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Microsoft Memo

DATE: October 20, 1994

TO: Jeff Raikes

FROM: Bruce Petersen

CC: Barry Kurland, Laura Torina

RE: Special Agreement information

As we discussed, there were mistakes made in large license agreements in the past. As you stated, these are mistakes we don't want to repeat. To ensure that you have sufficient information prior to the Price Waterhouse discussion tomorow, here are some details that Anne Roe and Eileen Conover have put together.

Select was developed in response to the demands of dissatisfied special agreement customers. Before the development of Select, special, direct agreements were Microsoft's only method to address the needs of large, worldwide, volume-purchasing customers. Legal concerns forced Microsoft to work directly with these customers, frequently at very low prices and always shrouded by a strict, however unenforced, confidentiality clause. These agreements took as long as two years to negotiate and were a constant administrative headache to both parties throughout their term.

Problems in creating another direct agreement.

- Lack of Confidentiality
- Erosion of per-license revenue
- Inefficient administration
- Former special agreement customers are dissatisfied and are gradually transitioning to standard Select agreements.

Our past experience and the feedback from our largest customers tells us that Select is the best solution for volume licensing customers.

I. Lack of Confidentiality

- ARCO: In spite of the strict Confidentiality clause included in the ARCO Special Agreement, shortly after finalizing the Agreement, the cover of PC Week contained an article describing the very first "Site License" Microsoft had just finished negotiating with ARCO - along with amazing accuracy of the details of the Agreement such as number of desktops and price per desktop.

- GENERAL ELECTRIC: Weeks before the General Electric Special Agreement was finalized our PR agency received a call from Rob Kelly of Infoweek asking for confirmation of the details of the Special Agreement. All of the information we were asked to confirm was surprisingly accurate, such as number of PC's covered, products and price.

- CHEVRON: Despite the fact that Chevron agreed to be bound by a strict confidentiality clause, they neglected to inform Microsoft that they had sought the assistance of a LAR to handle the cumbersome administration of their special, direct agreement. We realized that Chevron had violated their confidentiality clause when we began receiving payment for purchases made under this special, direct agreement from Egghead Software on behalf of Chevron.

2. Erosion of Per-License Revenue

- CHEVRON: Under their special, direct agreement, Chevron is able to purchase each of the products that are components of Microsoft® Office for a total package price of $141.11. They are able to use each of the products separately and concurrently off a server.

- GENERAL ELECTRIC: General Electric paid $12.5 Million for the right to run Office Professional and Schedule Plus on all 71,450 PC's. This included maintenance on all PC's as well. This translates into approximately $175 price per desktop, as a comparison under Select on a per desktop basis would be $300.

- INTEL: Intel Special "Package Pricing Options" i.e. $285.00 for Excel, Word, PowerPoint , DOS-Upgrade and Windows. Individual Apps. pricing, i.e. $80.00 each for Word, Excel or PowerPoint

3. Inefficient Administration

- INTEL: Despite the fact that Intel sought out a direct relationship with Microsoft, Intel recently requested that Microsoft allow a LAR to administer their special, direct agreement to off-load the administrative burden associated with the agreement.

- REUTERS: Inside Sales was responsible for manually accumulating over 100 Disk Sets in localized languages and distributing to multiple locations worldwide. In addition all P.O.s were administered through Inside Sales.

- ARCO: Inside Sales was responsible for manually shipping disk sets, manuals and upgrades to multiple locations.

- THE COCA-COLA COMPANY: The Coca-Cola Company's special agreement required extensive reporting to be collected from approximately 100 different reporting sites worldwide and compiled by The Coca-Cola Company on a quarterly basis. The administration of the Agreement was so burdensome that, after working for over a year to negotiate this "special deal", The Coca-Cola Company was willing to throw it out and start over with Select.

- THE COCA-COLA COMPANY: Because of the unique, international accommodations which were granted in The Coca-Cola Company's special agreement, Microsoft found that its internal systems would not support the agreement and we have not been able to bill The Coca-Cola Company for the products it has consumed during the two quarters that the agreement has been in place. Microsoft Treasury will establish a special, multi-currency account to collect a one-time payment after the agreement is terminated.

4. Transition of Special Agreement Customers to Select

Transitions from Special, direct agreements have been completed or are in the process of being completed for:

- Bankers Trust
- Chase Manhattan Bank,
- Northern Telecom
- Nestle
- PPG Industries
- The Coca-Cola Company
- Ernst & Young
- Baxter Healthcare
- Exxon

SPECIFIC AGREEMENT INFORMATION

1. GENERAL ELECTRIC:

- $12.5 Million total
- 71,450 PCs
- $175 per desktop

2. CHEVRON:

- $141.11 for components of Office
- Separate, concurrent use of components
- 2 year term
- U.S., limited international distribution

3. INTEL:

- $285 for Word, Excel, PowerPoint, MS-DOS Upgrade and Windows
- $80 per each individual application

4. ARCO:

- $4,286,598 total
- $380 per desktop for MD-DOS Upgrade, Windows, Word, Excel, PowerPoint, Mail, Project, Schedule+
- 5 Premier PSS enrollments and 10 MS Support Coordinator Program enrollments
- 1 SE on site for 6 months
- 10,000 PCs
- 10% off MCS engagements of 3+ months, 20% off MCS engagements of 6+ months.
- 10 one-day transition seminars given by MS personnel
- 3 year term

5. THE COCA-COLA COMPANY

- $4.5 million total
- Participation of non-owned or controlled bottlers
- 2 year term

6. KPMG

- $5,965,200 total
- MacWord, MacExcel, MacPowerPoint, Mail Client for Mac
- 3 year term
- Maintenance