

Erik Stevenson

From: Joachim Kempin
To: billg; brads; mikemap; paulma; steveb
Cc: joachimk; stevesi
Subject: RE: Windows base and premium
Date: Thursday, January 06, 1994 9:41AM

I am not concerned about Compaq knowing that we can find a pragmatique solution. My concern is of different nature:
We need to find a balance between OEM and retail to max our revenues without loosing market penetration and/or alienating OEMs or endusers. (Big elephant Ms getting greedy image) In particular in the area of WfW kind connectivity we will face stiff competition from NOVELL and Prob. OS/2 by then. At the same time we will have the momentum going for us looking at the possible rate of WfW shipments- to strip the base of some of these features will give NOVELL and PSP entry opportunities which will hurt us in the server biz as well. So why give up the lead by beeing rude- we need a balance and not a radical approach- strip some leave others. Market research should be done here and not a ruling from the top to understand what customers in med/small and large org. are using otherwise we continue to fight these issues on soft grounds. MORE:

From: Bill Gates
To: Brad Silverberg; Joachim Kempin; Mike Maples; Paul Maritz; Steve Ballmer
Cc: Steven Sinofsky
Subject: Windows base and premium
Date: Sunday, December 26, 1993 3:16PM

I think I am thinking of base as more limited than anyone else.

I admit it causes potential problems with our compaq deal but there is a way to handle that by creating: base + some stuff is what compaq gets but that is less than premium so they can have something funny that no one else have or they can pay less and just get base or they can pay a litte more and get premium.

I think base has the following things:

- a. You cant add fonts. RUDE
- b. You cant change the screen driver. MAY BE OK
- c. Some capacity constraints. Noticable - like 2 apps only or 8 meg only. WILL MAKE ENDUSERS MOST ANGRY, AND OPEN OS/2 OPPORTUNITIES.
- d. No networking or connectivity. FIND THE RIGHT BALANCE
- e. Some speed limits that are noticable. AS LONG AS BASE = WFW AND PREMIUM GOES BEYOND WE CAN DO.
- f. Only the most basic applets. AGREED

Base is base. It is a lot better than DOS and it is NOT as good as Win 3.1. THIS IS TRUELY A BAD DIRECTION, THIS WILL LEAVE USERS ANGRY AND THEY WILL NOT MAKE THE TRANSISTION FAST ENOUGH. IN ADDITION ARE YOU WILLING TO LOWER PRICING FOR OEMS BECAUSE OF THAT?

I want to call BASE: MS-Win and I want to call premium Microsoft Windows 4.0 premium.

WE NEED TO CHECK SOME CONTRACTS

Windows 4.0 would not be marketed but it is the thing we would give compaq or others who insist on carrying their contracts over.

DEPOSITION EXHIBIT
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 1/24/94
 Kempin
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MS 5056271
CONFIDENTIAL

Plaintiff's Exhibit
 5630
 Comes V. Microsoft

The oem price of Windows 4 premium is high and some people wont take it. It has got to be so high that we generate at least \$500M of additional profitability from DOS/Windows than we do today and I am HARD CORE about taking RISK to do it.

THEIR IS NO RISC TO TAKE. JUST A FINE BALANCE

Remember the people who upgrade get PREMIUM and so they are telling their friends to buy PREMIUM.

THIS ASSUMES THAT OEMs CONTINUE TO SHIP THE PROPOSED STRIPPED VERSION OF WINDOWS = CHICAGO BASE. THE OEMS MIGHT NOT DO THIS AND THE ENDUSERS MIGHT NOT CARE ABOUT THE CHICAGO HYPE. KEY IS TO CONVERT PEOPLE FAST AND I DON'T THINK THE PROPOSED SOLUTION WILL DO THIS. PEOPLE WILL BE VERY RELUCTANT TO ACCEPT A CRUMMY VERSION OF WIN ON THEIR PCs AND THE NEED TO UPGRADE IT TO THE REAL THING THE DAY THEY BUY THE PC.

We are not really doing this but the simplest way to think of this is: We are raising the OEM price of Windows by 2x to try and get some of the volume back in the retail market or at least to make a lot more money. We are changing DOS to MS-Win. Its a dimuniutive so not confused with the full product.

DOES THIS MEAN OEMs WILL ONLY PAY DOS PRICES FOR BASE? THEY WOULD LOVE THAT- BUT NOW YOU HAVE TO MAKE UP 1B \$\$ FOR PREMIUM IN THE RETAIL MARKET, THAT IS ROUGHLY THE SIZE OF NOVELL OR LOTUS. IN ADDITIO TO ALL THE ABOVE I SEE A HIGH PIRACY RATE FOR PREMIUM IN ANY CASE.

Please think HARD about this. Dont just ignore what I am saying because this is major stuff and we need to decide in January.