

MICROSOFT INTEROFFICE MEMORANDUM

TO: Jon Shirley
FROM: Steve Ballmer
DATE: March 7, 1985
cc: Bill Gates, Jim Harris, Scott Oki, Carl Stork
SUBJECT: OEM PRICING

Attached please find my recommendation for OEM pricing of our systems software products. This memo explains the pricing in more detail.

KEY ELEMENTS OF NEW PRICING

1. We have bundled MS-DOS and GW-BASIC together as one product reflecting their technical ties (GW-BASIC supports MS-DOS in its functionality). This product is only available per system except in column 1.
2. We have reduced the commitment levels to 3 -- one for people who expect to sell 1000 machines a year, a second for people who expect to sell 12,500 units a year and, a third for people who expect to sell 40,000 units or more a year. In Europe, these commitments levels will be less --- 1,000, 5,000 and 20,000. The royalty prices will be the same in each of the three columns.
3. Products above the line are royalty only products (Xenix includes manuals). Products below the line are packaged products only (at 30%, 45%, and 60% discount). We will only customize package product for people in column 3. We will also reduce their price \$10 if they want to produce their own disks.
4. Commitments are calculated by taking the unit price multiplied by the unit commitment times the expected penetration. (%)
5. Version fees are payable as customers upgrade between two products with the same number to the left of the decimal. To compute the version fee payable to go from version X.n to X.n+1 subtract the version fee for X.n from the version fee of X.n+1. We will charge people for maintenance as before (essentially no charge) and maintenance releases only be reflected in the second number to the left of the decimal.

40 x 12.5 ⇒ 600k/year × 2.7%
25 x 40 ⇒ 1M/year

Plaintiff's Exhibit

5004

Comes V. Microsoft

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6. Source will only be generally available for the products indicated. Special exceptions may be made by Scott and Jim for column 3 customers. We will also provide source for pieces of products as required for our OEM's to do their own customer work.
7. We will offer column 3 customers the options to pay us the lesser of our specified royalty or 1.2% (I have not had a chance to talk to Jim and Scott on this) of the list price of their standard fully configured system. This should handle people who want to make low end systems.
8. We will only make deals for column 3 commitment customers --- to be approved by Jim or Scott.

SAB:dgh

attachments

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Product	IBM MS Retail	%	Commitment Level_1(.7)	Version	Commitment Level_12.5(.55)	Version	Commitment Level_40(.4)	Version
MS-DOS 2.1	\$ 65 N/A	.25/1.0	120/60	0	40	0	25 1.2%	0
MS-DOS 3.0	\$ 65 N/A	.25/1.0	120/60	1,500	40	7,000	25 1.2%	10,000
MS-DOS 3.1	\$ 75 N/A	.25/1.0	120/60	7,500	40	30,000	25 1.2%	50,000
MS-DOS 3.2	\$N/A N/A	.25/1.0	120/60	10,000	40	50,000	25 1.2%	75,000
MS-DOS 4.0	\$N/A N/A	.25/1.0	140/70	0	48	0	30 1.2%	0
MS-DOS 5.0	\$N/A N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Windows 1.0	\$N/A 100	.4/1.0	60/36	0	45/22	0	24/10	0
Net 1.0	\$ 75 N/A	.2/.4	50/35/card	0	20/card	0	10/card	0
Net 2.0	\$N/A N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ISAM	\$N/A N/A	.05	N/A	0	N/A	N/A	10	0
GW BASCOM 2.0	\$N/A N/A	.05	150	0	80	0	50	0
XENIX 3.3	\$395 N/A	.2	240	0	180	0	140	0
XENIX 3.4	\$395 N/A	.2	240	10,000	180	25,000	140	50,000
XENIX 5.0	\$N/A N/A	.2	240	20,000	180	40,000	140	75,000
XENIX S/W Dev 3.3	\$N/A 455	.08	260	0	200	0	150	0
XENIX S/W Dev 3.4	\$N/A 455	.08	260	5,000	200	7,500	150	10,000
XENIX Text 3.3	\$N/A 145	.01	120	0	80	0	40	0

68K BASIC

SPECIAL QUOTE

PACKAGED MS-DOS

COBOL TOOLS								
COBOL 2.0	\$N/A N/A	N/A	N/A	N	N/A	N	N/A	N
Macro 3.0	\$700 700	.04	490		385		280	
Pascal 3.3	\$175 150	.07	105		82.5		60	
Fortran 3.3	\$300 300	.04	210		165		120	
C 3.0	\$350 350	.04	245		192.5		140	
Turbo Bascom 1.0	\$N/A 400	.04	280		220		160	
Bus. Bascom 2.0	\$N/A N/A	N/A	N/A	0	N/A	0	N/A	0
Basic Interpreter	\$N/A 350	.01	245		192.5		N/A	
MuMath	\$N/A 300	.01	210		165		140	
MuLisp	\$N/A 250	.01	175		137.5		120	
Sort	\$ 75 200	.01	140		110		100	
Packaged Windows	\$N/A 100	.3	70	N	50	N	80	N
Packaged Dos 4.0	\$N/A N/A	.3	N/A		N/A		40	
PACKAGED XENIX							N/A	
COBOL TOOLS								
Basic	\$N/A N/A	N/A	N/A		N/A		N/A	
Bascom	\$N/A 350	.01	245		192.5		140	
Cobol 2.0	\$N/A 500	.01	350	E	275	E	200	E
Fortran 3.3	\$N/A1000	.01	700		550		400	
Pascal 3.3	\$N/A 500	.01	350		275		200	
PACKAGED CP/M-80	\$N/A 500	.01	350		275		200	

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Same discount structure as MS-DOS and XENIX

Product	Source	Commitment Level_1(K) Fee	Version	Commitment Level_12.5(K)	Version Fee	Commitment Level_40(K)	Version Fee
MS-DOS 2.1	N/A	30/60	0	500	0	1,000	0
MS-DOS 3.0	N/A	30/60	1,500	500	7,000	1,000	10,000
MS-DOS 3.1	N/A	30/60	7,500	500	30,000	1,000	50,000
MS-DOS 3.2	N/A	30/60	10,000	500	50,000	1,000	75,000
MS-DOS 4.0	N/A	35/70	0	600	0	1,200	0
MS-DOS 5.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Windows 1.0	N/A	24/36	0	225/275	0	354/400	0
Net 1.0	50K Server only	10/14	0	100	0	160	0
Net 2.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ISAM	N/A	N/A	0	N/A	0	20	0
GW BASCOM 2.0	N/A	7.5	0	50	0	100	0
PC BIOS(BASIC&DOS)							
XENIX 3.3	50K	48	0	450	0	1120	0
XENIX 3.4	50K	48	10,000	450	25,000	1120	50,000
XENIX 5.0	50K	48	20,000	450	40,000	1120	75,000
XENIX S/W Dev 3.3	N/A	20.8	0	200	0	480	0
XENIX S/W Dev 3.4	N/A	20.8	5,000	200	7,500	480	10,000
XENIX Text 3.3	N/A	1.2	0	10	0	16	0

S P E C I A L Q U O T E

68K BASIC N/A

PACKAGED MS-DOS

COBOL TOOLS	N/A	\$5000	N	\$5000 minimum order	N	\$5000 minimum order	N
COBOL 2.0	N/A						
Macro 3.0	N/A						
Pascal 3.3	N/A	minimum		\$300K annual minimum		\$800K annual minimum	
Fortran 3.3	N/A						
C 3.0	N/A						
Turbo Bascom 1.0	N/A						
Bus. Bascom 2.0	N/A						
Basic Interpreter	N/A	order					
MuMath	N/A						
MuLisp	N/A						
Sort	N/A						
Packaged Windows	N/A						
Packaged DOS 4.0	N/A						
PACKAGED XENIX							
COBOL TOOLS	N/A						
Basic	N/A						
Bascom	N/A						
Cobol 2.0	N/A						
Fortran 3.3	N/A						
Pascal 3.3	N/A						

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NO source code sales except: XENIX 3.3, 3.4, 5.0 and MS-Net Server.