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From: Mike Oldham
Sent: Monday, March 27, 2000 5:45 PM
To: Richard Fade
Cc: Scott Van Vuren
Subject: FW: Compaq Exec email

Edits were made in the doc below.

Also, Winkler's email address is:

mike.winkler@compaq.com

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

From: Richard Fade
Sent: Monday, March 27, 2000 5:00 PM
To: Mike Oldham; Allen Wilcox (LCA)
Subject: Compaq Exec email

I want to send this to Compaq (Capellas, Winkler, John Thompson, Mike I need Winkler's email alias) I want to get it out tonite if possible, I will be out of here to soccer practice (kids) but back online later tonite, if you can give me comments please try to do so as I would love for Compaq to receive this in the morning
john.thompson@compaq.com <<mailto:john.thompson@compaq.com>>
michael.capellas@compaq.com <<mailto:michael.capellas@compaq.com>>

Gentlemen;

I am sending this mail in hopes of providing a pragmatic path forward in our Windows license renewal process. I am told the three of you have been most engaged in reviewing the new agreement and I wanted to be proactive to reach out to you in an effort to help our teams reach agreement this week. The Windows license between our companies ends the 31st of this month, and if we are reaching any impasses my desire is to get these escalated and resolved, not nursing along day to day for weeks beyond that. Our people have made good progress on the license this past week, I am briefed that the remaining issues boil down to pricing terms. John, I have thought a great deal about our conversation 10 days ago. As I mentioned in that call I am concerned by my understanding of the Compaq teams' perception of our proposed terms and wanted to take this opportunity to summarize. The basics of the new license proposal are as follows:

What's changed:

Our license terms are evolving to be more volume focused and the variability (slope of the curve) of pricing is greatly decreased. As we have discussed with your team, Compaq's partnership over the years is not lost on us and we have looked for ways to serve that partnership and address our need to update our pricing terms. Our pricing to Compaq is set at the lowest price we have established for our Windows products. Your price is at the pricing floors we have created for each product family; Consumer and Business Windows. Recognizing your volume, we have also proposed language confirming Compaq will retain a "best price" position through the term of this agreement.

Specifics of Price:

For Windows 9x (Windows 95, 98, 98 SE) this remains at \$39; we have also agreed to include the unreleased Windows Millennium Edition in this agreement at the \$39. price.
Windows 2000 price does increase to \$89; this is reflective of our investment in the product and what we believe will be eventual demand, and as mentioned above it is the floor for this product. We have not completed the feature set or positioning for versions of the upcoming Whistler release. In light of this we have proposed to provide Compaq with the "best price" for all versions of this product once these are established.
We have also updated our promotional discounts (both on Windows NT and the MDA) to apply these discounts to the newest version of our products, not continue to provide incentives on the prior (old) versions of Windows 9x or NT.
In the case of Windows 95, we communicated back in August of 1999 our intent to discontinue this product from our royalty licenses in an effort to migrate users off this five year old product. We believe the above are sound moves based on creating a more positive customer experience and higher support costs (to the customer, MS and Compaq) on the older versions of Windows.
Under the license terms we have proposed, Compaq will have best pricing relative to other manufacturers based on your higher volumes, in the case where another company reaches Compaq's volumes that company will also receive that price, since your prices are set at the floor, that is the limit.

I have heard concerns that the new pricing will not allow you to reach given price targets you are hoping to hit in the market. I am concerned these targets seem based on Windows 9x/ NTW pricing. Since Win 2000 systems deliver far more value and no one will be able to offer a Win 2000 product based on a lower cost input than Compaq, shouldn't we together be focused on communicating that value and selling at the modestly higher price point? We will have more satisfied customers and we all experience reduced support costs. I also believe we should be working on

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communicating the benefits Compaq Servers and Desktops running Windows 2000 can deliver - lower support costs, ease of PC deployment and recovery, security, applications deployment and systems management - all of these make a very compelling story.

We will be proposing marketing and sales ideas regarding the above in recognizing Compaq's ongoing engineering, marketing and field engagement investments.

I appreciate the positive, professional approach the Compaq team has brought to our process on the new license and it is my hope that we can work hard to complete the license this week. I look forward to speaking with you John later this week toward that end.

Best regards
Richard Fade

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