

From: Andrew Lees
Sent: Monday, February 05, 2001 6:45 PM
To: Orlando Ayala; Steve Ballmer
Cc: Mich Mathews; Peter Cray; Joseph Krawczak
Subject: Office ESL

Steve, Orlando,

Here is what we decided to do with Office ESL in the US.

First of all, the problem we are trying to solve is to increase rev / PC in SORG (and some home). The key here is to attach Office with the PC purchase. It is difficult to sell full priced Office attached to the PC as this dramatically increases the price of the machine in a very price sensitive market. The idea is therefore to sell Office ESL with new PCs. This will be priced very cheaply for high volume attach. The product will work for six months and then the user will have to purchase an annual subscription (non-perpetual) to continue to use the product (subscription will be approximately 50% of the VUP FPP price = \$99 for Office SBE; \$149 for Office Pro). Attach can therefore be done at OEM and / or retail. I also understand that this system works (from an operational point of view).

Today, we have little data to understand the impact of this (penetration rate we will get with OSL, take up rate we will get with Office ESL once it expires, cannibalization rate of normal (perpetual) sales, etc).

We have therefore decided NOT to broadly launch this at retail across the US. However, we will do testing (starting at launch) to get a much more accurate answer to the above questions. We will test this with some retailers (limited to test regions), and try and find an OEM to test with too.

Personally, with the current \$ / PC in SORG and HOME remaining relatively flat, I am hopeful that we can find a model that works without damaging our LORG (and MORG) \$ / PC.

Regards,

Andy

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Plaintiff's Exhibit

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Comes v. Microsoft

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