Microsoft Memo

June 17, 1991

To: Jeremy Butler, Ron Hosogi, Mike Maples, Jeff Reilkes
Cc: Joachim Kempin, Jeff Lunn, Richard Fale
From: Tom Gemmill

Re: Proposal: OEM Channel Applications Pricing Guideline

Attached please find the OEM pricing proposal for applications products that I have prepared for your review. This proposal will, when approved, form the basis of a new OEM pricing guideline for Applications products that is separate from that used for Systems products.

Royalty Proposal

Royalty guidelines are divided into two categories: US & English Language Countries and Europe. High-end Windows applications and Entry applications are considered separately because they appeal to different OEMs' needs.

The attached royalty pricing is for per-system licenses assuming a minimum 6-month and maximum 12-month duration. Note that it is also for non-finished goods product. The OEM is responsible for production of a finished end-user deliverable.

For your reference I have included distributor and street pricing alongside the proposed OEM pricing. Additionally, you will see columns for royalty as a percentage of SRP and total commitment dollars for each royalty/unit commitment break.

Finished Goods Proposal

MS finished goods pricing proposal for OEM licensees can be submitted as follows:

US and English speaking countries:
- Commitments for under 5K units will be priced as are distributors with the applicable 45% discount from SRP.
- Commitments for over 5K units will be offered a discount of 60% from SRP.
- Commitments are for a minimum of 6-months and maximum of 12-months.
- Exceptions are products listed separately in the OEM Pricing Guideline; specifically this permits continued aggressive pricing for finished goods for EBU applications like Works, Personal Financial Manager, etc.

Europe:
- Finished goods licensing is handled by the subsidiaries, though it is proposed that all apply similar pricing rules as in the US.
- Commitments for under 5K units will be priced as are distributors with the applicable discount from local SRP.
- A basic agreement already offers "significant" OEM deals at 50% discount, subsidiary-to-subsidiary. Keeping in line with the US, if these deals exceed 5K units the a discount of 60% from local SRP will be offered.
- Commitments are for a minimum of 6-months and maximum of 12-months.

The alternative for Europe is to apply a 50% uplift to US prices. This is easy in practice, though misses the opportunity to set pricing according to what the market can bear in a particular country, as local SRP based pricing allows.

Please let me know if you have any questions on the proposal.
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