

Microsoft Corporation  
One Microsoft Way  
Redmond, WA 98052-6399

Tel 206 882 8080  
Telex 160520  
Fax 206 883 8101

## Microsoft Memo

To: Bill Gates, Mike Hallman, Steve Ballmer  
 From: Joachim Kempig  
 Date: July 8, 1991  
 Subject: OEM Pricing for DOS/Win/OS/2 2.0

In response to our discussion during the budget session, some legal advice, and the changing world, I recommend adjusting our OEM pricing in the following way:

The basic pricing model should remain the same, royalty pricing depends on quarterly unit commitments. The price guideline of the future should list DOS and Win per system pricing as a standard and always offer per-copy prices. OS/2 will be listed as per copy pricing only. Regardless of volume commitments, the following incentives and adders compared to the standard list prices should be offered, assuming that the standard contract today is two years:

	DOS \$/Unit	WIN \$/Unit	OS/2 2.0
Per Processor	-1	-1	0
3rd year	-1	-1	0
4+ years	add version 6.xx	add version 4.xx	0
Pre-installed	0	-2	0
Only 1 year	+1	+1	0
Localized version	+2	+4	+8

### Basic DOS/Windows/OS/2 pricing

In order to make us more attractive to low-volume manufacturers, meaning licensing them early on a per system basis, we should lower our entry pricing below 50K units per year. At the same time, DOS prices should be lowered and Win prices should be increased as discussed at budget time. We need to recognize the 386SX as the de facto entry system. Therefore I recommend adapting a low-end and high-end pricing whereby the low-end is used for 8086, 80188, 80186, 286, 386SX, SL processors, and the high-end for all other Intel processors.

### Per System/Two-year standard agreement DOS/Windows (Units/year)

Low-end pricing

	<25K	25K	50K+	100K+	250K+	500K+
DOS (\$/Units)	25	22	19	15	12	10
Win (\$/Units)	29	26	23	20	18	16

High-end pricing

	<25K	25K	50K+	100K+	250K+	500K+
DOS (\$/Units)	29	26	22	18	15	13
Win (\$/Units)	33	30	26	22	20	18

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OS/2 Pricing

To honor the dollar commitment of an OEM, we should offer him pricing of 1.3 or 2.0 based on his DOS/Win commit level category and not on the number of copies of OS/2 ships.

	<25K	25K	50K+	100K+	250K+	500K+
OS/2 Per Copy	67*	61	53	45	40	36

The pricing for OS/2 2.0 will differ from 1.x pricing as follows:

A customer who commits to DOS/Win on a per system basis will pay us only a differential royalty. Assuming he does not preload Windows, etc., he will pay:

High-end pricing

	<25K	25K	50K+	100K+	250K+	500K+
DOS/Win (\$/Units)	62	56	48	40	35	31
Standard OS/2 p/c	67	61	53	45	40	36
Differential	5	5	5	5	5	5

Should he use all credits (longer contract, preloading, per processor):

High-end pricing

	<25K	25K	50K+	100K+	250K+	500K+
DOS/Win (\$/Units)	56	50	42	34	29	25
Standard OS/2 p/c	67	61	53	45	40	36
Differential	11	11	11	11	11	11

This concept should make them feel safe when committing to Windows. The minimum differential will be \$5, meaning adders cannot reduce this. Localization fees are in addition. This favorable scheme will not be available to OEM's who commit only to DOS and not to Win - they will pay as today the full per copy price in addition to their DOS royalty.

DOS Pricing for Named Development Countries

(e.g. Russia, China, India)

- Sold to local manufacturers (office within country, could be joint venture)
- Localized product only, or US product for sales of systems within country only
  - not for export systems
- Term: One year, with mutual one year extension
  - Unit price \$9.- per system, \$8.- per processor regardless of unit commits, meaning can't buy better price with higher commitment.
- Min commit 5K units per year
- Standard T&C's
- DOS Version 5.0

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DOS Pricing for Non Per-System/Per-Processor Licenses

Non-licensed, FG-DOS, per copy customers

License 4.x pre-installed, "Getting Started" documentation only/per-system agreement

Include RUP advertisement in their PC box

\$9.- per system, \$8.- per processor

Term 1 year, with mutual 1 year extension

Standard T&C's

Available 01/92

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