

From: Brian Fujiwara
Sent: Monday, June 12, 2000 6:21 PM
To: Michel Rau
Subject: FW: Choice Program overview

Importance: High

this may be a better overview since it's internal.....the last one i sent was more customer oriented

-----Original Message-----

From: Brian Fujiwara
Sent: Friday, August 06, 1999 3:59 PM
To: Kelly Kimura
Subject: FW: Choice Program overview
Importance: High

here it is.

-----Original Message-----

From: Brian Fujiwara
Sent: Sunday, July 11, 1999 4:10 PM
To: Candace Gritsdale
Subject: Choice Program overview
Importance: High

This is for INTERNAL consumption only.
Here's a quick overview...if you would like me to participate on the call to discuss this program, let me know.
I'm OOF on Wed and Thursday but otherwise I can make time to do this.
Thanks, brian

High Level Business Overview/Approach

Situation:

Over the past year, the sub-\$1K segment continues to grow (over 50% of the market today), decreasing the available budget for OEMs to spend on consumer titles. It's especially difficult for OEMs to license consumer software titles to remain competitive and meet internal profit margin objectives. During this time, aggregators have approached OEMs with a new business model which addresses the profitability issue (reducing testing costs, support costs, and production costs) and leaves greater flexibility to OEMs and customers.

The Idea:

To counter this compelling offer, we will define, plan, and implement a program that will deliver on the following: - **Goal:** Deliver what consumers want which is pre-installed software with some level of flexibility that allows them to choose what Microsoft software that best meets their individual or family needs balanced with our then-current product strategy and availability. In addition, we want to give the OEMs greater flexibility to offer their customers a choice of applications while helping them control costs.

Our approach will take into consideration the following **objectives** in the short term: 1) Defend the pre-installation of HRD's core products in strategic categories on systems targeted at the Home market and reinforce strategic product alignment with influential OEMs, 2) Defend "per system" licensing/predictable revenue streams/accelerate product adoption and market penetration. In addition, longer term **objectives to be considered:** 1) Extending our reach into the home for more incremental revenue of HRD products (after market) with minimal channel conflict, and 2) assist in diffusion of "to be released" product. Based on this, we will deliver a program that 1) meets the customer's need for instant gratification (pre-installed product) with a high degree of flexibility or choice, 2) meets the OEM's need to address their profitability and flexibility issues, and 3) meet IMG's need to defend the current business and then, position ourselves to grow it.

How it Works:

The minimum commitment for an OEM to participate in this program is that they must be strategically aligned with us from a HRD product standpoint. This means that they must be shipping our core products in our strategic categories (Personal Finance Mgr, Reference, and Productivity). If they meet this requirement, then the OEM can participate in the Microsoft Choice Program in the following manner: The OEM distributes a selection card along with the PC (MS has already developed the selection card, so, the OEM would just order these serialized cards from the Fulfillment House and insert them). This selection card has two components. The first component is an offer that allows the customer to select any of the 7 pre-selected titles (these are selected by the OEM) at a cost of \$14.99 per title. The second component is an offer that allows the customer a chance to purchase additional Microsoft software bundles (2 or 3 bundles that are predetermined by MS and OEM) at a compelling price (\$59.99 to \$79.99).

The customer then orders the software from Microsoft (AFC) via mail, phone, or electronically. They pay all the Postage & Handling plus processing fee for the all the titles that they select as part of the PC purchase along with any additional software bundle that they decided to purchase to the AFC (probably around \$6.99 to \$7.99). These payment are remitted to MS by the

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Gritsdale

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AFC and MS then manages any commission payments back to the OEM (15% of net revenue on the additional titles purchased by the customer). Microsoft provides support for all the applications in the program (pre-installed apps not included).

The Benefits:

Customer: They get what they want - software that comes with the systems (pre-installed) so, they can use it immediately and they get a level of choice to further customize or personalize their PC to meet their family or individual needs.

OEM: Reduces support costs, reduces some testing costs, reduces manufacturing costs, reduces inventory risk, allows for flexibility while maintaining a high degree of operational efficiencies which manages costs, and allows them to offer quality software to a broader market.

Microsoft: We reverse the trend to eliminate pre-installed consumer s/w thus protection our current revenues and market penetration. We build a business/distribution model that allows for future growth opportunities.

The list individual titles from which the OEM can select 7 to offer to their customers is below:

- Baseball 3D
- Close Combat 2: A Bridge too Far
- Golf 99
- Monster Truck Madness 2.0
- Revenge of Arcade
- Greetings 99
- PictureIt! 99
- Encarta Africana
- Encarta Virtual Globe 99
- Trips and Streets 2000
- Home Publishing 99
- My Personal Tutor: Pre-School thru Kindergarten
- Creative Writer 2.0
- Bookshelf 2000

The list of bundles are as follows:

- Bundle #1: Age of Empires Gold (both Age of Empires and Rise of Rome are part of this) plus Close Combat III: The Russian Front
- Bundle #2: Flight Sim 98, Combat Flight Sim 98, CART Precision Racing
- Bundle #3: MSB Dinosaurs, Human Body, Oceans, and Solar System

Note: we can rearrange these bundles if necessary but we have to pick from the titles above.

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