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            John Neilson, Joe Vetter

Cc   : Garygi, Sharonde, Glenny

From   : Mike Negrin

Date   : January 29, 1991

Subject   : Reseller Hard Bundle Apps Objectives, Definitions, & Purchasing Policies

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The objective of this memo is to obtain your feedback and approval to proceed with final development of the Reseller Hard Bundle Penetration Program. The RGMs' and designated DMs' additional objective is to review the program and provide feedback about its relative importance and implementation at one or two potential reseller accounts. We discussed the program at the GM/M meeting on January 11 and agreed upon these action items. Feedback should be provided by February 13 to incorporate within the final program. We will incorporate the feedback and provide simple communication materials and contracts by March 8 or 15. Finally, the GMs and designated DMs will present the program to one or two key reseller accounts per region by May 15.

Program Objectives

The objectives of the Reseller Hard Bundling Program is to increase strategic products', with low market share, penetration rates on new CPUs through qualified resellers. This objective is the same for the MS OEM division that will be selling the program to qualified OEMs. The OEM program for packaged products will be same as the Reseller program. The OEM division also will market a royalty based program to OEMs for strategic products with low market shares. Finally to maintain a positive price/value perception to prevent a reduced products' pricing perception because it is discounted or available bundled.

A secondary objective is to combat Lotus' Choices program rumored starting in the U.S. in CY Q-1. The program started in CTand Canada and has not been successful according to the MS Canadian sub. If any field personnel have information regarding Lotus' U.S. program please pass on the data.

The hard bundle programs will have consistent pricing and purchasing policies in the following categories:

Channel	Customer Mfg & Supports	MS Mfg. & MS Supports
Hardware OEMs	Yes	Yes
Resellers	No	Yes

Definitions

1. Hard Bundle is defined as all the systems of a given CPU model sold with software and the cost of the software is not stated overtly or covertly.
2. Soft Bundle is defined as the software must be purchased with the CPU, but a specific model of the CPU can be offered with or without software.
3. CPU Model is defined as the CPU chassis and processor. In addition, all the various configurations of the CPU and chassis model number would have hard bundles to meet 100% penetration requirement. The Reseller could choose to install different monitors, hard drives, etc. with the CPU and chassis to meet the bundling requirement.

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EXHIBIT
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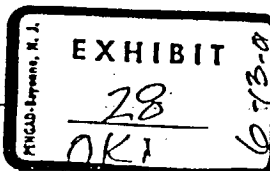
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4. Installation is defined as the MS hard bundled products may or may not be installed on the hard drive but the full packaged product as shipped by MS must be included in the CPU sale without showing/quoting the software pricing to the end user.
5. Hard Bundle Products are defined as all WinApps, WinOffice, PC Works, and any other packaged product Apps division application. Win3 does not qualify. The rationale is that Win3 must be installed or sold anyway, the OEMs could likely bundle Win3 with CPU model sold to reseller, and the hard bundle discount does not provide MS margin at high discounts.
6. Hard Bundle Packaged Products is defined as a MS packaged product with disks and full documentation incorporated in the hardware SKU by CPU model number with 100% penetration.
7. AE products are defined as Academic Editions and are not available for Reseller or OEM hard bundle programs.
8. End User Support is defined as the PSS support services provided to end users. The standard MS support policies would apply to end users purchases of MS software as a hard bundle.

Purchasing Policies

The reseller would sign an agreement by which MS would be due funds if the minimum commitment of $500 k was not met or if the hard bundle arrangement was violated.

1. Purchasing Arrangement - will be direct with MS.
2. Discount - 60% off SRP except PC Word 5.5 will be $153 cost with no other volume discounts.
3. Rebates will not apply.
4. Unit for unit replacement of defective products.
5. Stock balancing of 1% of net purchases accompanied by an exchange order after the hard bundle agreement period has ended.
6. Freight policy is FOB, Bothell, WA.
7. No returns of products that have had a maintenance release during the hard bundle period. But, a unit for unit exchange will be offered for minor and major releases of resellers current inventory.
8. USSMD would not require end users names' reporting by Reseller for Apps sold. But, standard auditing and Electronic (if possible) sales reporting procedures would be in effect. Registration cards would be included in MS packaged products shipped to resellers. MS will attempt to ship single media products to reduce COGs.
9. Standard licensing policies would be in effect, but MS would provide an authorization letter so resellers may install products on hard drives legally.
10. Minimum commitment of $500 k within a 6 month period per hard bundle.
11. Net 30 day payment terms.
12. All product would not have to be accepted immediately by reseller. Reorders would be accepted during the term of the Agreement.

Eligible Resellers

1. Company owned resellers including Franchisees
2. Franchisors that will meet the hard bundling requirements.
3. Combination company owned resellers and franchisors such as Inacomp. The hard bundle does not have to be the same for the company owned or franchised operation but a separate agreement is required for each.

Reseller Example to Meet Minimum Commitments

With a $500 k minimum commitment, a reseller with 50 locations or 50 RSPs bundling 2 Apps need sell less than 2 configured CPUs per location or per RSP per week to meet commitment within six months. The example assumes both Apps are $495 SRP.

Please inform me if you have any questions or require additional information. We will await your feedback before proceeding.