MICROSOFT™ MEMO

TO: Jon Shirley

FROM: Scott Oki

DATE: 23 January 1985

RE: OEM Price List

CC: Bill Gates
Steve Ballmer
Jim Harris
Carl Stork
Bob O'Rear
Ron Hosogi

I have completed my review of Revision 7.0 of the OEM Price List.
There are some fairly major areas of concern that I will
highlight below as they affect International. In addition, some
minor issues are listed and I will have Carl Stork address them
in more detail in a separate memo.

Major concerns:

There are two immediate major areas of concern: MS-DOS pricing
and GW-BASIC pricing. As I interpret the price list, we have
significantly increased the royalties for DOS and have
significantly decreased the price for GW-BASIC Interpreter. If
we combine the price for the two products, there is very little
total change for an OEM who elects to license both products. I
assume the underlying reason for changing the prices in such a
manner is two fold: 1) OEM's are resisting the high royalties
for GW-BASIC Interpreter and are deciding more and more
frequently not to license on a per system basis; and 2) we feel
that our market strength for MS-DOS is sufficient to charge
prices that are 300% higher than previously.

I agree with the first part in that International OEMs are also
resisting the premium we charge for GW-BASIC compared to MS-
BASIC. Therefore, I am supportive of reducing the prices in
general for GW-BASIC Interpreter. However, I feel it is a big
mistake to make as drastic a change as proposed. Rather, I
strongly recommend that we simply adopt the pricing for MS-BASIC
Interpreter and Compiler on version 6.0 of the OEM price list.
Keep the separate commitment required for GW, but use the
identical royalty structure. Further, do not increase the
royalties for MS-BASIC Interpreter and Compiler as proposed in
version 7.0.

The version 7.0 pricing for GW Interpreter is much too low; is an
over reaction; and, does not really incentivize an OEM to make a
large commitment (the business risk of going from a $20K commit
to a $500K commit is not rational compared to obtaining a
$4/system royalty advantage [$10/system at $20K commit versus
$6/system at $500K]).

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My recommended pricing for 16-bit language products can be found in Appendix A, attached.

For MS-DOS, OEMs will view increasing our prices by 300% as pure lunacy and extremely rude. I believe that it would polarize our OEMs to license Concurrent PC-DOS from DRI. Therefore, I recommend strongly that prices for MS-DOS 2.X and 3.X remain unchanged from version 6.0.

For MS-DOS 4.0, I think we have an opportunity to raise our prices. This would be justified on the basis of having a superior product compared to Concurrent (I hope this is true by the time 4.0 ships). My recommended price for DOS 4.0 would be based on the retail list price of the product. Since this is as yet unspecified, it is difficult to make a concrete proposal; however, let's try this:

RRP for DOS 4.0 $200

So, the upper bound for per copy pricing at a $20K commit level should probably be a "distributor" price of $100 ($200 less 50% discount). Prices at higher commit levels would be naturally less.

My recommendation for MS-DOS pricing can be found in Appendix B, attached.

Other issues:

1.   8-bit language pricing is not consistent with 16-bit language pricing. Let's make life easy on ourselves and have some consistency here.

2.   We need a policy for OEM pricing for products running in a LAN.

3.   XENIX 286 language pricing (page 13) does not make sense to me.

4.   We need to delete one or more Tools from the price schedule for Windows Tools (page 19) unless we are going to actually develop the products.

5.   I'm not sure about XENIX pricing. It is also much higher than previously.

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APPENDIX A

MICROSOFT CONFIDENTIAL - FOR INTERNAL USE ONLY
OEM PRICE LIST Rev. 7.0 - 12/15/84

MICROSOFT 16-BIT LANGUAGES
RUNNING IN MS-DOS ENVIRONMENT
(FAMILY PRICED)

CATEGORY	A		B		C		D		E	
$ Commitment/year	$20K		$60K		$125K		$250K		$500K	
Payable Upon Signing	10K		30K		62.5K		125K		250K	
Min Qtrly Pymts - Year 1	2.5K		7.5K		15.625K		31.25K		62.50K	
Min Qtrly Pymts - Year 2	5.0K		15.0K		31.25K		62.50K		125.00K	

MICROSOFT PRODUCT	Per Copy Price 1	Per Sys Price 2	Per Copy Price 1	Per Syst Price 2	Per Copy Price 1	Per Syst Price 2	Per Copy Price 1	Per Syst Price 2	Per Copy Price 1	Per Syst Price 2
MS-BASIC INT (royalty)			60	30	45	22	30	15	20	12
5.28 (packaged)		175.00	140.00	79.50	122.50	71.25	101.50	60.75	87.50	53.75
MS-BASIC COMP (royalty)			72	36	54	27	36	18	25	14
5.36 (packaged)		197.50	158.00	89.50	138.25	79.63	114.55	67.78	98.75	59.88
MS-FORTRAN (royalty)			120.00	60.00	102.50	51.25	81.50	40.75	67.50	33.75
3.2 (packaged)		175.00	140.00	80.00	122.50	71.25	101.25	60.75	87.50	53.75
MS-PASCAL (royalty)			90.00	45.00	75.00	37.50	57.00	28.50	45.00	17.50
3.2 (packaged)		150.00	120.00	75.00	105.00	67.50	87.00	58.50	75.00	47.50
MS-COBOL (royalty)			238.50	119.25	203.50	101.75	161.50	80.75	133.50	66.75
1.12 (packaged)		350.00	280.00	160.75	245.00	143.25	203.00	122.25	175.00	108.25
MS C COMPILER (royalty)			150.00	75.00	127.50	63.75	100.50	50.25	82.50	41.25
1.0 (packaged)		225.00	180.00	105.00	157.50	93.75	130.50	80.25	112.50	71.25
BUS BASIC COMP 1.10 (packaged)		225.00	180.00	102.50	157.50	91.25	130.50	77.75	112.50	68.75
MS-SORT 1.02 (royalty)			56.00	28.00	46.25	23.13	34.55	17.28	26.75	13.38
(packaged)		97.50	78.00	50.00	68.25	45.13	56.55	39.28	48.75	35.38
MASM/UTIL. (royalty)			33.00	16.50	25.50	12.75	16.50	8.25	10.50	5.25
3.0 (packaged)		75.00	60.00	43.50	52.50	39.75	43.50	32.25	37.50	32.25
muLISP (packaged)		125.00	100.00	62.50	87.50	56.25	72.50	48.75	62.50	43.75
muMATH (packaged)		150.00	120.00	75.00	105.00	67.50	87.00	58.50	75.00	47.50
MS-GW-BASIC INT 2.0	30	10	60	30	45	22	30	15	20	12
MS-GW-BASIC COMP 2.0	140	80	120	60	90	45	60	30	50	25

Note:
1. MS-GW-BASIC interpreter and MS-GW-BASIC Compiler each require a separate $60,000 per year commitment. Other 16-bit languages offered under MS-DOS may be included as part of the "Family" with either MS-GW-BASIC Interpreter or MS-GW-BASIC Compiler. The OEM must adapt a reference manual to be used as documentation for their specific version.

2. MASM is included with all MS-DOS software for development purposes only; in order to license MASM the OEM must contract for it on a separate basis.

3. Sources are not available for MS-GW-BASIC Interpreter or MS-GW-BASIC Compiler.

4. Packaged goods are standard Microsoft products with Microsoft's standard logo and packaging. Each Packaged Products package includes an object code diskette, a manual, a binder and packaging materials. The OEM must provide the warranty and support for levels D and E.

Too much of a diff between Int & Compiler price.

No balance between per system royalty and associated business risk of higher commitments.

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APPENDIX B

OEM PRICE LIST Rev. 7.0 - 12/15/84

OPERATING SOFTWARE
(FAMILY AND SEPARATELY PRICED)

CATEGORY	A	B	C	D	E	F
$ Commitment/year	$20K	$60K	$125K	$250K	$500K	$1000K
Payable Upon Signing	10K	30K	62.5K	125K	250K	500K
Min Qtrly Pymts - Year 1	2.5K	7.5K	15.625K	31.25K	62.50K	125K
Min Qtrly Pymts - Year 2	5.0K	15.0K	31.25K	62.50K	125.00K	250K

MICROSOFT PRODUCT	Per Copy Price 1	Per Syst Price 2	Per Copy Price 1	Per Syst Price 2	Per Copy Price 1	Per Syst Price 2	Per Copy Price 1	Per Syst Price 2	Per Copy Price 1	Per Syst Price 2	Per Copy Price 1	Per Syst Price 2
SEPARATELY PRICED (royalty)												
MS-DOS 2.11, 3.0	10	30	40	13	30	10	24	8	20	7	--	--
MS-DOS 4.0 Multitasking	100	33	45	15	33	11	27	9	22	7.50	--	--
MS-WINDOWS 1.0	110	37	48	16	36	12	30	10	24	8	--	--
MS-NETWORKS with MS-MAIL (per system only)												
FAMILY PRICED (royalty)												
MS-DOS 2.11, 3.0	--	--	--	--	40	13	30	10	24	8	20	7
MS-DOS 4.0 Multitasking	--	--	--	--	45	15	33	11	27	9	22	7.50
MS-WINDOWS 1.0	--	--	--	--	48	16	36	12	30	10	24	8

Are we doing this product? (handwritten note by MS-NETWORKS with MS-MAIL)

Note:
1. MASM is included with all MS-DOS software for development purposes only; in order to license MASM the OEM must contract for it on a separate basis. MASM (Microsoft's Macro Assembler) Version 3.0 is NOT available as a no charge upgrade to customers who have licensed MS-DOS when MASM Ver. 1.X or 2.X were included as part of the "MS-DOS Product". It will only be available as a separately licensed product. The retail price is now $150.00.

inconsistent (handwritten note)

2. Per-system pricing for MS-WINDOWS is based on the number of computer systems manufactured.

MS-Networks pricing (for OEMs and Independent Transport Vendors (ITVs)

Terms and Conditions:

$50,000 (US$) due upon signing (recoupable against royalties)

Royalties:

$15.00 per copy or
$10.00 per networking board

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OEM or ITV must report quarterly but need not commit to minimum quarterly payments.

Source Code:

MS-NETWORKS Server Source Code is available in special situations. The OEM is charged $50,000.00 per implementation - see sales managers for special conditions. A special MS-Networks server source code license must be used to license this product. (See License Agreements Handbook.) An "implementation" means a "binary compatible adaptation."

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DOS 2, 3 pricing is much too high. It is rude.

It might be ok for 4, but even here I think it is too high. We set expectations earlier; if we want to increase prices, then do it incrementally, not in one big leap. People will look for alternatives. (handwritten notes)

-20-