

MMLP AND MVLP WORLDWIDE, UNDECIDED AND DISCRETIONARY PROGRAM ELEMENTS

September 30, 1992

This memo defines the core issues of the MMLP and MVLP aspects of the Large Account Program. Based on your concerns as to program complexity we have decided to focus on the MMLP and MVLP aspects first with the MELP, Maintenance, Upgrade and Competitive Upgrade aspects to follow. Channel documentation and disk set policy is currently being developed which applies to customers purchasing any of the large account products.

Within each issue category you will see lists of Worldwide Program Elements, Open Program Elements, and Discretionary Program Elements. The topics listed as Worldwide and Discretionary are viewed as closed. Issues listed as Worldwide are those deemed "sacred" and represent the minimum elements we believe are necessary to make the program work on a worldwide basis. These areas now serve as the basis for the program. Open Program Elements represent issues which must be closed before we can proceed with drafting agreements, launch materials and other marketing tools needed to roll out the program. Once closed, open points will become either Worldwide Program Elements or Discretionary Program Elements, depending upon your direction. Discretionary elements are areas which can and should afford Country Managers local flexibility. Where applicable, we list the Discretionary Elements.

Please review this document and provide your feedback. We will incorporate that feedback into the finished program.

I. PRODUCTS

A. Worldwide Program Elements

Products are grouped in three pools: Applications, Systems and Server.

The products are grouped as follows:

Table with 3 columns: Applications Pool, Systems Pool, Server Pool. Applications Pool includes Office, Excel, Word, PowerPoint, Access, Fox, Works, Project, Mail and Schedule+. Systems Pool includes Windows, Windows for Workgroups, Windows NT. Server Pool includes LAN Manager for NT, SQL Server and SNA Services for NT, Mail Servers, Gateways and Access Modules.

Upon the execution of the Large Account Agreement, along with the initial purchase order for an MVLP from the LAR (or customer on a direct deal), PRS in Canyon Park or Ireland will build a custom box containing the MVLP (EULA with a schedule identifying (i) the MS entity acting as licensor, (ii) the customer licensee, (iii) the agreement number and (iv) the products covered), a CD ROM/Diskette master copy for the products covered by the MVLP, soft and hard copies of the reporting forms, and other marketing and registration materials. These products can be distributed via overnight carriers when desired.

This program establishes products, SRPs and conditions under which the products can be purchased which are announced to the channel and customers. Accordingly, the purchase of MVLPs may be

1 To include Windows, Macintosh and DOS versions as applicable. 2 MVLP pricing based upon 20 unit SKU. Discounts do not apply to 100 or 500 unit SKUs as that is essentially a "double" discount for volume. The 20 Unit SKU is used as the basis so that SRPs for the MVLP licenses scale from the 500 unit SKU. 3 Single unit, Full Packaged product used as the basis for pricing under MVLP.

initiated by the channel, customers and/or Microsoft field sales personnel. It is more likely that multi-country agreements will require Microsoft's participation to line up the various LARs. We should expect single country agreements to be initiated by the channel and the customer with minimal Microsoft involvement - if the LAR orders an MVLP which meets our announced conditions for purchase then Microsoft will sign the large account agreement and deliver the MVLP upon the review of the appropriate account managers.

MVLPs are custom products and are therefore not held in inventory by LARs. LARs are not given the right to sublicense or reproduce our software. They are merely sold the bundle of rights represented by the MVLP and may resell those rights on to the customer (just like an MLP or MMLP) except the channel does not purchase, inventory or sell MVLPs to the public at large.

**B. Open Program Elements (when decided will become either worldwide or discretionary)**

None

**C. Discretionary Program Elements**

Customers purchasing MVLPs do not receive any special volume discounts on FPPs and MLPs pursuant to this program. The volume discount is already built into the SRPs for MMLPs. Country managers can continue to do special deals using FPPs and MLPs within their area.

Country Managers can elect to offer PM applications or the Unix version of Fox on country-specific agreements.

Country Managers can elect to offer OS2 versions of server products as interim solutions pending the availability of Windows NT and its server components. Note that we will not have a Microsoft version of SNA Services (Communication Server) until NT ships.

## **II. TERMINOLOGY**

**A. Worldwide Program Elements**

MVLP means Microsoft Variable License Pak. MVLPs will be produced in various languages consistent with MMLP, so MVLP and the program name (see below) may be in local language.

Volume levels (see Minimum Purchase Levels and Pricing) must be referred to as A, B and C. Each Microsoft subsidiary will create a price list for each of the MVLP levels. This list publishes the local MVLP SRPs for each of the products in the product pools. Single country discretionary volume levels below MVLP A can be called whatever the Country Manager wishes so long as there is no confusion with A, B and C levels and associated SRP's.

**B. Open Program Elements**

The name for MMLP in Europe is "Multi-Unit Microsoft License Pak," however, the name only appears in some sales literature and not on the product itself. Alternatives are "Microsoft Multi-Unit License Pak" and "Microsoft Multiple License Pak." When decided MMLP name is worldwide due to centralized production (i.e., Canyon Park and Ireland). Note that the Multi-Unit Microsoft License Pak name is already in limited use for Europe and the best decision may be to adopt that name as the standard.

There is no overall name for the large account program such as Borland's EASE. The MVLP is merely the name of the special license a large account can buy pursuant to a Large Account agreement. When a program name is set it will be launched worldwide and we will create packaging consistent with Microsoft packaged product standards.

**C. Discretionary Program Elements**

None

### III. LICENSE TERMS

#### A. Worldwide Program Elements

MMLP gives user the right to reproduce either 20 or 100 copies; license rights are consistent with FPP EULA. MMLPs are only manufactured at Canyon Park and Ireland. MMLPs are never custom so no changes to the MMLP EULA are permitted.

MVLP gives users the right to reproduce as many copies of pre-selected products (from product pools) as are reported and paid for on a quarterly basis. MVLP EULA license rights are consistent with FPP EULA; concurrency remains part of the MVLP EULA. The pre-selected products must be listed on a schedule to the MVLP EULA. Any exception to MVLP EULA license rights are subject to prior approval through legal department. Once approved, the exception will be added to the schedule to the MVLP by Redmond PRS and Ireland PRS only.

The licensor listed on Schedule A to the MVLP EULA is the MS entity which is selling the MVLP. Only MS Corp. and invoicing subs can be listed as the licensor. In other words, for cost-plus and commission subs, the licensor will always be the MS entity which actually is the seller for FPP into those countries. For example, if a single country MVLP is issued in Norway, the licensor is MS Sweden.

One customer may have multiple levels of discounts for various MVLP licenses (one for applications, another for systems and possibly a third for servers and gateways).

#### B. Open Program Elements

None

#### C. Discretionary Program Elements

None

### IV. TOOLS/SALES CYCLE

#### A. Worldwide Program Elements

##### 1. Tools

A central large account database infrastructure is being developed by ITG to record and process Large Account Agreement business. The database, which will be integrated into the Worldwide Account Management architecture, will be designed as the information hub for LAA contracts, and is intended to ease the administrative burden imposed on each subsidiary as a result of the launch of the program. As the large account agreement hub, the database provides information for Account Manager's, subsidiary management and F&A. These tools can report on agreements signed, the terms of agreements, and business generated (revenue, discount and units) for each account. This requires the database to capture generic account information, contract terms and historical reporting information. The database will be accessible from any Microsoft site capable of transacting large account agreements. In addition to the central database, ITG is also developing a pricing model tool for use by Microsoft field sales personnel to help facilitate multinational agreements. The tool will provide the sales force the ability to generate a number of "what if" scenarios for customers evaluating the various purchase options presented by the program. The tool will assist in the creation of multinational agreements by providing an individual subsidiary the ability to price in local currency for the channel any product in any language MS makes available under the program.

##### 2. Sales Cycle

The sales cycle for MS is generally similar for both single country or multinational agreements with a few exceptions. The specific cycle for each type of agreement follows:

### 3. Single Country through Distribution Channel

Agreement is signed between MS and Large Account customer, Large Account Reseller or Distributor (LAR) is selected and identified by Large Account. Agreement data is entered into the LA database by the applicable group within the Microsoft entity. A contract agreement number is automatically assigned by logic within LA database system.

LAR places an order with Microsoft based on agreement. The order produces a build and ship request for PRS (Product Release Services group within manufacturing).

MS ships custom LAA kit to LAR; kit includes master copies, license agreement and other information specified by MS Large Account management. Kits will be produced in Ireland for Europe, and at Canyon Park for US, ICON and FE.

Large Account customers consume licenses over a quarterly period, tracks consumption and submits quarterly reports to Microsoft by the 15th of the month following the end of each calendar quarter. See details in "Reporting" section of this document.

Microsoft invoices the LAR for cumulative reporting of Large Account business. See details in "Reporting" section of this document.

The Microsoft entity recognizes revenue and applies payment in their individual billing system. The Microsoft entity updates the LA database to clear outstanding due reports and record detail customer reporting data.

MS Redmond produces quarterly report of worldwide LAA program business.

### 4. Multinational through distribution

The sales/order cycle for a multinational agreement is similar to a single country agreement with the following exceptions:

Master agreement is signed between the Microsoft Corp. and the Large Account customer. Only Microsoft Corp. may sign an agreement which covers multiple Microsoft territories. Agreement data is entered into LA database by applicable group within MS originating entity. Contract agreement number is automatically assigned by logic within LA database system.

International Account Manager network provides notice to LARs and appropriate Subsidiaries. Large Account identifies LARs in respective countries. Subs obtain detail information regarding agreement from LA database. LAR is selected by Large Account.

LARs in applicable countries place orders with the appropriate Microsoft company.

Microsoft Redmond produces quarterly report of worldwide LAA program business. Quarterly report includes revenue credit to individual countries where product is consumed but not purchased.

#### B. Open Program Elements

None

#### C. Discretionary Program Elements

Country may add additional functionality or require LARs to report additional information (i.e., U.S. LVA reporting).

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## V. UNITS AND VALUES

### A. Worldwide Program Elements

A unit is a numerical value assigned to products within the product pools. Units establish relative weights among products within a pool.

A customer's MVLP level (which establishes the appropriate SRPs) is determined by the total number of units they forecast for consumption over the two year period at the outset of the agreement.

Multiple pools are utilized for legal reasons (applications and systems discounts should not be tied to one another) and practical reasons (customers do not buy the same volume of applications and servers, servers need lower levels, so they are in different pools).

The units are applied to each of the three pools as follows:

Applications	Units	Systems	Units	Server Products	Units
Office	2	Windows, Windows for Workgroups	1	Mail Server and Gateways	1
Other	1	Windows NT	2	LanMan for NT	2
				SQL & SNA Servers	3

Products may be combined within a pool to reach the MVLP unit levels.

Different language versions of products may be combined to reach the MVLP unit levels. For example a European customer might include ZNA, German and French products to reach the appropriate MVLP level.

### B. Open Program Elements

None

### C. Discretionary Program Elements

None

## VI. MINIMUM PURCHASE LEVELS AND PRICING

### A. Worldwide Program Elements

There are no minimum purchase levels for MMLPs. They are sold like FPP.

All MMLP SRPs will be created using the following method (subject to Mike Maples agreement 10/2):

SKU	Discounts from local FPP SRPs used to create local MMLP SRPs
MMLP 20	25%
MMLP 100	30%

MMLPs are sold to the channel using current subsidiary discounts for finished goods.

There are three levels of MVLP: MVLP A, MVLP B and MVLP C. Each Product Pool has its own A, B & C level.

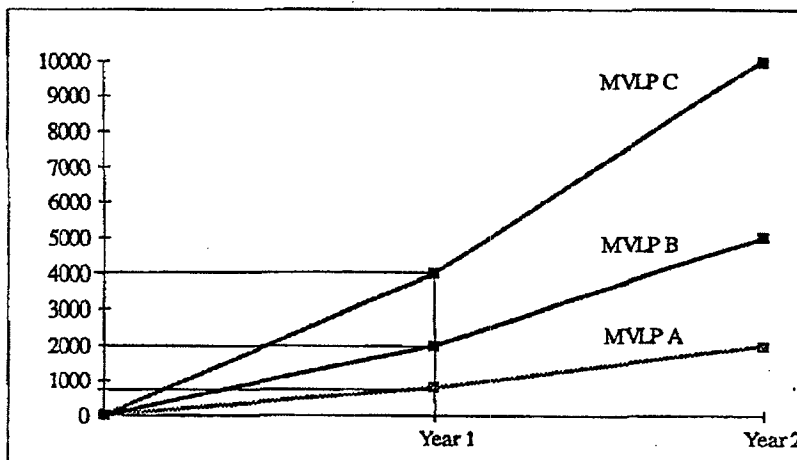
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MVLP SRPs are calculated by multiplying the local FPP SRPs of the corresponding products by a consistent discount percentage around the world. A customer qualifies for a particular MVLP SRP level based on its commitment to purchase products over a two year period at a rate which results in meeting a particular unit level. These discounts and the applicable unit levels are:

Apps and Systems SKUs	Discounts from local FPP SRPs used to create local MVLP SRPs	Unit Levels
MVLP A	30%	2,000 - 4,999
MVLP B	35%	5,000 - 9999
MVLP C	40%	10,000 +

Server SKUs	Discounts from local FPP SRPs used to create Server MVLP SRPs	Server Unit Levels
MVLP A	30%	50 - 499
MVLP B	35%	500 - 999
MVLP C	40%	1,000 +

For obvious reasons, we think it is necessary to establish a consumption checkpoint at the first anniversary of the agreement. Announced program rules would state that a large account which has not purchased at least 40% of the minimum number of units required for its MVLP level at the end of year one, falls to the lowest next level in which its purchases equal or exceed 40% of the minimum number of units required for such level. New MVLP level (and corresponding SRPs) is automatically assigned to the agreement for purchases in the second year. If purchases at the end of year one are less than 40% of the minimum number of units required for the MVLP A level or the single country discretionary level (if there is one) then agreement automatically terminates and no further copying is allowed. The 40% one year purchase levels and the automatic change in MVLP level or termination are subject to discretionary MS overrides (see Discretionary Program Elements).



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For example, assume a customer estimates a purchase of 6,000 units over two years, thus becoming an MVLP B customer. If that customer reported and paid for fewer than 2,000 but more than 800 units by the end of year 1, then a process is invoked resulting in that customer being automatically dropped to the MVLP A level. The SRPs upon which the channel costs are now based switch from MVLP B SRPs to MVLP A SRPs for year 2. If that same customer reported less than 800 units at the end of year 1 they would be dropped from the program altogether. The Country Manager has the ability to make account-specific assessments and override these automatic changes for single country agreements. The large account agreements will specify this process as part of the contract.

The large account program database being developed by ITG provides tools to monitor consumption rates. These tools provide subsidiary management the ability to monitor their large account business consumption rates without relying upon LAR involvement.

**B. Open Program Elements**

**1. FOX and Access**

FOX and Access have unusual pricing schemes in that market conditions cause the MLP to be discounted at 40% from the FPP SRP. If we discount for MVLP from the FPP SRP the scale makes no sense. We suggest that Fox and Access have their MVLP SRPs set using the MLP price as the basis for calculation.

**2. Systems Discounts**

Microsoft Systems Marketing raised the question whether systems products need to be discounted as aggressively as applications. If agreed by Country Managers, we propose to use the table below for calculating systems MVLP SRPs.

Systems SKUs	Discounts from local FPP SRPs used to create Systems MVLP SRPs	Systems Unit Levels
MVLP A	30%	2,000-4,999
MVLP B	31%	5,000-9,999
MVLP C	32%	10,000 +

*What is the channel discount for MVLP?*

1. When no inventory or handling charges are required, coupled with the additional administrative overhead for Microsoft, is it appropriate to offer the channel a discount encouraging large margins, such as 44% or 50% discount from MVLP SRPs?
2. Setting MVLP SRPs close as near the street price as possible provides Microsoft field sales personnel the ability to quote prices approximating what customer ultimately will pay.

How would this work?

Instead of using discount factors of 30%, 35% and 40% to calculate MVLP SRPs and selling to the channel at a 44% discount to these SRPs, we propose to use the discounts shown below and sell to the channel at a 17% discount. Revenue to Microsoft is unchanged, and MVLP SRPs begin to approximate street prices. Because the spread between SRP and channel cost is smaller, the multinational LA will have greater certainty in predicting what its ultimate price from the LARs will be in each country

We realize that this presents a core change to the way Microsoft transacts business with the channel in most parts of the world. We also believe the introduction of the MVLP provides the opportunity and the vehicle to reevaluating current practice.

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Because many MVLP customers will be multinational, Microsoft must either agree to this step as a company with a worldwide implementation, or not use this approach at all.

Apps SKUs	Discounts from local FPP SRPs used to create local Apps MVLP SRPs	Apps Unit Levels
MVLP A	53%	2,000 - 4,999
MVLP B	56%	5,000 - 9,999
MVLP C	60%	10,000 +

Systems SKUs	Discounts from local FPP SRPs used to create Systems MVLP SRPs	Systems Unit Levels
MVLP A	53%	2,000 - 4,999
MVLP B	54%	5,000 - 9,999
MVLP C	55%	10,000 +

Server SKUs	Discounts from local FPP SRPs used to create Server MVLP SRPs	Server Unit Levels
MVLP A	53%	50 - 499
MVLP B	56%	500 - 999
MVLP C	60%	1,000 +

### C. Discretionary Program Elements

Irrespective of whether a decision is made to make the discount to the channel consistent, marketing funds and rebates to the resellers or distributors are locally determined.

Country Manager can establish a single country "Entry Level" MVLP "0", if required by market conditions. The discounts for MVLP 0 shall be below the MVLP A discount in all cases.

For single country deals local Country Manager or his designee(s) may change the 40% one year minimum purchase requirement to a lower percentage at the outset of the agreement and may override the automatic change in SRP level or termination of agreement. For multi-country deals since volume levels are based on the collective volumes of all countries covered by the agreement, any change in the 40% rule or automatic responses at the end of year one must be approved by all affected Country Managers or their designees(s) or the regional manager(s) for the affected countries.



## VII. PAYMENT TERMS

### A. Worldwide Program Elements

Payment terms between distribution channel and MS entity will be determined at the local country level.

### B. Open Program Elements

None

### C. Discretionary Program Elements

An ability to offer monthly or alternative forms of payment on multinational agreements.

## VIII. REPORTING

### A. Worldwide Program Elements

#### 1. Single Country Agreements

Large Account reporting occurs on a calendar quarter. This is regardless of whether the agreement structure requires scheduled consumption, actual consumption or some other alternative form that an individual subsidiary deems appropriate for their market.

Large Accounts will be required to provide MS entity such report no later than 15 days after the close of a calendar quarter.

The reports received from Large Accounts will serve as the basis for invoicing distribution channel.

Distribution channel will be billed for Large Account business 30 days after the close of a calendar quarter under payment terms determined by individual subsidiary.

The responsibility for collection from account lies with the distribution channel. If MS has not received a report from Large Account 30 days after the close of a calendar quarter notification will be sent to Large Account by MS indicating that account is in default of their contract with us.

If a Large Account fails to provide a report to MS within 60 days after the close of a calendar quarter MS reserves the right to terminate Large Account agreement.

MS will have the option of either auditing the Large Account to determine actual consumption and resultant monies owed or billing the account on a pro rata term based on the minimum unit consumption level under their Large Account agreement.

The minimum reporting fields are:

Field No.	Field	Format	Source
1.	LAR customer number	Num	assigned by Microsoft
2.	LAR Name	Text	assigned by Microsoft
3.	MS billing location (sub) number	Num	assigned by Microsoft
4.	LA agreement number	Num	assigned by Microsoft
5.	Customer parent number	Num	assigned by Microsoft
6.	customer bill-to number	Num	assigned by Microsoft

7.	calendar quarter ending	Mar 31, Jun 30, Sep 30, Dec 31 or null (for non-agreement products)	
8.	SKU number	Num	assigned by Microsoft
9.	SKU description	Text	assigned by Microsoft
10.	SKU quantity	Num	LAR
11.	Country where product is consumed	Units	

## 2. Multinational

Multinational agreements require standard terms of reporting in every applicable country.

Large Accounts must report actual consumption to MS no later than 20 days after the end of a calendar quarter if centralized reporting and payment is chosen by the account.

If decentralized payment and reporting is chosen each purchasing site the account must report to Microsoft within 15 days after the close of a calendar quarter.

Invoicing and termination proceedings for Multinational accounts will be consistent with terms of single country with the exception that MS must coordinate termination among several countries in a decentralized deal structure.

### B. Open Program Elements

None

### C. Discretionary Program Elements

We recommend the subsidiaries review the volume of MVLP business they expect to conduct and, where appropriate, assign an administrative owner to the program.

## IX. LAR QUALIFICATION REQUIREMENTS

### A. Worldwide Program Elements

The LAR program should be open to all types of resellers, including non-traditional resellers such as Strategic Integrators, Solutions Resellers and OEM's (packaged product sales only) as long as they meet all minimum criteria and are competing with consistent terms and conditions that maintain a level playing field.

Reseller must have an established record of Ms product sales to large accounts. They must also have the capability to provide product distribution and support on a national basis within each country of authorization.

Reseller must have an outbound sales force with the ability to work personally with MS and LA customers as necessary to complete special agreements. Reseller must offer technical support via phone to end users of LA customers.

Reseller must have sufficient financial standing to participate in special agreements without burden to MS, or to our authorized distributors, whom may facilitate these transactions in the future. If the reseller conducts transactions directly with Microsoft, they must be approved for credit by appropriate MS' finance department.

Reseller must have the capability to perform the required activities defined in the LAR program (see Reporting and Payment Worldwide Program Items).

LAR's will not be authorized in multiple countries, without the advance approval of all appropriate Microsoft country managers. In the long-term, a specific program will be developed which may simplify the process of international distribution.

LAR must designate an administrative contact within the company who will be responsible for handling special agreements, quarterly billing and customer service. The designated contact is responsible for coordinating between the LA and Microsoft on special agreement issues, ensure that proper discounts are being used, and is responsible for escalating any issues between the LA and LAR (account management) as necessary.

**B. Open Program Elements**

None

**C. Discretionary Program Elements**

Each subsidiary may introduce additional qualification requirements as they deem necessary in order to ensure the quality of program execution, and handle credit terms.

The country manager may allow distributors to participate in the distribution and administration of special agreements to authorized LAR's (whether direct or indirect)

The MS reseller account manager determines if the reseller meets the qualifications in the country for which the reseller wishes to be authorized and nominates them by providing an LAR agreement/enrollment form and submitting it to the appropriate country manager. The country manager, or someone they designate, has final authority to approve a reseller as an LAR, by notifying the central program coordinator (Large Account Sales Strategy Group).

CLARIFY.XLS

MICROSOFT CORPORATION							
LARGE ACCOUNT PROGRAM							
CHANNEL DISCOUNT ISSUE							
NOTE: THE PURPOSE OF THIS EXAMPLE IS TO ILLUSTRATE THE EFFECT ON SRP, CHANNEL PURCHASE PRICE UNDER THE TWO DIFFERENT PROPOSALS OUTSTANDING FOR DISCOUNT TO THE CHANNEL UNDER AN M							
PRODUCT = WIN EXCEL; CURRENT FULL PACKAGED PRODUCT SRP IS US \$495.							
			14% CHANNEL DISCOUNT			17% CHANNEL DISCOUNT	
			CHANNEL	STREET @ 8%		CHANNEL	STREET @ 8%
PRODUCT TYPE		SRP	PRICE	MARGIN	SRP	PRICE	MARGIN
FULL PACKAGED PRODUCT		\$495.00	\$277.20	\$299.38	\$495.00	\$277.20	\$299.38
MVLP - A		\$346.50	\$194.04	\$209.56	\$232.65	\$193.10	\$208.55
MVLP - B		\$321.75	\$180.18	\$194.59	\$217.80	\$180.77	\$195.24
MVLP - C		\$297.00	\$166.32	\$179.63	\$198.00	\$164.34	\$177.49

E AND STREET PRICE		
LP AGREEMENT.		

Proposal to Settle Consistent Channel Discount Percentage

In Local Currency

	Pty	Inc	Gmbh
Office SRP	A\$1,150	C\$899	2873
MVLP B Discount	35%	35%	35%
MVLP B SRP	A\$748	C\$584	1,867
Channel Discount	48%	48%	48%
Microsoft Revenue / Channel Cost	A\$389	C\$304	971
Desired Channel Margin	17%	17%	17%
Proposed MVLP B SRP	A\$468	C\$366	1,170
Likely Channel 'Uplift'	15%	15%	15%
Likely Street Price	A\$447	C\$349	1,117
Accuracy of Current SRP	39%	39%	39%
Accuracy of Proposed MVLP B SRP	60%	60%	60%
Accuracy of Current MVLP B SRP	95%	95%	95%

