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To : Scotto, Richmac, RGMS, Davidjaw  
 Cc : Mikemap, LewisL, Richardf Garygi, Sharonde, Glenny  
 From : Mike Negrin  
 Date : March 4, 1991  
 Subject : Reseller Hard Bundle Implementation Program & Agreement

This memo and accompanying Agreement provides the Reseller Hard Bundle Penetration implementation Program and Reseller Agreement. The RGMS' and designated DMs' were provided a review memo on January 29 to review the program and provide feedback about its relative importance and implementation at one or two potential reseller accounts. As of February 25, two responses were received, from Scotto and Davidjaw. Comments will be addressed within this memo as applicable.

Scotto agreed with the program 100%. Davidjaw provided feedback addressed below.

As background, we discussed the program at the GM/M meeting on January 11 and agreed upon action items. This program memo and accompanying agreement provides the field with the final implementation guidelines. The GMs and their designated DMs will present the program to one or two key reseller accounts per region by May 15. Feedback, questions, and Agreements should be directed to Mikene. I will work with Programs Mgmt. and Inside Sales & Support assigning personnel responsible for corporate implementation requirements, such as setting up accounts, Agreement processing, etc.

**Program Objectives**

The objective of the Reseller Hard Bundling Program is to increase strategic products', with low market share, penetration rates on new CPU purchases through qualified resellers. The objective is the same for the MS OEM division whom will sell the program to qualified OEMs. The OEM program for packaged products will be same as the Reseller program. The OEM division will also market a royalty based program to OEMs. An important goal is maintaining a positive price/value perception to prevent a products' reduced pricing perception because it is discounted or available bundled.

The purpose of the table below (requested clarification) shows that Microsoft will sell the program through two divisions, OEM and SMSD. The table also shows that resellers may only hard bundle packaged product whereby Microsoft provides end user support. MS OEM division may also sell a royalty based program to OEMs whereby the OEM manufactures and supports the product(s). The hard bundle programs will have consistent pricing and purchasing policies where Microsoft manufacturers and ships packaged product and supports the end user:

Channel	Customer Mfg & Supports	MS Mfg. & MS Supports
Hardware OEMs	Yes	Yes
Resellers	No	Yes

**Definitions (also specified in the Agreement as required)**

1. Hard Bundle is defined as all the systems of a given CPU model sold with software and the cost of the software is not stated overtly or covertly.
2. Soft Bundle is defined whereby the software must be purchased with the CPU, but a specific model of the CPU can be offered with or without software.

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3. CPU Model is defined as the CPU chassis and processor. In addition, all the various configurations of the CPU and chassis model number would have designated software hard bundled to meet 100% penetration requirement. The Reseller could choose to install different monitors, hard drives, etc. with the CPU and chassis and meet the bundling requirement.
4. Installation is defined as the MS hard bundled products may or may not be installed on the hard drive but the full packaged product as shipped by MS must be included in the CPU sale without showing/quoting the software pricing to the end user.
5. Hard Bundle Products are defined as all WinApps, WinOffice, PC Works, and any other packaged product Apps division application. Win3 does not qualify. The rationale is that Win3 must be installed or sold anyway, the OEMs could likely bundle Win3 with CPU model sold to reseller, and the hard bundle discount does not provide MS required margins.
6. Hard Bundle Packaged Products is defined as a MS packaged product with disks and full documentation incorporated in the hardware SKU by CPU model number with 100% penetration.
7. AE products are defined as Academic Editions and are not available for Reseller or OEM hard bundle programs.
8. End User Support is defined as the PSS support services provided to end users. The standard MS support policies would apply to end users purchases of MS software as a hard bundle.

#### Purchasing Policies

The reseller would sign the Agreement by which MS would be due funds if the minimum commitment of \$500 k was not met or if the hard bundle arrangement was violated.

1. Purchasing Arrangement - will be direct with MS.
2. Discount - 60% off SRP except PC Word 5.5 will be \$153 cost with no other volume discounts. The discount was selected as a trade-off compared to penetration to revenues/profitability. Based on the hard bundle discount Microsoft maintains 50% of operating income dollars of non-bundled packaged products sold through the reseller channels.
3. Rebates will not apply.
4. Unit for unit replacement of defective products.
5. No Stock balancing.
6. Freight policy is FOB, Bothell, WA.
7. No returns of products that have had a maintenance release during the hard bundle period. But, a unit for unit exchange will be offered for minor and major updates of resellers current inventory.
8. USSMD would not require end users names' reporting by Reseller for Apps sold. But, standard auditing and Electronic (if possible) sales reporting procedures would be in effect. Registration cards would be included in MS packaged products shipped to resellers. MS will attempt to ship single media products to reduce COGs.
9. Standard licensing policies would be in effect, but MS would provide an authorization letter so resellers may install products on hard drives legally.
10. Minimum commitment of \$500 k within a 6 month period per hard bundle. The commitment will be enforced through the Agreement. A reseller must specify the minimum commitment per hard bundle, purchase the packaged products, and hard bundle the specified products on the specified CPUs at 100% penetration (see Schedule A of Agreement) until the minimum commitment is met.
11. Net 30 day payment terms.
12. All product would not have to be accepted immediately by reseller. Reorders would be accepted during the term of the Agreement.

#### Eligible Resellers

1. Company owned resellers including Franchisees
2. Franchisors that will meet the hard bundling requirements.

3. Combination company owned resellers and franchisors such as Inacomp. The hard bundle does not have to be the same for the company owned or franchised operation but a separate agreement is required for each.

**Reseller Example to Meet Minimum Commitments**

With a \$500 k minimum commitment, a reseller with 50 locations or 50 RSPs bundling 2 Apps need sell less than 2 configured CPUs per location or per RSP per week to meet commitment within six months. The example assumes both Apps are \$495 SRP.

Please inform me if you have any questions or require additional information.