

From: Gayle McClain
Sent: Thursday, May 13, 1999 5:48 PM
To: Richard Fade; Joachim Kempin; Candace Grisdale; Lisa Brummel; Robert (Robbie) Bach; Michael Dwan; Phil Spencer; Colene McBeth; Steven Rosetz; Gayle McClain's Gateway Team; Ed McCahill (Exchange); Craig Fiebig (Exchange); Ken Myer (Exchange)
Subject: GW full coverage apps deal secured

Rob and I are thrilled to announce that a full coverage apps deal was secured w/GW today (written confirmation received) for a term of 25 months (term includes IMG bundles). Achieved 100% MS apps coverage on non-corp machines which should bring in for FY00:

- an addtl \$10M (total \$160M) in Office rev and
- an addtl \$8M (total \$22.5M) for WS Basic/WS revenue
- IMG rev remains the same at \$35M

GW's message to us today:

"With 100% coverage, a two year commitment, and ending a relationship with another vendor, we want MS to know we are committed to this relationship and are in this for the long-term. We are at a turning point in our relationship and want to move forward in the right direction." This was delivered to us by Kathy Sidmore after she met with, and informed Ted of, the deal she was committing to.

Special Thanks:

This was a grand team effort. Rob and I would like to especially thank the product groups starting with Lisa and Michael's visit to GW last December, to Robbie, Phil, Colleen, Brian, and Steve. And in OEM, Richard who removed roadblocks and our virtual GW team who suffered many a cancelled mtg, held projects together, and who's great work emphasized our commitment to GW while Rob and I worked GW thru this opportunity.

Summary:

- 100% coverage of MS apps on GW non-corporate machines (corp being defined as 500+ employees rather than previous E-series machine exclusion). Includes option for MS to go back to current E-series exclusion if this cannot be managed.
- Products:
 - On consumer machines GW has choice of Works Suite Basic or Works Suite at \$10 each with a \$1/unit marketing fund to be used by the respective mktg orgs (effective \$9/unit revenue) and maintains the current upsell opportunity from WS to SBE. This \$10 avg royalty equates to \$4 WSB and \$14 WS royalties based on a 50-50 low-end to high-end mix. Even with the same royalty as WS, we expect GW to offer WSB on the low-end as WS costs GW \$4 more in COGs than WSB. GW low-end mix is currently 50% and will grow as low-end pressures continue.
 - Current per system/upsell SBE/Pro deal remains intact
 - Contract covers current apps and upcoming Works 2000 family products. Does not include subsequent versions of Works which allows us to reinstate the MSN links in Works 2001 when avail approx. 8/00 if MS wants.
 - Contract maintains current IMG bundles and pricing.

Previous Trend Line: Following is a chart which shows the affect of GW carrying non-MS apps on their low-end machines which began 3/99. Starting 7/99 with this new deal, our numbers will be back to our 2/99 coverage rate.

US Only	Feb	Mar
OS Units	286,250	298,358
WS Units	121,074	46,253
% WS coverage	42%	16%
SBE/Pro Units	96,500	116,000
% app coverage	76%	54%

Thanks again everyone

EXHIBIT

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Break

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