

From: Carl Gullede
Sent: Monday, January 16, 1995 11:38 AM
To: Peter Miller
Subject: RE: Attorney client privileged info :Windows 95 Licensing

**Privilege Material
Redacted**

From: Peter Miller
To: Carl Gullede
Cc: David Heiner, Peter Miller
Subject: FW: Attorney client privileged info :Windows 95 Licensing
Date: Monday, January 16, 1995 10:59AM

**Privilege Material
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From: Joachim Kempin
To: Steve Bailmer
Cc: Joachim Kempin
Subject: Windows 95 Licensing
Date: Thursday, December 29, 1994 12:49PM

Starting January 15, 1995 we will have legal contracts ready to go out and license all OEM customers for Windows 95. We will do this in two steps. From January 15, 1995 to April 1, 1995 we will focus on all MDA partners and in the second quarter of CY95 we will focus on all other customers. Exceptions will be made for OEM customers in 100% need of FE or ME products - just time delayed activity.

Goals of the MDA partner sign up campaign:

1. Ensure highest possible WIN 95 participation within 2 months of RTM at an >20% average increase in royalties compared to today's licensed Win/DOS units.
2. Ensure very smooth transition to WIN 95 by avoiding channel/end user returns of PCs during the last three months before RTM.

Execution

Make the following offer to MDA OEMs: We will allow the OEMs to insert a coupon in all licensed Win-PCs starting April 1, 1995 at the earliest until the OEM starts shipping WIN 95 on these PCs. The OEM will have to discontinue this 2 months after MS-RTM at the latest. The coupon will be serialized and "hologrammed" and will offer to the end user a WIN 95 upgrade of his language choice at COGs and fulfillment charges. (< \$15 for CD version, <\$25 for floppy disk version) the OEM will pay us on all machines which have a coupon in the box their WIN 95 equivalent royalty regardless of redemption rate. All coupon will contain OEM name. This needs to be a per system or per copy (see below) agreement in the following way:

Option 1

Per System on all their Win or WFW systems; this will give them the best volume price and to entice them to do this we will give them the most favorable terms on their WIN 95 license after RTM by combining WIN 95 and Win/WFW volume for their WIN 95 volume price.

Option 2

Per System, only on selected systems. Price based on WIN 95 upgrade volume and no combination of volumes. This will yield

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Plaintiff's Exhibit

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Comes V. Microsoft

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in higher upgrade and higher WIN 95 prices if they don't convert 100% after RTM.

Option 3

Per Copy set royalty at a fixed \$55 - the default royalty and limit it to 10-15% of their total volume to avoid trading of coupons etc.

For none MDA accounts we introduce only the per copy option. For accounts buying through DSPs we add a \$10 surcharge to the combo pack (DOS + WW) and let the consumer pay a \$55-65 for fulfillment, COGs, royalty and support depending on media. We would do the support for the end user in this case. Same for the per copy OEM deals under option 3. For per system deals the OEMs would be required to do support - this will help us to qualify OEMs, in the case that they can't do support even if they have signed an MDA we will only offer them a per copy option.

Fulfillment is not always easy to obtain, but we have 7+ months time to set it up. (Idea is to do it one central place in the US, Europe, AIME, APAC and LA. FE languages need to be discussed and each language unit prob. needs fulfillment option.) Production should be done by selected AR's The fulfillment house accepts the coupon, and the check only if a COA and a copy of the invoice is attached. They will compare OEM name on the coupon with the OEM name on the invoice to avoid trading of coupons. A serial number validity check should close the loop.

Benefits to OEM and Channel:

- * Minimizes returns.
- * Puts additional COGs burden on consumer not on OEM or us.
- * If we agree to exchange addresses it could enlarge OEM registration base, assuming redemption rate exceeds current registration rate.

Benefits to MS

- * We are helping the channel and the OEMs to make their life easier - PR value.
- * Hopefully jump start WIN 95 licensing and acceptance and increase initial WIN 95 penetration rate.
- * Create guaranteed upgrade revenue on a per system basis. At 3.7M unit monthly rate after subtracting Compaq & IBM (.8M) and 50% acceptance rate this could represent \$18.5M/month at an average \$10 royalty rate. (This is conservative and excludes any per copy deals).
- * Less support burden by enforcing a training program for per system licensees.
- * Obtain valuable addresses!

Disadvantages for OEMs:

- * Forces them to invest in support infrastructure.
- * Adds \$10 royalties to their system earlier than planned which will be seen as insurance money.

Disadvantages for MS:

- * Give up first year WIN 95 royalties in the case OEMs do not adopt 100%. At an \$3 differential this should be no more than 1/3 of the 3.7M units per month meaning approximately \$3.6M/month.
- * Lose some retail upgrade business. If I assume a 20% upgrade penetration meaning 740K/month at \$60 (average) we are talking about approximately \$4.5M/month at the most. (taking out COGs and taking the mix into account)

In summary, our net gain could be:

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1) OEM revenue	+\$18.5M
2) Loss in OEM revenue by combining license volumes	
- \$3.6M	
3) Missed upgrade revenue	- \$4.5M

Net revenue gain/month	+\$10.4M*

*all this excluding IBM and Compaq

Looks like it is worth trying to do financially and strategically, knowing that the gain will actually be pure profit and if we can get IBM to pay us some money in the \$30 range per system- I would consider it a real winner, and do not forget the effect it could have on their OS/2 push. Please discuss/approve ASAP we are ready to get it done.

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