PLAINTIFF'S EXHIBIT 402
Comes v. Microsoft

faxed 9:40 9/27

- Gail Wellington
want to have
MacWorks

September 26, 1990

Mr. Jeff Scherb
Vice President, Applications and Technical Support
Commodore Business Machines, Inc.
1200 Wilson Drive
West Chester, PA 19380

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RE: DOS 5.0 PRICING PROPOSAL

Dear Jeff,

Within this letter is the DOS 5.0 pricing proposal that you have requested. As a matter of principle, I usually prefer to give my proposals in person. It has been my experience that this fosters a spirit of cooperation, and it makes it much easier to work together towards mutually beneficial solutions. However, I am aware that you are under pressure to get this issue resolved quickly, so I will try and accomplish these objectives in spite of the format.

You have indicated to me that you will be making your decision based on a weighted average, and that this weighted average needs to be significantly below your current $11.00 per unit price. You also mentioned that your price needs to be very competitive on the low end, as this is where you see the majority of your margin pressure. In our original conversation, you presented me with two price scenarios. One, you want a price if you were to take all of your consumer machine business (75% total units sold) to DRI. Two, you offered me the opportunity to quote such a competitive price that you will not need to take your business to DRI. You have also mentioned several times that price is the only factor in this decision. Let me address both of these price scenarios.

If you were to take your consumer machines to DRI, this is what would happen. Your DOS contract would go from a per processor agreement to a per copy agreement, when it expires at the end of January. A per processor agreement keeps your price low, because we offer a premium price to those customers who bundle our product with every processor. For those customers who choose not to bundle our product on every processor, their price is adjusted accordingly. This price adjustment reflects the decade of work we have invested in making our DOS product an industry standard that is compatible with practically every personal computer on the market today. What does this mean to you? If you choose to take your consumer business to DRI, your unit volume decreases 75% and you no longer have a per processor agreement. Therefore, your new price on all DOS products will jump to $30.00 per copy.

However, I do not believe that this scenario is in either of our best interests. Let me elaborate on the scenario where you would receive a lower average price per unit. Looking at FY90's unit sales, I noticed that 51% of your sales were 8086 machines, 45% were 286's and 4% were 386's. What I propose is that we offer you a substantially lower price on 8086 machines (where the majority of

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C.A. No. 2:96CV645B

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your business is), and adjust your royalties on the higher end processors. Specifically, your pricing under this new agreement would be:

8086	$6
80286	$10
80386	$16
80486	$18

Using the figures from FY90, your weighted average would be $8.22 This is $2.78 less per unit than your current average price. This pricing means that you would have paid MS $608,310 less in FY90 than you actually did. To get such a royalty pricing schedule, we would expect to see a minimum commitment of $660,000 per year, as this would be an entirely new DOS agreement. This $660,000 is based upon your 8086 royalty multiplied by the number of 8086s shipped last year. The term would be for 3 years and the effective date would be February 1, 1991, which is the date your current DOS license expires.

I believe this pricing should be very close to your expectations. Let me also point out that these are extremely aggressive prices, especially since you are only shipping 220,000 units a year. You will be paying 25% less than what you currently pay for a superior product, lower support costs and the ability to localize the product. As this pricing should show you, MS is aware of the competition you face at the low end and we want to work with you.

I will be calling you very shortly to discuss this proposal.

Sincerely,

Deborah K. Flynn
OEM Account Manager

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CC: Richard Fade
Ted Hannum

what will our mix continue to be - 3 years a problem
adjusted pricing over the years

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	A	B	C	D	E	F
1			COMMODORE DOS PRICING STRATEGY			
2			ACTUAL FY90UNITS WITH 6-11-16			
3						
4		UNIT PRICE	UNITS FY90	REVENUE	ACTUAL FY90 $	% DIFFERENCE
5	8086	$6.00	111,202	$667,212	$1,223,222	-45.45%
6						
7	80286	$10.00	98,545	$985,450	$1,083,995	-9.09%
8						
9	80386	$16.00	9,249	$147,984	$101,739	45.45%
10						
11	80486	$16.00	0	$0	$0	#DIV/0!
12						
13						
14	TOTAL		218,996	$1,800,646	$2,408,956	-25.25%
15						
16						
17	WEIGHTED AVG:	$8.22				
18						
19	REVENUE CHANGE			($608,310)		

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