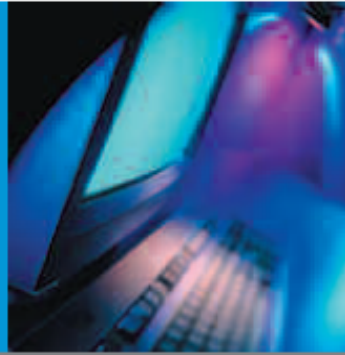


KEY TRENDS IN SOFTWARE PRICING AND LICENSING

A SURVEY OF SOFTWARE INDUSTRY EXECUTIVES AND
THEIR ENTERPRISE CUSTOMERS

2006 – 07

A Study Conducted by SIIA, Macrovision, SoftSummit, SVPMA and
CELUG



KEY TRENDS IN SOFTWARE PRICING AND LICENSING

SUMMARY OF FINDINGS

Subscription: Although software vendors expect subscriptions to rise by 17% in the next two years, the actual subscriptions in 2006 dropped to just below 2004 levels (32% vs. 33%, respectively), indicating an overall slowdown.

Compliance: Software compliance remains the key issue for enterprises and the primary reason for tracking licenses. Three-quarters of enterprises are confident about total compliance.

Electronic Enforcement is steadily gaining ground and is expected to grow another 10% by the year 2008.

BACKGROUND

Since 2004, Macrovision, SoftSummit, the Software & Information Industry Association (SIIA), and the Centralized Electronic Licensing User Group (CELUG) have conducted an annual survey of pricing and licensing trends and best practices in the software industry among executives at both independent software vendors (ISVs) and software buyers (enterprises).

The third annual report will be released on October 17, 2006 at the annual SoftSummit Conference in Santa Clara, California [www.softsummit.com].

The intent of this report is to provide valuable data and insight into how software vendors and enterprises view pricing and licensing issues and to summarize both practices that are in use today and those that will be instituted in the coming years.

METHODOLOGY AND SAMPLE

In total, 698 respondents participated in the survey, of which 487 were software vendor executives and 211 were executives from enterprises. Software company respondents were individuals responsible for their company's pricing and licensing. Typical titles were CEO, CMO, VP Product Marketing and VP Product Management. Enterprise respondents were individuals responsible for or involved in purchasing and managing their company's software. Typical titles were CTO, VP Development and IT Director. The respondents answered questions related to their company's software pricing and licensing plans and practices [Note: see appendix for survey questions].

The executives surveyed were selected from lists provided by Macrovision, SIIA (the principal trade association for the software and digital content industry), SoftSummit, CELUG and the Silicon Valley PMA.

SOFTWARE VENDOR: Company Size

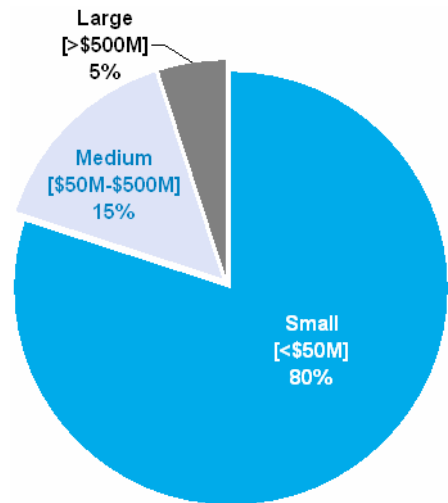


Figure 1

SOFTWARE VENDOR: Software Type

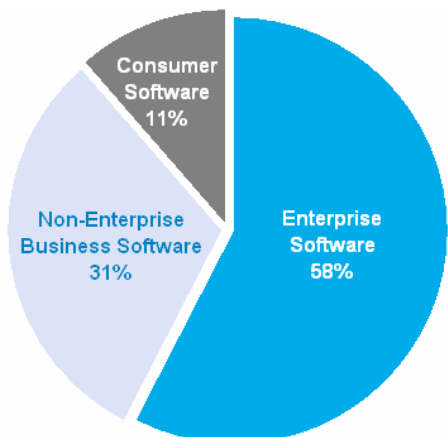


Figure 2

ENTERPRISE: Company Size

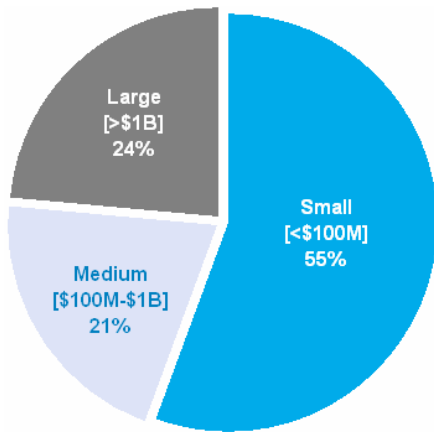


Figure 3

KEY FINDINGS

Enterprise Satisfaction Levels Remain Far Behind Those of ISVs

As was the case in last year’s survey, software vendors seem more satisfied with their existing pricing and licensing strategy (55%) than their customers. Just over a quarter of enterprises (27%) are satisfied with their vendor’s pricing and licensing strategy, suggesting ISVs are still not listening to their customers.

SOFTWARE VENDOR vs. ENTERPRISE

Average Satisfaction with Pricing and Licensing Strategy

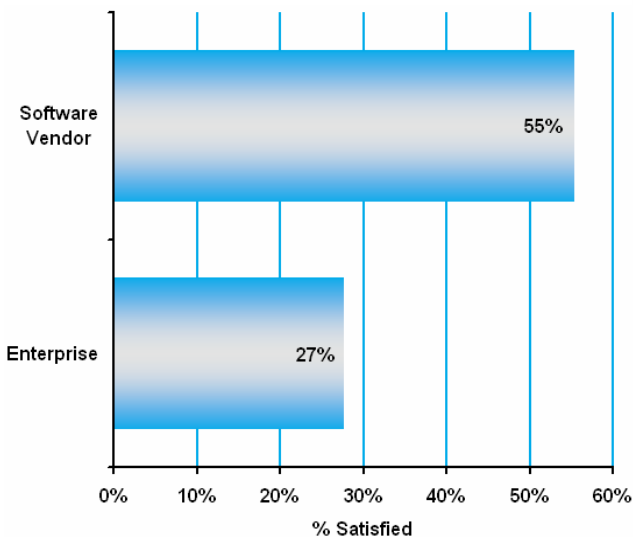


Figure 4

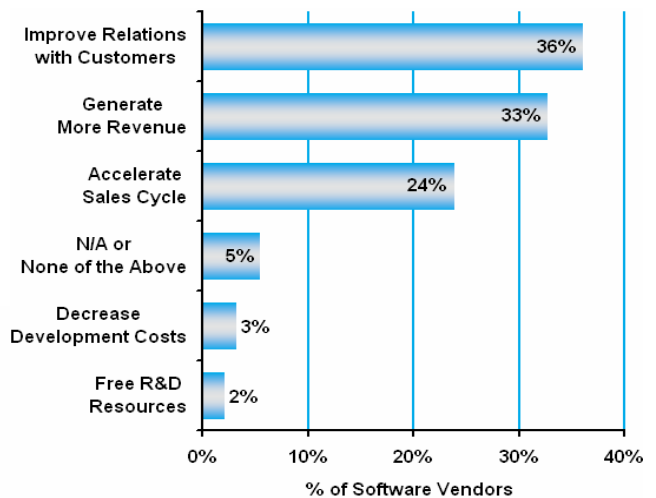
Larger ISVs Not as Satisfied with Pricing and Licensing as Small- to Medium-Sized Companies

The size of an ISV affects its level of satisfaction in terms of pricing and licensing. Satisfaction increases from 59% to 63% when we compare respondents from Small [<\$50M] to Medium-Size [\$50 - \$500M] ISVs. However, it drops to 42% for respondents from Large ISVs [>\$500M]. This suggests Small- and Medium-Size organizations have greater flexibility than Large ISVs.

Improved Customer Relationships and Revenue Generation Again Cited as Most Frequent Outcomes of Changing to More Flexible Pricing/Licensing Policies

The number of software vendors who changed to more flexible pricing and/or licensing policies went down from over two-thirds in 2005 to just over half (56%) this year. Of those who changed to more flexible policies, 36% reported the change helped Improve Customer Relations and 33% said it helped Generate More Revenue. 24% also reported the change helped Accelerate the Sales Cycle.

SOFTWARE VENDOR: Pricing and Licensing Policies



Respondents could select more than one answer

Figure 5

License Compliance is Still a Manual Task

License compliance, an area of concern highlighted in last year's report, is still largely something that is either not done at all (8%) or tracked manually (48%). The combined percentage of Enterprises that report that they manually track license compliance or do not track it at all (56%) is only slightly lower than last year (58%).

ENTERPRISE: License Compliance Model

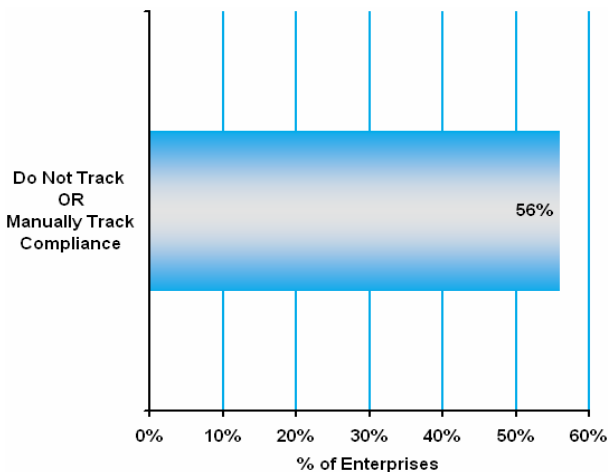


Figure 6

Compliance with Vendor Agreement Key Reason for Tracking Software Licenses

Ensuring Compliance with Vendor Agreements is cited as the key driving factor for tracking software licenses (55%). 28% also identified Reducing Software Costs as an important consideration. Enterprise customers did not identify Preventing Downtime by Monitoring Usage as a significant reason for investing in tracking (down from 12% in 2005 to 5% in 2006).

ENTERPRISE: Reason for Tracking Software Licenses

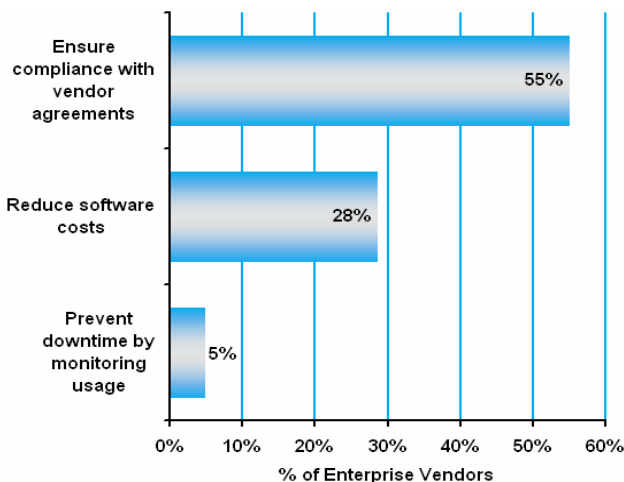
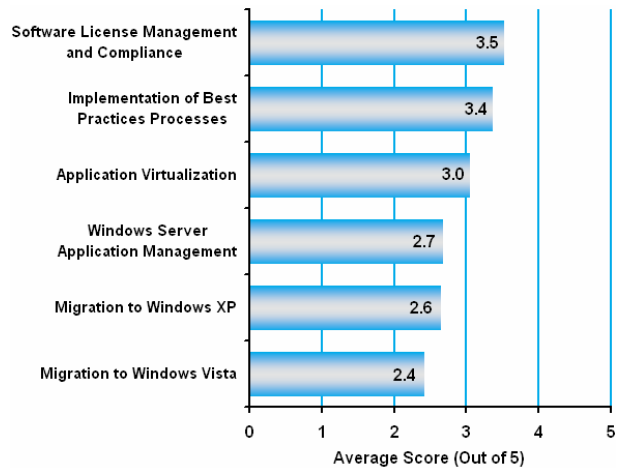


Figure 7

ENTERPRISE:

Key Issues for 2006 – 2007
(Average Score Out of 5 Points)



(5=Most Important, 1=Least Important)

Figure 8

Software License Management and Compliance Tops the List of Issues

The key issues identified by enterprises this year are Software License Management and Compliance (average score 3.5) and Implementation of Best Practice Processes (average score 3.4). Higher adoption rates of license tracking software reflect concern for the first key issue. Application Virtualization and Windows Server Management emerge as mid-range concerns, while migration to Windows XP and Windows Vista are lower priority issues. [Weighted average scores were calculated to determine ranking for key issues – with 5 points assigned to most important, and 1 point to least important].

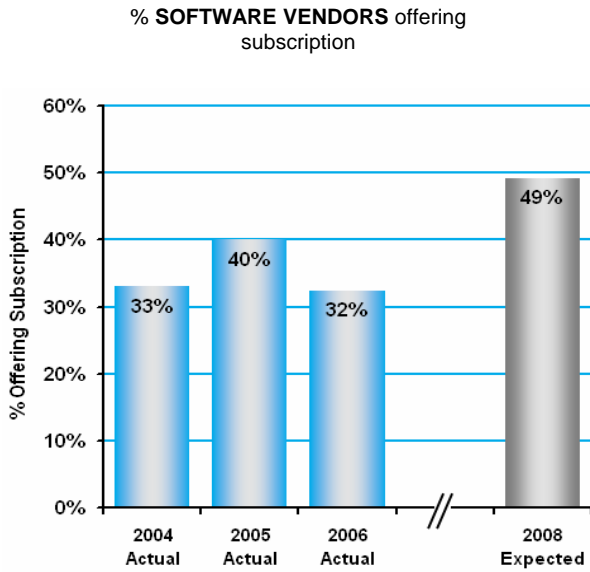


Figure 9

Adoption of Subscription Falls After Initial Growth

The adoption of the subscription-based model seems to have suffered an initial setback after experiencing increased adoption in 2005. The data suggests that while lower upfront price improved customer adoption of this model, the experience may not have matched customer expectations.

Despite Lower Adoption this Year, Software Vendors Expect Subscription-Based Pricing Model to Pick Up

Compared to last year's survey, the number of ISVs offering Subscription has dropped by 8%, while conversely the number offering Perpetual pricing has risen 8%.

Although less than a third (32%) of ISVs say that they currently offer Subscription as their primary pricing model, nearly half (49%) report that they predict subscription-based models to be their primary offering in two years. This prediction has decreased from last year's survey when 60% of respondents reported they expected to primarily use Subscription as a pricing model in two years. These results suggest that while vendors continue to move toward subscription-based pricing models, the trend may be losing steam.

SOFTWARE VENDOR: Expected Change in Pricing Model

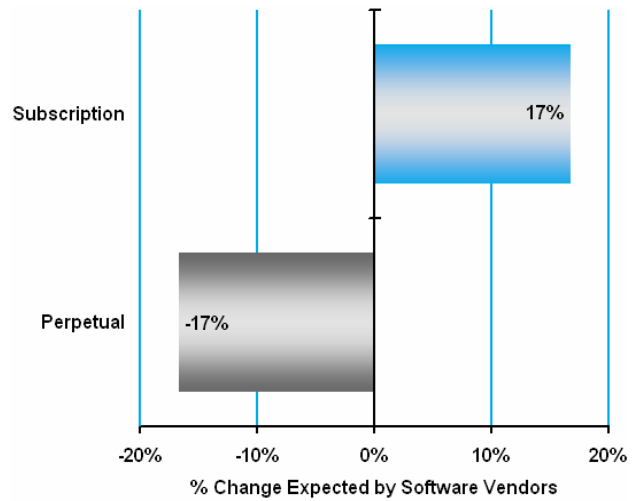


Figure 11

SOFTWARE VENDOR

Most Prevalent Pricing Model in Use Today

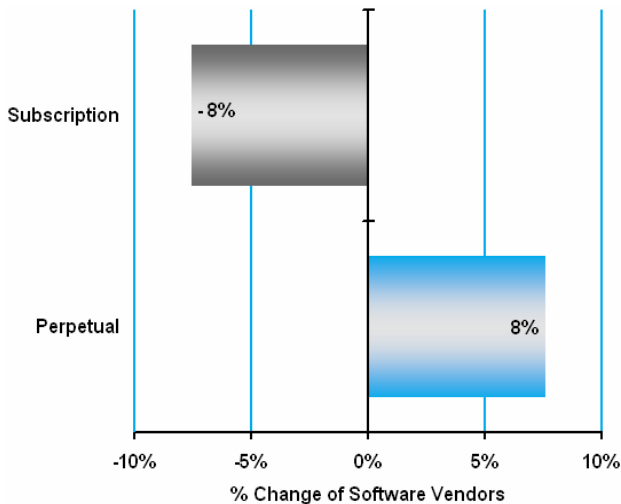


Figure 10

Enterprises Express High Levels of Confidence in Total Compliance

Enterprise confidence levels in total compliance have jumped considerably (75%) from previous years' surveys (37% and 43%).

ENTERPRISES:

Confidence about Total Compliance

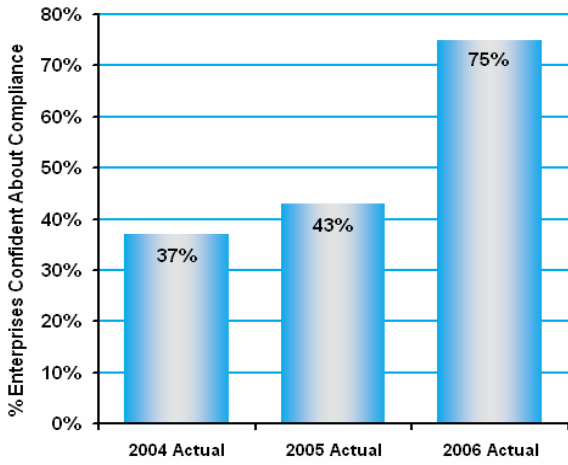
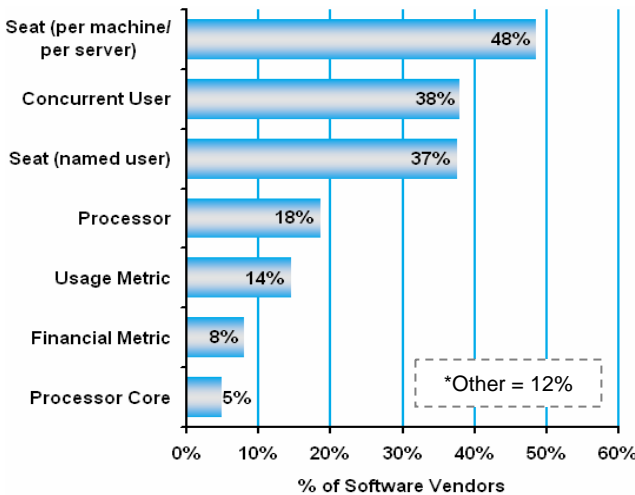


Figure 12

SOFTWARE VENDOR:

Most Prevalent License Models in Use Today



Respondents could select more than one answer

Figure 13

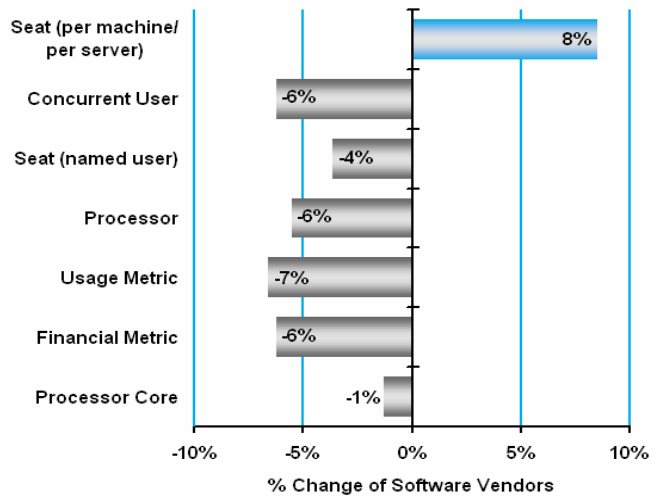
Seat Per Machine/Per Server Licensing Model Adoption Growing

Seat Per Machine/Per Server registered the highest growth in the last year, with the erstwhile popular Concurrent User (-6%) and Seat (Named User) (-4%) models having fallen over previous levels. Since this was the only category to have experienced positive growth (+8%), there seems to be a clear shift favoring this model over others.

SOFTWARE VENDOR:

Most Prevalent License Models in Use Today

2005 vs. 2006



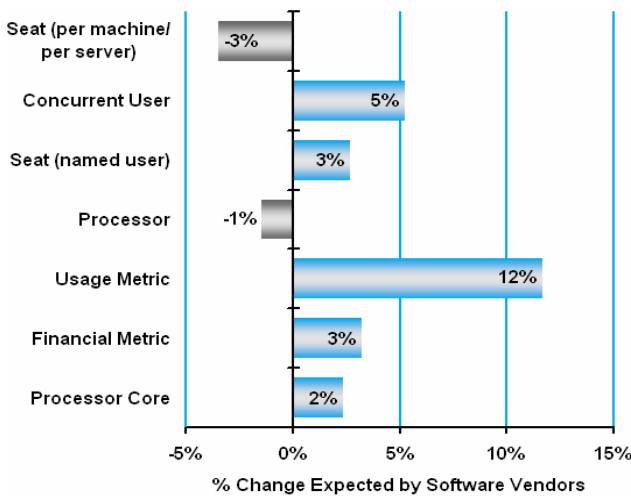
Respondents could select more than one answer

Figure 14

ISVs Back Usage Metric as The Model of The Future

While the immediate growth has been seen with the Seat (per machine/per server) pricing model, ISVs expect this to stabilize and see some level of negative growth by 2008. They believe that the Usage Metric model that will gain in favor at that point over its current levels.

SOFTWARE VENDOR: Expected Change in License Model By 2008



Respondents could select more than one answer

Figure 15

Enterprises Clearly Prefer Concurrent User Model

Although Seat (per machine/per server) and Concurrent User are the top two pricing models preferred both by ISVs and Enterprises, the latter shows a significantly higher affinity towards the Concurrent User model than ISVs.

Another point of disconnect between the two groups is in terms of the Usage Metric model – ISV's expect this model to gain popularity in two years (+12%), while it displayed the biggest drop in preference by Enterprises since last year, dropping the most among all pricing models (-16%).

ENTERPRISES vs SOFTWARE VENDORS: Preferred License Model

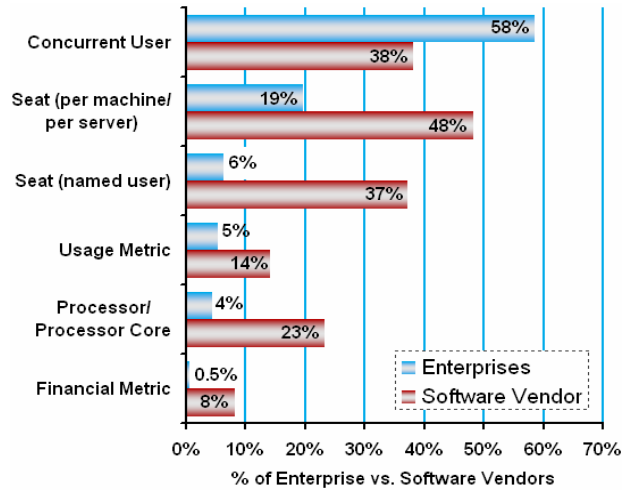


Figure 16

ENTERPRISES: Preferred License Model in 2006 compared to 2005

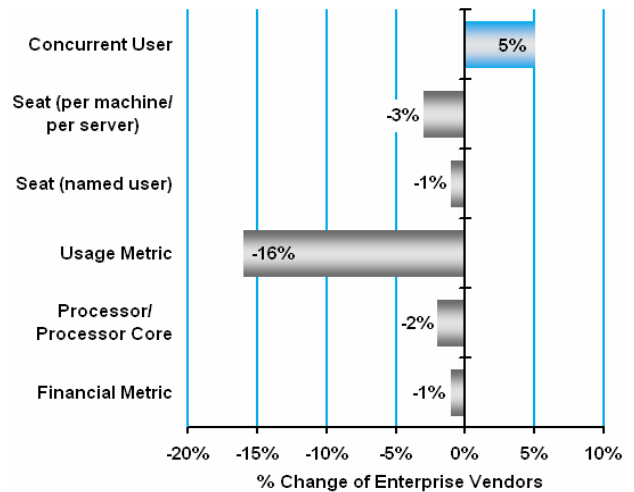


Figure 17

Electronic/Digital Enforcement Gains Popularity as License Method

The Legal Contract is the most prevalent license method in use today (49%). However this has seen a steady decline with Electronic/Digital Enforcement gaining ground at a steady pace as a more effective method (42% in 2006, vs. 38% in 2005).

SOFTWARE VENDOR: Most Prevalent License Method in Use Today

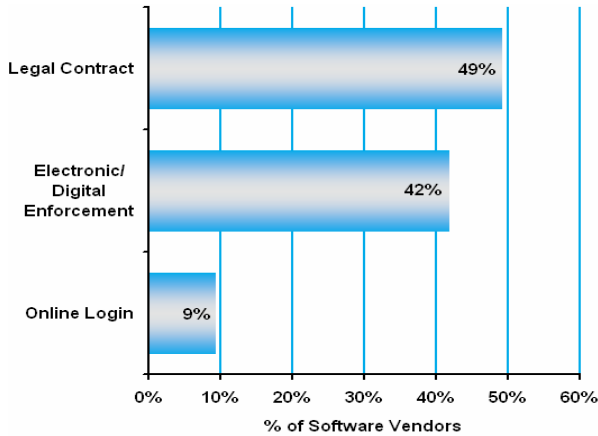
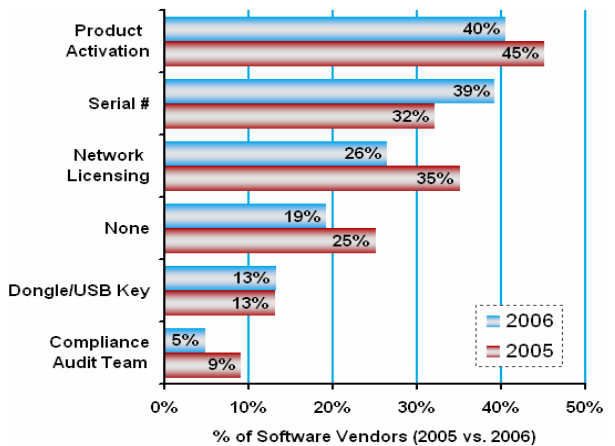


Figure 18

Serial # Usage Gains Relatively Over Product Activation and Network Licensing as Enforcement Methods

Product activation (40%) continues to be the most prevalent Enforcement Method in use today. Using Serial #s has overtaken Network Licensing as a method. The decrease in Network Licensing and relatively speaking, even Product Activation, seem to have contributed to the significant growth in the usage of Serial #s as the enforcement method.

SOFTWARE VENDOR: Most Prevalent Enforcement Method in Use Today (2006 vs. 2005)



Respondents could select more than one answer

Figure 20

SOFTWARE VENDOR: Expected Change in License Model By 2008

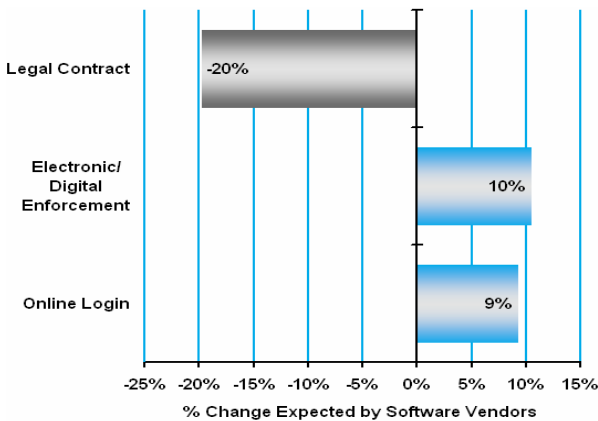
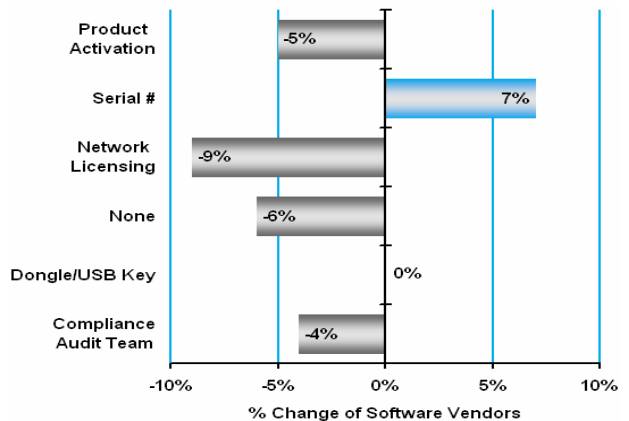


Figure 19

SOFTWARE VENDOR: Most Prevalent Enforcement Method in Use Today 2005 to 2006



Respondents could select more than one answer

Figure 21

While ISVs seems to view Product Activation and Serial #s as the most prevalent enforcement methods; the Enterprise vendors appear to favor Network Licensing (23%). Enterprise vendors may want to move to network licensing because it is easier for them to comply with and maintain. However, the Product Activation method is still expected to grow slightly more (13%) than the Network Licensing model (12%) over the next two years.

SOFTWARE VENDOR: Expected change in License Enforcement Method by 2008

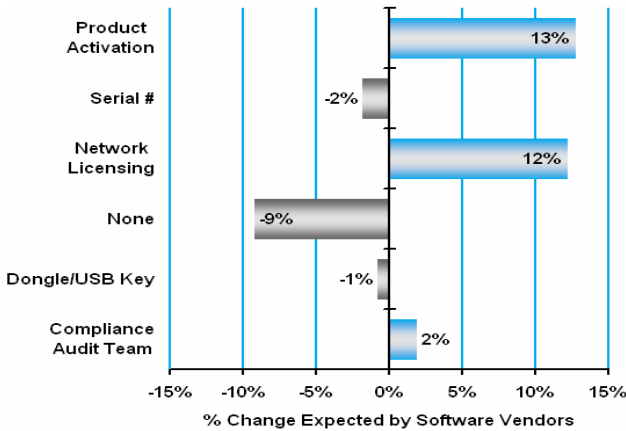


Figure 22

ENTERPRISES:

Change in IT Budget Over the Past Two Years

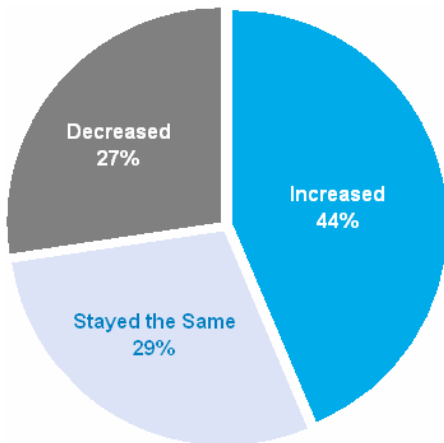


Figure 23

ENTERPRISES:

Most Preferred Enforcement Method

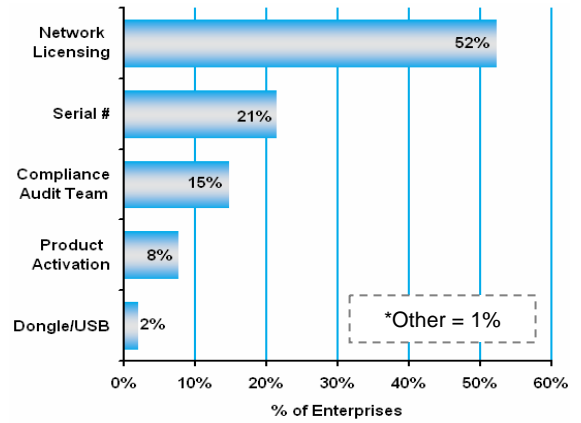


Figure 24

ENTERPRISES:

Most Preferred Enforcement Method
2005 to 2006

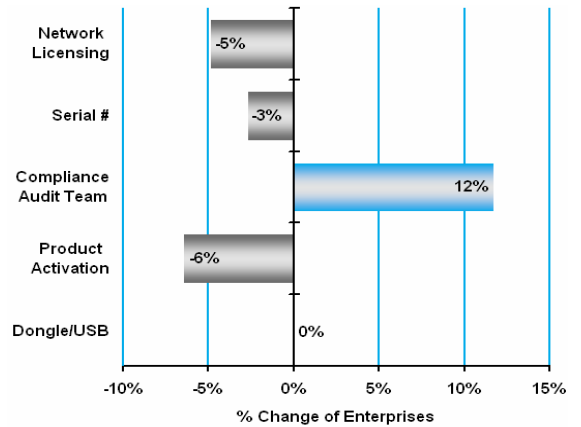


Figure 25

APPENDIX A

Software Vendor Questionnaire:

1. What is your primary licensing model for most of your products today?
 - a. Perpetual
 - b. Subscription (e.g. annual, monthly, term limited)
2. In two years, which licensing model will you primarily offer?
 - a. Perpetual
 - b. Subscription (e.g. annual, monthly, term limited)
3. If your company is moving toward a subscription model, what is the primary reason for the move?
 - a. We want a more predictable revenue stream
 - b. Our customers are demanding it
 - c. Our competitors are offering it
 - d. We want to increase adoption of our software by offering a lower upfront price to customers
 - e. We want to reduce the time it takes for us to deploy our solutions to customers
 - f. We want to reduce our development and deployment costs
 - g. Other
4. Which pricing models do you offer for your software today? (Check all that apply). Software that is priced per...
 - a. Processor
 - b. Processor core
 - c. Seat (per machine/per server)
 - d. Seat (named user)
 - e. Concurrent user (floating/network)
 - f. Usage metric (number of uses, time used, number of transactions)
 - g. Financial metric (revenue, cost, royalty)
 - h. Other (please specify)
5. In two years, which pricing models do you expect to offer? (Check all that apply). Software that is priced per...
 - a. Processor
 - b. Processor core
 - c. Seat (per machine/per server)
 - d. Seat (named user)
 - e. Concurrent user (floating/network)
 - f. Usage metric (# of uses, time used, # of transactions)
 - g. Financial metric (revenue, cost, royalty)
 - h. Other (please specify)
6. How do you primarily enforce the licensing of your products today?
 - a. Contract (Paper/Clickwrap/EULA)
 - b. Electronic/Digital Enforcement
 - c. Online Login ("Software as a Service" Provider)
7. In two years, how do you expect to enforce the licensing of your products?
 - a. Contract (Paper/Clickwrap/EULA)
 - b. Electronic/Digital Enforcement
 - c. Online Login ("Software as a Service" Provider)
8. Do you audit your customers to ensure compliance with licensing terms?
 - a. Yes
 - b. No
9. Which of the following means of enforcement does your company use today? (Check all that apply)
 - a. None
 - b. Serial #
 - c. Dongle/USB Key
 - d. Product Activation
 - e. Network Licensing
 - f. Compliance audit team that visits customers
 - g. Other (please specify)
10. In two years, which of the following means of enforcement do you expect your company to use (Check all that apply)
 - a. None
 - b. Serial #
 - c. Dongle/USB Key
 - d. Product Activation
 - e. Network Licensing
 - f. Compliance audit team that visits customers
 - g. Other (please specify)
11. How would you rate your level of satisfaction with the quality of your company's licensing and pricing strategy?
 - a. Highly Satisfied
 - b. Satisfied
 - c. Neutral
 - d. Unsatisfied
 - e. Highly Unsatisfied
12. Has your company changed its pricing and licensing policies in the past two years to make them more flexible?
 - a. Yes
 - b. No

13. If yes to question 12, has providing more flexible licensing and pricing policies helped the company (Check all that apply):
- Generate more revenue
 - Improve relations with customers
 - Accelerate the sale cycle
 - Free R&D resources
 - Decrease development cost
 - N/A or none of the above
14. How would you characterize your software?
- Enterprise software
 - Non-Enterprise business software
 - Consumer software
15. Which of the following best represents your annual revenues?
- Less than \$10 million
 - \$11 - \$30 million
 - \$31 - \$50 million
 - \$51 - \$100 million
 - \$101 - \$500 million
 - \$501 million +
4. If you were audited by a vendor or a third party today, how confident are you that your company will be in total compliance with all of your licenses? (Scale of 1 to 5; 1 being most confident, 5 being least confident)
- 1 2 3 4 5
5. Which software pricing model do you prefer? Software that is priced per...
- Processor/Processor core
 - Named Seat (per machine/per server)
 - Named User
 - Concurrent User (floating/network)
 - Usage metric (number of uses, time used, number of transactions)
 - Financial metric (revenue, cost, royalty)
 - Other (please specify)
6. If a software vendor gave you a choice, which of the following means of software license enforcement would you prefer?
- Product activation (software activated by vendor key)
 - Network licensing (software activated by internally shared license)
 - Trust-based licensing with vendor compliance audit
 - Serial numbers
 - Dongle/USB
 - Other (please specify)

Enterprise Questionnaire:

1. How do you currently perform tracking and reporting of your software licenses?
- Automated software, which is part of our asset management solution
 - Automated software, which is only used for license tracking
 - Manual methods
 - Do not currently track
 - Other (please specify)
2. If you are currently tracking your software licenses, what is the most important reason for doing so?
- Reduce software costs
 - Ensure compliance with vendor agreements
 - Prevent downtime by monitoring usage
 - Do not currently track usage
3. Please rank the key issues that are important for your organization for 2006 – 07 (1=most important; 5=least important)
- Implementation of Best Practice Processes – Information Technology Infrastructure Library (ITIL), Business Desktop Deployment (BDD)
 - Application Virtualization
 - Software License Management Compliance
 - Migration to Windows XP
 - Migration to Windows Vista
 - Windows Server Application Management
 - Other (please specify)
7. How would you rate your level of satisfaction with the quality of your software vendors' licensing and pricing strategies?
- Highly satisfied
 - Satisfied
 - Neutral
 - Unsatisfied
 - Highly unsatisfied
8. Over the past two years, have your IT budgets
- Decreased
 - Stayed the same
 - Increased
9. Which of the following best represents your annual revenues?
- Less than \$50 million
 - \$50 - \$100 million
 - \$100 - \$500 million
 - \$500 million - \$1 billion
 - \$1 billion +
10. How many desktops do you have in your organization?
- <1000
 - 1001 – 2500
 - 2501 – 5000
 - 5001 – 10,000
 - >10,000
 - Don't know

APPENDIX B



The Software & Information Industry Association is the principal trade association for the software and digital content industry. SIIA provides global services in government relations, business development, corporate education and intellectual property protection to the leading companies that are setting the pace for the digital age.

For more information, visit www.siiia.net

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macrovision

Macrovision provides distribution, commerce and consumption solutions for software, entertainment and information content to the home video, PC games, music, cable/satellite, consumer software, enterprise software and information publishing industries.

Macrovision holds approximately 240 issued or pending United States patents and more than 1,200 issued or pending international patents, and continues to increase its patent portfolio with new and innovative technologies in related fields. Macrovision is headquartered in Santa Clara, California, U.S.A. with other offices across the United States and around the world.

More information about Macrovision can be found at www.macrovision.com.



SoftSummit is the industry's premier executive conference that is dedicated to strategies, trends and best practices for software licensing and pricing as well as application packaging and license tracking. At SoftSummit, industry experts and executives from leading organizations gather for two days to discuss real world perspectives about the challenges, strategies, and best practices for managing and optimizing the changing dynamics in their businesses.

For more information visit www.softsummit.com.



SVPMA (Silicon Valley Product Management Association) is a 500 member organization in Silicon Valley. SVPMA's mission is to provide Product Management professionals with networking, training and career acceleration opportunities. Through monthly speaker meetings, quarterly workshops and quarterly networking and social events, SVPMA helps Product Management professionals to be more effective in both day-to-day work as well as managing their overall careers.

Go to www.svpma.org for more details.

CELUG

CELUG's mission is to facilitate collaboration among companies who administer software licensing at the enterprise level, enable sharing of best practices and experiences, and partner with software publishers to improve software license management tools and processes.

CELUG has been in existence since January 2003. www.celug.com.

APPENDIX C

GLOSSARY OF TERMS

Concurrent User

Some products are licensed based on how many users access the software simultaneously. Such license models are often used for business software.

Dongle

A mechanism for ensuring that only authorized users can copy or use specific software applications, especially very expensive programs. Common mechanisms include a hardware key that plugs into a parallel or serial port on a computer and that a software application accesses for verification before continuing to run; special key diskettes accessed in a similar manner; and registration numbers that are loaded into some form or ROM (read-only memory) at the factory or during system setup.

Metric-based Licensing

License models that are based on varying business, usage or financial metrics, such as revenue, budgets, or cost of goods sold.

Named User

A system whereby each software license and corresponding usage rights are assigned to a specific person.

Networking Licensing

A license model where 2 or more users share licenses for a software. Enterprises benefit by not having to buy dedicated licenses for every user. Publishers benefit by expanding their market to customers that might otherwise find dedicated licenses cost-prohibitive.

On-Demand

On-demand (OD) computing is an increasingly popular enterprise model in which computing resources are made available to the user as needed. The resources may be maintained within the user's enterprise, or made available by a service provider.

Per Machine/Per Server

A system whereby each software license is assigned to a particular computer or server.

Processor Core

A multi-core processor is an integrated circuit to which two or more processors have been attached for enhanced performance, reduced power consumption, and more efficient simultaneous processing of multiple tasks.

Product Activation

The process of installing or downloading licenses to use an application on an end user's machine.

Perpetual Licensing

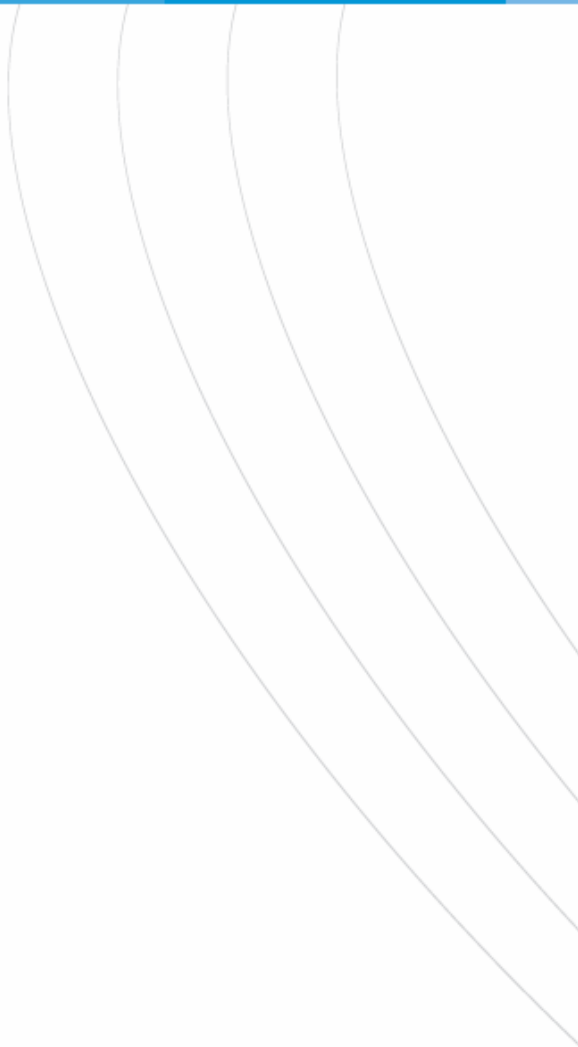
Licenses are paid for on a one-time basis, giving the user the right to run the program as long as they choose. It does not imply a right to upgrades, which are typically sold separately as part of a maintenance agreement or on a per upgrade basis.

Subscription Licensing

Licenses are paid for with a recurring (often annual) fee to continue using the software. If the fee is not paid, the software stops working. The customer does not own the software license.

Utility Computing

A service provisioning model in which a service provider makes computing resources and infrastructure management available to the customer as needed, and charges them for specific usage rather than a flat rate. Like other types of on-demand computing (such as grid computing), the utility model seeks to maximize the efficient use of resources and/or minimize associated costs.



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