

Petch

Go over examples

M e m o

To Susan Boesch, Bob Crskins, Pete Higgins, Chris Peters, Jeff Rakes, Charles Stevens, Vijay Vashee
 Fr Lewis Levin
 Da June 10, 1991
 Re Extended License Agreement

File: Pricing

Attached is a presentation describing the per system pricing proposal, now called Extended License Agreement for Microsoft applications. The basic idea of the plan is that accounts that verify they have achieved a specific percentage penetration on their Windows capable systems will be granted licenses by Microsoft for the rest of these systems, achieving effectively 100% penetration. Since earlier proposals you may have heard about several changes have occurred and are reflected in the presentation.

1 Products included are now Word, Excel, and Office. The percentage target for all 3 is 60%. Mail's license pack prices already provide a very low price per workstation. Acceptable percentages for PowerPoint and Project would probably be too high for most accounts to attain. When an account with a mix of Excel and Word wishes to standardize on Office they will buy enough Office licenses and single product licenses so that the account achieves the percentage target for both Word and Excel. Once qualified for Office at 100% the account has access to PowerPoint and Mail for all of its systems.

2 An account can mix its base of Macintoshes and Windows capable machines to achieve the percentage targets. The account with 100% of Mac Excel is able to obtain Win Excel licenses for its Windows capable systems.

3 Concurrent usage v per system pricing. Is per system pricing attractive enough relative to concurrent usage? What percentage of an account's users need licenses in aggressive use of concurrency? The risk is that concurrent usage is much more attractive. We've proceeded assuming that our definition of concurrency is narrow enough and that compliance is hard enough that the account would just like to be legal and forget it. We will also be developing a tool that enables an account to evaluate the relative attractiveness of concurrent and per system pricing.

4 per system v volume discount. Aside from the minimum requirement to participate (500 cpus), there is no volume component to the pricing for per system pricing. Should accounts be able to earn discount for volume or only for achieving 60% (and, thereby, 100%) penetration? In Europe and in the US for government business WordPerfect has a "multiple unit MLP" denominated in specific amounts (100, 250, 500, etc) with a specific SRP set for each SKU which builds in the volume discount. MS Europe is very interested in adapting this approach.

The resolution is that the goal of per system pricing is more important than offering volume pricing for smaller accounts. The channel already provides a limited form of volume discounts. The WordPerfect approach has several problems that would take time to work out. We want to roll out the per system pricing by July 1. We will continue to look at volume based approach after we have rolled out per system pricing.

5 Reseller participation. The program is designed so that all of the product will be sold by the channel and the additional licenses will be granted by Microsoft. This is simple and clean. The reseller issue has come up for three reasons. One is simply because they resent being excluded and they want to have the relationship with the account. They can offer to do the tracking for the account and issue the additional licenses. The second is that they may be able to solve the "free license" problem by invoicing the customer at a price that factors in the free licenses so that the customer simply sees a lower per unit price.

MS 0142581
 CONFIDENTIAL

DEPOSITION EXHIBIT
 79
 11/2/01

MS0142581

on the invoice. The third reason is simply to achieve broader use of the program than we can achieve with our own reps

The resolution is that per system pricing involves an agreement between the account and Microsoft. The top 40 or so LVA resellers will be informed of the program. They can offer to assist accounts with the tracking and purchasing requirements for the program

6 Per system annual update fee (so-called maintenance agreement) Everyone—the field, management, accounts—think this is a great idea. It lets accounts budget routinely for updates and it lets us update 100% of a portion of our installed base. For right now, our solution to this is that accounts can buy updates in the same percentage they buy full licenses and we will treat that as updating 100% of the applicable installed base. Later, we would like to develop a true per system annual update fee. One issue that holds this up is how we could involve resellers

7 Implementation Rnsw is responsible for getting the program out the door. I will be working with his group and the folks in apps who are working on Pricing/Licensing. Goal is to have the program in place by July 1. Effectively, this really means that most details will be worked out and that corporate account reps are able to begin discussing the program with appropriate accounts

MS 0142582
CONFIDENTIAL

MS0142582

**EXTENDED LICENSE AGREEMENT
FOR MICROSOFT APPLICATIONS**

PROPOSAL TO EXECUTIVE STRATEGY COMMITTEE

MS 0142583
CONFIDENTIAL

MS0142583

GOALS

- o ENCOURAGE STANDARDIZATION IN LARGE ACCOUNTS FOR ONE OR MORE MICROSOFT APPLICATIONS
- o PROVIDE CAX'S WITH SELLING TOOL
- o SIMPLEST POSSIBLE PROCESS FOR RESELLER CHANNEL
- o PROVIDE ACCOUNT INCENTIVE TO GO WITH ELA VS. CONCURRENT USE LICENSE WHERE APPROPRIATE
- o PROFITABLY REACH UNCAPTURED BUSINESS
- o TRANSFER-PRICE NEUTRAL RE: INTERNATIONAL
- o PROVIDE CONVENIENT WAY FOR ACCOUNTS TO "GET LEGAL"

MS 0142584
CONFIDENTIAL

MS0142584

STRATEGY

- o "NORMAL" PURCHASING/LICENSING VIA CHANNEL
- o NO NEW / ADDITIONAL / SPECIAL SKU'S
- o " PER SYSTEM" ACCOUNTING METHOD FOR SIMPLICITY-- COUNT MACHINES AND SOFTWARE PURCHASED
- o TWO-WAY AGREEMENTS FOR SIMPLICITY
- o DON'T DISCOUNT "NORMAL" BUSINESS--GET STANDARDIZATION
- o BEGIN SELLING BY JULY 1

MS 0142585
CONFIDENTIAL

MS0142585

PROGRAM OVERVIEW

- CUSTOMER COUNTS ALL WINDOWS- CAPABLE OR MAC CPU'S AT PHYSICAL SITE AND/OR DIVISION
- CUSTOMER PURCHASES MS APPLICATIONS IN ANY APPROPRIATE FORM (FULL PRODUCT/MLP/SWAP ETC.) FROM THE CHANNEL UP TO PREDEFINED RATIO (60%)
- MICROSOFT GRANTS ADDITIONAL LICENSES TO CUSTOMER

MS 0142586
CONFIDENTIAL

MS0142586

AN EXAMPLE

- o ACCOUNTING DIVISION HAS 1000 WINDOWS-CAPABLE CPU'S (100% OF ALL WINDOWS CAPABLE SYSTEMS).
- o PREDEFINED RATIO FOR EXCEL IS 60%
- o ACCOUNT PURCHASES A MIX OF FULL, MLP AND SWAP EXCEL UP TO 600 LICENSES (60%)
- o PURCHASES ARE MADE IN NORMAL WAY UNDER NORMAL TERMS
- o MS WILL GRANT 400 ADDITIONAL LICENSES UPON ACCOUNT EVIDENCE OF COMPLIANCE TO TERMS.

MS 0142587
CONFIDENTIAL

MS0142587

KEY CONCEPTS

o PER SYSTEM OR ALL SYSTEMS:

----- ALL WINDOWS -CAPABLE SYSTEMS(EXCLUDES 808X AND 286 SYSTEMS < 10 MHZ) AND/OR MACS.

NOTE: May POOL WINDOWS-CAPABLE AND MAC CPUS.

o ALL SYSTEMS WITHIN ALL PHYSICAL SITES IDENTIFIED

-- BUT MULTIPLE PHYSICAL SITES CAN BE COVERED UNDER A MASTER PURCHASING CONTRACT. LIMITED TO ONE COUNTRY.

o MINIMUMS: 500 CPU'S MINIMUM IN MASTER PURCHASING CONTRACT AND 100% OF CPU'S AT ANY SITE (NO MINIMUM PER PHYSICAL SITE REQUIRED).

MS 0142588
CONFIDENTIAL

MS0142588

UNCLASSIFIED

10/10/92

KEY CONCEPTS

- o INSTALLED SYSTEMS VS. NEW SYSTEMS PURCHASED
 - INSTALLED: CPU'S IN CUSTOMER INVENTORY AT TIME LICENSE IS ESTABLISHED
 - ACCOUNT PURCHASES PRODUCT UP TO RATIO/MINIMUM AND THEN IS GRANTED ADDITIONAL LICENSES BUT ONLY UP TO INSTALLED BASE
 - INSTALLED BASE CAN BE APPLIED TO MINIMUM BUT CANNOT APPLY VS. TO RATIO REQ'D FOR NEW SYSTEMS--NO LICENSE GRANTED FOR NON-EXISTENT MACHINES

MS 0142589
CONFIDENTIAL

MS0142589

KEY CONCEPTS

- o NEW SYSTEMS: ONCE MINIMUM IS MET,
 - ON QUARTERLY BASIS, PURCHASING ENTITY REPORTS TO MICROSOFT ON NEW CPU'S IN INVENTORY AND NUMBER OF PURCHASED APPLICATIONS.
 - MS GRANTS ADDITIONAL LICENSES (PER RATIO) TO PURCHASING ENTITY

MS 0142590
CONFIDENTIAL

MS0142590

AN EXAMPLE

o CUSTOMER HAS 2000 INSTALLED SYSTEMS (WIN) AND INTENDS TO PURCHASE 500 NEW WIN SYSTEMS

--ACCOUNT ALREADY HAS EXCEL ON 1300 SYSTEMS

o ACCOUNT HAS MET MINIMUM (500) AND RATIO FOR INSTALLED BASE (60% IS 1200 LICENSES)

o MS WILL GRANT 700 ADDITIONAL LICENSES FOR INSTALLED BASE

o ACCOUNT MUST PURCHASE 300 NEW LICENSES FOR NEW SYSTEMS (60%) AND MS WILL GRANT ANOTHER 200.

MS 0142591
CONFIDENTIAL

MS0142591

QUALIFIED APPLICATIONS

- o MICROSOFT EXCEL, WORD AND OFFICE; WINDOWS AND MAC
- o ELA DOES NOT INCLUDE PROMOTIONAL BUNDLES
- o ELA DOES NOT COVER ANY SYSTEMS PRODUCTS (DOS 5.0 UPGRADE; WINDOWS; SERVER APPS; LM ETC.)
 - DOS 5.0 UPGRADE IS COVERED UNDER A SPECIAL PROGRAM ("100% PLAN")
- o ELA DOES NOT COVER MAIL OR SERVER-BASED APPS
- o ELA DOES NOT COVER PROGRAMMING LANGUAGES

MS 0142592
CONFIDENTIAL

MS0142592

CHANNEL PARTICIPATION

- o DIRECT PARTICIPATION IN LARGE VOLUME BUSINESS WITH NO DISCOUNTS, FUNNY SKU'S OR OTHER COMPLEXITY
- o ELA FOCUSES ON INCREMENTAL BUSINESS ABOVE THE NORMAL BUSINESS OF EITHER MS OR THE LVA RESELLERS
- o ELA DIRECTS ON-GOING BUSINESS TO RESELLERS.

MS 0142593
CONFIDENTIAL

MS0142593

CONTRACTUAL RELATIONSHIP

- o THE ADDITIONAL LICENSES ARE GRANTED BY MICROSOFT TO THE PURCHASING ENTITY. THIS IS NOT A THREE-PARTY AGREEMENT. TERMS WON'T CHANGE FOR 1 YEAR--90 DAYS NOTICE.

- o NON-COMPLIANCE/DE-CERTIFICATION
 - AN ACCOUNT THAT HAS MET THE MINIMUM MAY DISCONTINUE THE PROGRAM AT ANY TIME.

 - THE ACCOUNT SIMPLY WILL NO LONGER BE ELIGIBLE FOR ADDITIONAL LICENSES (EX UPDATES).

 - NO ISSUES WITH UN-EARNED CREDIT

- o QUARTERLY REPORTS: EVEN IF NO CPU'S ARE PURCHASED DURING A REPORTING PERIOD, A REPORT IS REQ'D.

MS 0142594
CONFIDENTIAL

MS0142594

**PROPOSED RATIO(S)
(XL, W4W, OFFICE)**

WINDOWS : 60%

MAC: 60%

MS 0142595
CONFIDENTIAL

MS0142595

Target Percentages

- * Based on likely percentage of users needing the application:
 - category penetration (app units / pcs)
 - category penetration in large accounts
 - experience with our accounts
- * Slightly lower than category penetration to provide incentive
- * Reserve the right to revise in the contract
- * Preliminary: still need more backup

MS 0142596
CONFIDENTIAL

MS0142596

Target Percentages

	SRP	Street	MLP	Street "Swap"
Excel	495	329	395	280
Word	495	329	395	280
Office	750	459	600	420

Target	Street "Swap"
60.0%	129
60.0%	129
60.0%	#N/A

MS 0142597
CONFIDENTIAL

Examples

- * Customer has 1000 Windows capable CPUs
- * Owns 500 copies each of 1-2-3 and WordPerfect
- #1 Buys our packaged product, not using SWAP
- #2 Buys MLP using SWAP to the hilt

MS 0142598
CONFIDENTIAL

MS0142598

Example

packaged product, no swap

	Buy all	Buy target	Microsoft revenue	Cost per lic.	revenue per lic.	revenue per cpu
Excel	\$329,000	\$197,400	\$151,470	\$197.40	\$151.47	\$151.47
Word	\$329,000	\$197,400	\$151,470	\$197.40	\$151.47	\$151.47
Office	\$459,000	\$275,400	\$229,500	\$91.80	\$76.50	\$229.50

MS 0142599
CONFIDENTIAL

MS0142599

0142599

0142599

Example

MLP using "Swap"

	Buy all	Buy target	Microsoft revenue	Cost per lic.	revenue per lic.	revenue per cpu
Excel	\$204,500	\$92,500	\$73,680	\$92.50	\$73.68	\$73.68
Word	\$204,500	\$92,500	\$73,680	\$92.50	\$73.68	\$73.68
Office	\$420,000	\$171,000	\$137,670	\$57.00	\$45.89	\$137.67

Buys 500 units of Word and Excel with SWAP

Buys 200 units of Word and Excel MLP or 200 units of Office MLP

MS 0142600
CONFIDENTIAL

Comparison Table

Excel MLP

Penetration	Cust. Cost	MS Revenue	MS Extended License
20.0%	\$56,000	\$40,290	\$120,870
30.0%	\$84,000	\$60,435	\$120,870
40.0%	\$112,000	\$80,580	\$120,870
50.0%	\$140,000	\$100,725	\$120,870
60.0%	\$168,000	\$120,870	\$120,870
70.0%	\$196,000	\$141,015	\$120,870
80.0%	\$224,000	\$161,160	\$120,870
90.0%	\$252,000	\$181,305	\$120,870
100.0%	\$280,000	\$201,450	\$120,870

MS 0142601
CONFIDENTIAL

MS0142601

MS 0142601
CONFIDENTIAL

INDIVIDUAL APPS VS. OFFICE

o LICENSES OF XL AND W4W COUNT TOWARD THE RATIO REQUIREMENT FOR OFFICE

EXAMPLE

- o THE CUSTOMER HAS 1000 QUALIFIED CPU'S.
- o THE CUSTOMER HAS 500 XL, 300 WORD AND 50 PP
- o TO STANDARDIZE ON OFFICE THEY NEED TO GET EACH APP THEIR PREDEFINED RATIO: I.E. 100 XL, 300 W4W

MS 0142602
CONFIDENTIAL

MS0142602

WINOFFICE EXAMPLE

<u>PROD</u>	<u>CURRENT</u>	<u>PER-APP</u>	<u>AFTER PURCHASE</u>	<u>ADDITIONAL</u>
		<u>RATIO</u>	<u>OF 100 WINOFFICE</u>	<u>PURCHASE RQD</u>
XL	500	600	600	0
W4W	300	600	400	200
PP	50	N/A	150	0
MAIL	75	N/A	175	0

MS 0142603
CONFIDENTIAL

MS0142603

PROGRAM NAME

o RECOMMENDED: EXTENDED LICENSE AGREEMENT
FOR MICROSOFT APPLICATIONS

OTHERS:

MASTER LICENSE AGREEMENT
100% PLAN
VOLUME PURCHASE PROGRAM
STANDARDIZATION CONTRACT
MICROSOFT PRODUCTIVITY SOFTWARE PARTNER

MS 0142604
CONFIDENTIAL

MS0142604

Microsoft Corporation

6-30741

UPGRADES

- o UPGRADES ARE TREATED THE SAME AS STANDARD PRODUCT IN THIS PROGRAM.
- o PURCHASING ENTITY BUYS UPGRADES IN NORMAL WAY UP TO RATIO (NO MINIMUM REQ'D) . MS GRANTS ADDITIONAL LICENSES.

MS 0142605
CONFIDENTIAL

MS0142605

ISSUES/DISCUSSION

- o ALLOCATION OF "FREE" UNITS
- o MINIMUMS
- o RATIOS (WINDOWS/MAC)
- o LOGISTICS/TIMING
- o INTERNATIONAL
- o VOLUME PRICING: MULTI-PAKS

MS 0142606
CONFIDENTIAL

MS0142606

Issues

- o Jeremy will work with Bernard on start date in Europe
- o Richmac will quantify impact of per system pricing on existing per system deals
- o Mikemap will assess impact of software royalties
- o For accounts that require fixed fee updates the VP of sales will work out arrangements until we have a standard program
- o Swap: swap license is tied to machine on which competitive product is/was used: can't give the swap to another user (Rond)

MS 0142607
CONFIDENTIAL

MS0142607

Futures

- o Flexibility to offer free services instead of free licenses
- o May need to fold impact of free licenses into discounts offered by channel to "launder" the free licenses for accounts
- o Maintenance agreement to cover updates
- o Volume multi-packs (suggested by International)

MS 0142608
CONFIDENTIAL

Logistics

What is the certificate?

What does it say?

Is the certificate serialized?

Who is sending the certificate to the account? How will this be tracked in Microsoft?

How does the account submit initial evidence of compliance? subsequent?

Who is communicating the details of what the field does?

Who is training the field and when?

Should we have a simple tool (Excel or VB app) that helps the account prepare the submission and track?

Q & A for field (Russw)

Sales tool: cost analysis/comparison to concurrent usage (Lewisl)

MS 0142609
CONFIDENTIAL