive target."

25 Do you see that?

00190

01 A. Yes. I see that.

02 Q. Are you aware of what Lawson's strong vertical

03 solutions are?

04 A. I can't rattle them off but 6 months ago I

05 probably could. I can't now.

06 Q. And Ms. Blizzard asked you questions about whether

07 Microsoft considered acquiring any other companies at or

08 about the time when it was considering acquiring SAP?

09 A. Uh-huh.

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16 Q. Microsoft only evaluated an acquisition of SAP;

17 isn't that correct?

18 A. That is correct.

19 Q. And there was a brief reference to . But REDACTED

20 that was just in the first deck, the June 12th deck?

21 A. Correct.

22 Q. And then fell by the wayside very quickly? REDACTED

23 A. Correct.

24 Q. And Microsoft focused all of its efforts on

25 acquiring SAP; is that correct?

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01 A. On analyzing the potential acquisition.

02 Q. Thank you. And that's because SAP is the clear

03 leader in the ERP market; correct?

04

05 THE WITNESS: Well, we've spent a lot of time

06 today talking about why we thought that SAP would be an

07 attractive acquisition target. As from all of the previous

08 discussion, none would show one component of that was that

09 they were -- they were the strongest player in the

10 Enterprise applications base.

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23 Q. If I can get you to turn back to Exhibit 1410,

24 which is the board of directors appendix dated January 5,

25 2004?

00192

01 A. Yes.

02 Q. Ms. Blizzard asked you questions about SAP's
03 strengths and estimated available market in license revenue;
04 do you recall?

05 A. Which page are you referring to?

06 Q. I'm sorry. 19304.

07 A. In which bullet?

08 Q. Under "Strengths," there's a bullet with, "Install
09 base of 20,000 customers."

10 Do you see that?

11 A. Yes.

12 Q. And it says, good opportunity to cross and upsell?

13 A. Yes.

14 Q. And it's true, is it not, that in your analysis of
15 a proposed acquisition of SAP, you came across evidence SAP
16 has historically had an extremely high customer retention
17 rate?

18 A. Yes.

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22 Q. And what is the customer retention rate that you
23 recall SAP enjoying?

24 A. As is on the page, we have a bond that says,
25 "Historically high, 90-plus percent customer retention

00193

01 rate." Customer retention.

02 Q. And that means that historically, SAP's customers
03 have not migrated to another vendor, such as Oracle when
04 they've made an upgrade; is that true?

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07 Q. You can answer.

08 A. My understanding is yes. I'm basing this on
09 analyst discussion on this point. Analyst reports.

10 Q. Well, your estimate of the available market is
11 based on analyst reports too; correct?

12 A. Correct.

13 Q. It's your understanding, the estimated available
14 market, that's essentially revenue that SAP is going to
15 enjoy because it's able to convince its customers to stay or
16 to upgrade to its newest product?

17 MS. BLIZZARD: Objection, form. Vague

18 THE WITNESS: I -- those 2 points weren't as
19 directly linked as you're implying.

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13 Q. And I'll rephrase. Exhibit 1410 was submitted to

14 the Microsoft board of directors for its review, in

15 connection with an evaluation of a potential acquisition of

16 SAP; correct?

17 A. Correct.

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