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MS-GmbH OEM Report - March 1991

Royalty Revenues recovered significantly from 58% of ytd budget to 88%. We have not been able to bill \$947k to IPC who had signed a new license agreement but asked JoachimK on CeBIT Hannover Fair to reduce the on-signing down to 20% of annual m/c. VOBIS' amendment and the recognition of \$1.2m billings came in too late after a late attempt on CeBIT to leave the DOS 5 commitment out of the license agreement. The royalty reports from Robotron came in too late, so we miss \$352k billings. Luckily, \$404k were billed that were not supposed to be billed because of amendments that have not come through. In spite of that, our revenue forecast is heading 102% of FY's budget.

Packaged DOS business went back slightly, 27,217 copies were shipped against a forecast of 32,805. We are still working on getting better forecasts from our top-ten customers (80% of Packaged DOS business).

Market - Although OEMs showed enthusiasm on the CeBIT Hannover Fair, orders fell back which is likely caused by the CeBIT Fair. It looks like February was not a bright month, in March stock did not sell out, so everyone hopes for a good sales in April. Together with the slow-down of PC sales in February and March, there is no reason to predict that PC sales in Q4FY will exceed the Q3FY achievements.

Siemens Nixdorf Informationssysteme AG (SNI) - the 2 license agreements have been executed. Together with a PPB transfer from previous contracts \$2.1m could be billed. SNI showed interest to support our RISC strategy. Even in the meeting with BillG they expressed a strong desire to have some R&D cooperation with Microsoft for which Bill promised his support.

Schneider Rundfunkwerke - the license agreement has been executed and \$1.25m were billed. Schneider Rdf is still suffering under their wide renewal of sales and marketing management. They had a meeting with IDC in late March for a detailed strategy retreat. IDC agrees with us that Schneider Rdf cannot combine a high-performance-PC image with their established image as a high-volume-reasonable-quality shipper.

VOBIS - wanted to get the DOS 5 license out of their agreement. JoachimK reacted boldly and delivered an ultimatum to have the license agreement signed as is by April 1 or to raise the Windows royalties significantly. VOBIS signed right on time but too late for billing.

New Business signed (by customer)

Company	Products	ann. volume	Comments
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SNI	DOS, Win, OS/2	\$ 4,000k	eff Oct 1,90
SNI	LM, LM/X	\$ 518k	eff Oct 1,90
Schneider Rdf	DOS, Win, Works, OS2	\$ 2,500k	eff Oct 1,90, \$2.4m PPB carried over
VOBIS	Works, Win, DOS 5	\$ 3,000k	eff Sep 1,90
Schneider & Koch	LM 2	\$ 75k	add. m/c for DOS 5 amendment
Total p.a.:		\$11,893k	

IBM - requires revamping the relation to the PM guys. The new guys who started in January have come from the 'blue' IBM and consider Microsoft and Windows enemies. However, there is still good cooperation with the distribution folks who want us to join them for their System Center (OS/2 dealer) training.

Peacock - OEM Mice - although Logitech is aggressively attacking the OEM Mice market, we have been able to renew the OEM Mice agreement with Peacock (25,000 Mice p.a.).

Threats

Works from OEM - we are approaching Schneider Rdf, VOBIS and IPC for marketing campaigns in order to maximize our control over their distribution strategy. Commodore has not yet been touched because of on-going contract work in US.

SPARC - Tandon is going to ship SPARC workstations in Germany.

Competition - DRI

VOBIS told us that approximately 40% of all buyers of their computer systems reject bundled DR-DOS which then is sold the second time into the channels. DRI has likely promised a lot to VOBIS re DR-DOS 6 because Theo Lieven showed a lot of sudden resistance against MS-DOS 5. We also heard that DRI intends to ship DR-DOS 6 12 weeks after we ship DOS 5 (?), which can be read that DRI is prepared to utilize our promotion campaign to jump in at the right time.

OEM Financial

Royalties	month	budget	% budget	ytd	ytd budget	% of budget
actual	\$ 5,283	\$ 1,872	282%	\$ 12,193	\$ 13,867	88%
Forecast:						
month+1	\$ 1,830	\$ 2,433	75%	\$ 14,023	\$ 16,299	86%
month+2	\$ 223	\$ 1,417	16%	\$ 14,246	\$ 17,716	80%
month+3	\$ 5,200	\$ 1,351	385%	\$ 19,446	\$ 19,067	102%
PackDOS	month	budget	% budget	ytd	ytd budget	% of budget
Revenue	DM 2,608	DM 2,006	130%	DM 22,119	DM 16,940	131%
Units	27,217	14,831	184%	202,667	125,228	162%

49 active license agreements, 236 active Packaged DOS agreements.

Royalty Business

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The 'bow wave' of non-recognised billings because of pending contracts is almost passed. In April we will bill VOBIS \$1.225m, IPC's reduced on-signing (from \$.95m to \$338k) and a few others. The main activities are still to close amendments with AEG Olympia, ITOS, REIN and Actebis (wrong payment schedule). An additional opportunity is Schmitt Computer Systeme with a \$2.4m p.a. license agreement. A standard payment schedule will be the cream that helps us securely over FY budget in June.

Packaged MS-DOS Business

The customer portfolio shows 6..8 customers who contribute roughly 80% of all unit sales. We are still working on getting reliable forecasts from them.

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Account Status Changes

Siemens-Nixdorf Informationssysteme AG (SNI)

Contract negotiations

After having closed the two major license agreements for PC system software, there is still some work of cleaning up all other remaining license agreements within Siemens. Still one major matter is the XENIX agreement where the HICOM systems got to be added. This will not be accomplished without any negotiations but without any additional revenue.

PC-Sales - The Siemens figures show an unexpected decline in Q2FY. This cannot yet be commented until the Nixdorf figures are available, but it seems likely the 'Synergy at work' (the Siemens-Nixdorf slogan) has not yet worked well.

OS/2 - SNI is on IBM's list of top 5 OEMs for licensing Extended Services. Considering our current Windows vs OS/2 positions, SNI worries about diverging interests in OS/2 between IBM and Microsoft. Being perceived as the second-strongest PC supplier in Germany after IBM, they feel unable to give their corporate customers any solid systems positioning as IBM is able to do.

OS/2 versus Windows - Our Systems Strategy - BillG enlightened them about positioning Windows and OS/2 at present and how it affects future and where investments should be made into. However it requires constant evangelism work in order to penetrate SNI widely.

Windows in ROM - SNI considers this a good tool to make Windows systems immune against viruses.

Multi Media Pen Windows - SNI sees opportunities and is planning to build systems for it. In short term they expect high-priced systems to be used as automatic teller systems. The PEN user interface attracts them and lets them think about future text processing.

X.400, X.500, Spitfire

It does not look like SNI is highly satisfied with the results. They expected a concrete cooperation. In follow-up meetings we explained that they better start with a couple of smaller projects rather than with such a big one.

Next steps

- get the remaining license agreement work done (clean-up with other Siemens agreements, royalty reports)
- improve communication to R&D and product planning in Paderborn and in Augsburg
- establish higher involvement from SNI in new MS developments
- watch their RISC activities and make them committed to follow our RISC designs.

Schneider Rundfunkwerke

New license agreement

Is executed by both sides. They prepared a sideletter which could not be accepted.

Works

Now, after the contract has been signed, we will follow-up the unbundled offer of Works by Quelle. The goal is to change the product offering so that Works cannot be offered unbundled.

Miscellany

On CeBIT they agreed with JoachimK to license Shell which will be covered by an amendment. Dealer strategy will be revamped, the number of active dealers has to be reduced from 1200 to 300-400. As they have hired an UNIX specialist it becomes vital to hold that Schneider Executive Briefing that was planned for late March but had been canceled by Schneider Rdf.

Next steps

- solve the legal problems with the side letter and get it signed
- get in touch with the new marketing and sales people and explain our systems strategy
- see Bernhard Schneider for an update on business strategies.
- prepare the amendment for including the DOS 5 shell

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VOBIS

DOS 5, Windows, Works

The amendment that adds Windows and MS-DOS 5 to the current license agreement is signed. The only deviation was that we granted a 4 months period after delivery of German DOS 5 to VOBIS when the min commits raise and the per-processor license is switched on. .

Next steps

- keep them testing of DOS 5 and provide a super support
- work with VOBIS to promote DOS 5 from announcement date on

Aquarius

The disagreements between Microsoft and Aquarius finally have been solved at the CeBIT. It turned out that there is no contract with a Russian OEM and so far there can not be a royalty based on Rubles or \$2 for DOS. ASI raised the volume commitment from 40k to 60k p.a. and added Works. The royalty rates are still the same (DOS: 286-\$10, 386sx/486sx-\$15, 386/486-\$20) and we charge them now \$2 for the Shell if the system is not shipped with Windows. We give ASI a discount of \$20,000 for printing the Microsoft logo in the catalogues of Quelle and Otto and make sure ASI can begin shipping the German DOS 5 in June. Nevertheless we reduced the royalty commitment to the volume of the purchase of PackDOS until June 90.

Next steps

- get the licence agreement with the new conditions written and signed at the end of April

Peacock

Their license agreement expired April 1 and will be renewed, negotiations are on-going. Commitment level is 25,000 systems (still), they want to license DOS/Shell and Windows (again). Min Commit is \$1,5m p.a.. An issue might be that they want to carry over their minimal PPB, we will check this.

Next steps

- prepare the license agreement and get it signed by mid of May (latest)

ITOS

The amendment that reduces the min commits is still pending, the quarterly min commitment has been billed and has to be credited when the amendment has come through.

Next steps

- prepare the amendment and get it signed

Schneider & Koch

The amendment that add LAN Mgr 2.0 to the license agreement has come through. The OAK of German LAN Mgr has been shipped in advance so that Schneider&Koch can start manufacturing. It looks like we do not have to ship Packaged LAN Mgr.

Next steps

- define further steps of cooperation

Schmitt Computer

Is in strong competition with VOBIS because they sell into the same consumer market. Now, Schmitt Computer is converting from buying Packaged DOS to a license agreement for MS-DOS 5, Works and Windows as they want to have the same advantage with Works as VOBIS has. The PC volume commitment is 25,000 systems, Schmitt will likely ship between 35,000 and 40,000 systems. Contract negotiations are close before final stage. At this time it looks like we are going to close a biz volume of \$2.4m p.a. with a standard payment schedule. Even if we have to agree to a 5*20% payment schedule, the OEM budget will be exceeded. The contract will become effective with the first shipment of DOS 5 to a customer which is anticipated to happen in early July.

Next steps

- pursue the current license agreement and get it signed
-

IBM

The Product Marketing people that have been brought in January consider Microsoft and Windows enemies. This means, the customer relations has to be revamped at first. In parallel to that we will participate in the IBM System Center Seminar that 'brain-washes' all first-tier dealers. We will hold a speech on our systems strategy before Novell will pitch their story and will participate in a panel discussion. In addition to that we have arranged a little booth for demoing OS/2 and Windows apps.

Next steps

- rework the relation to the PM people
 - have a successful participation in the System Center event
 - arrange high-level manager meetings
-

Packaged Product Business

Packaged DOS

We still have unexpected gaps between our forecasts and actually shipped amounts. The reasons are little commitment by our top-ten customers to stick to their volumes and to pay the invoices on time. We are working with these customers on a more constant order flow so that the business relation becomes more constant and reliable.

In order to gain our knowledge about the market place we are preparing tools like mailings, a simple knowledge base for collecting the data we are after. As long as we do not know how many PCs our customers ship into their market place, we do not know anything about penetration.

For a successful DOS 5 introduction we are going to prepare the new contracts and will renew them in May so that we can accept orders in early June.

OEM Mice

Peacock renewed their agreement for OEM Mice and committed an annual volume of 25,000 Mice and we just struggle to have enough Mice on stock.

Ballpoint Mice

The new OEMs like Schmitt Computer are eager to ship the Ballpoint Mouse after the Compaq exclusivity has expired. The high price is no problem at the moment and we try to get them sign contracts before Logitech jumps in.

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Review of last month goals

March

Siemens Nixdorf Informationssysteme AG

- get the license agreements signed before March 20 done
- get SQL server accepted and work on a license on-going
- get Comm Server into evaluation on-going
- arrange a technical product update for the LAN and communications people (SNI Paderborn) done
- arrange an executive meeting for convincing SNI that we have not ceased OS/2 development done

Schneider Rundfunkwerke

- get the license agreement signed before March 13 done
- arrange an executive briefing on our systems strategy postponed

VOBIS

- get the license agreement signed before March 13 later done

DOS 5 license status

- review current licenses and get amendments out for having all DOS licensees signed-up for DOS 5 on-going

Packaged MS-DOS

- keep DOS 4 and 3 sales going and maximize DOS/Win combo sale -
- reach an agreement in principle with Schmitt Computersysteme for a license agreement for 25,000 systems p.a. done

Sales Calls

Account Manager	Calls	Workd ays	active %	Calls/ head	Comments
Manfred Schindler	4	4	10%	40	16 days convalescence at home
Jaap van Arkel	9	15	75%	12	5 days vacation
Michael Rohrhuber	20	14	70%	29	6 days vacation
Michael John	16	20	100%	16	
Oliver Seitz	62	16	80%	77	4 days vacation
Total	111	69	76.7%	29	20 workdays

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3-Month Goals

April

Siemens-Nixdorf Informationssysteme AG

- keep Comm Server and SQL Server in evaluation and start license negotiations
- define a cooperation project between SNI and MS
- clean-up all license issues
- arrange a strategy briefing for SNI sales force

VOBIS

- initiate marketing cooperation for Works and Windows
- keep them testing DOS 5

DOS 5 license status

- have 80% of all DOS agreements signed for DOS 5

Packaged MS-DOS

- keep DOS 4 and 3 sales going and maximize DOS/Win combo sale
- get a German DOS 5 and Windows combo prepared for August
- update all contracts so that DOS 5 can be ordered in May
- have Schmitt Computersysteme converted to royalty, have the license agreement signed and executed

May

Siemens-Nixdorf Informationssysteme AG

- start license negotiations on Comm Server and SQL Server
- pursue Comm Server and SQL Server
- have SNI prepared for shipping DOS 5 in June

VOBIS

- get DOS 5 prepared for manufacturing

DOS 5 license status

- have 100% of all DOS agreements signed for DOS 5

Packaged MS-DOS

- keep DOS 4 and 3 sales going and maximize DOS/Win combo sale (no pre-announcement)

June

Siemens-Nixdorf Informationssysteme AG

- pursue Comm Server and SQL Server

VOBIS

- get DOS 5 prepared for manufacturing

DOS 5 license status

- have 100% of all DOS agreements signed for DOS 5

Packaged MS-DOS

- have all customers switch to DOS 5

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