
From: Rodrigo Costa
Sent: Monday, June 02, 2003 1:32 PM
To: Rodrigo Direct Reports Only
Subject: FW: Messaging on the Government and Education Incentive Funds
Attachments: Messaging on the Government and Education Incentive Funds.doc

This is important information
rodrigo

From: Kevin Johnson
Sent: Monday, June 02, 2003 1:26 PM
To: GMs of Subsidiaries; Worldwide PR leads - Internal; Subsidiary PR Managers; SMSG Leadership Team
Cc: Mark Hill; Jim Desler; Beth Jordan; Erin Brewer; Carlene Chmaj; Stacy Drake McCredy; Dean Katz; Tom Pilla; Larry Cohen; Sandi Baldock

Many of you have likely seen the recent coverage in the International Herald Tribune and the New York Times questioning the validity of the Government and Education incentive program that we have created. I want to assure you that these programs, which were specifically designed with customer benefit in mind, deliver a compelling value proposition in a legal and pro competitive way.

The intent of these programs is to provide access to technology for schools and governments in developing countries that otherwise could not afford it. There is nothing wrong with a program that addresses technology access issues while competing fairly with our competitors. We are proud of this program - as ultimately we're talking about offering a better value proposition to these specific customers and doing it in a responsible and lawful way.

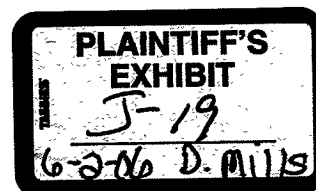
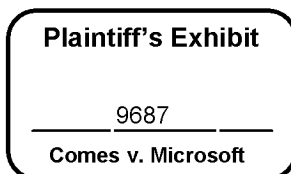
Several press reports have characterized these programs as designed solely as an attack on Linux and potentially damaging to our settlement discussions with the European Commission. I wanted to make sure you had the background on this issue and some talking points if you are asked about this by customers. Attached is a document with the messaging and additional background information. Please refer further press inquiries to Corporate PR. Please let us know if you have any questions.

Regards,
Kevin

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Messaging:

- The International Herald Tribune article from earlier this month -- For Microsoft, Market Dominance Doesn't Seem Enough, May 15 - is based largely upon two emails sent within Microsoft. The article does not accurately portray Microsoft's efforts to address the needs of resource-strapped governments and educational institutions.
- Governments around the world, but particularly in developing countries, have called upon Microsoft to help make computer technology more affordable in settings where budgets for technology access are limited. As an industry leader, Microsoft accepts the responsibility to help enable broad access to technology in governments and schools. We have also seen that absent such assistance governments and schools that may prefer Microsoft software might settle upon free or very low-cost software solutions that are typically billed as "good enough." In other cases such potential customers may simply use Microsoft software without paying for it. Software piracy rates run as high as over 90 percent in many developing countries.
- Microsoft has set aside a relatively modest fund to assist governments and schools that want to benefit from lawful licenses to Microsoft software. The funds may be used to help defray the cost of purchasing new Windows-based PCs, for training or other services provided by Microsoft or third parties, for curriculum content or in other ways. In every case, the funds provided by Microsoft are less than the royalties Microsoft will receive for use of its products.
- The article selectively and unfairly excerpted a Microsoft email as stating "under NO circumstances lose against Linux." What the email actually said was "under NO circumstances lose against Linux before ensuring we have used this program actively and in a smart way." We of course recognize that customers will choose Linux and other free or low-cost products in many cases. We want to be sure, however, that qualified customers are presented with opportunities to acquire Microsoft software that are tailored to their needs and limited budgets.
- Our legal team has reviewed the program carefully. We are confident it complies fully with European and other competition law. In fact, this program addresses important issues of access to technology, and delivers a compelling value proposition to customers in a legal and pro competitive manner.

Additional Background:

- The program highlighted in the piece was developed last year for the education and government sectors and principally designed for developing countries. Understanding our role as an industry leader and the importance of complying fully with all laws and regulations, our lawyers carefully reviewed this program to account for the competitive sensitivities and global scope. This program is pro-competitive and beneficial to consumers.
- We recognize that the European Union competition principles may limit a company with a successful market position from dropping its price to meet competition if the objective of this practice were to "exclude competition." from the market. With only one deal in the European Union - with benefits granted to educational purchasers in the context of a

government-sponsored IT program -- we have conducted this program in a way that could not be construed at all as exclusionary. [Note: any questions that go to the detail of the legality of the program under applicable competition law should be referred to LCA.]

- The IHT article further characterizes the use of discretionary funding for special customer situations as somehow anticompetitive. BIF simply enables the use of consulting services from Microsoft Consulting Services and from our business partners for pre and post-sale activities for our enterprise customers. This is a common industry practice because enterprise customers often benefit from highly skilled consultants in evaluating and deploying software systems for large organizations. This program complies fully with applicable regulations.
- The article includes reports of Microsoft employees allegedly misrepresenting their affiliations while attending industry trade shows. Simply put, such behaviour violates our company policy; we are looking into the reports and will take appropriate action. We recognize and accept that, as an industry leader, we are held to high standards of ethical business conduct.
- We understand that our activities and programs will be heavily scrutinized and are open to reviewing issues with government officials and representatives. In fact we have already sent information to the European Commission to respond to any questions they may have based on this article.