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MS-GmbH OEM Report - November 1990

Sales - is on 52% of monthly, 68% of cumulative budget, Q2 will end with 125% of budget, accumulated Q1-Q2 revenues will be 95% of budget. It turned out that we considered a wrong budget of \$14m instead of the new one of \$19m. The current, conservative forecast says that FY revenue will come close to 95% of budget, additional opportunities will affect Q3 and Q4 and result in exceeding the budget.

Packaged DOS Sales showed a new record of 41,620 units shipped in November! Order entry was 39,805 units and there is still a backlog of roughly 19,000 units.

Computer sales is still gearing up for year-end business, OEMs reported they have to struggle for managing highly growing demand.

Siemens-Nixdorf Informationssysteme AG (SNI) - the 2 new license agreements effective Oct 1st with a minimum volume of more than \$5m p.a. are still pending. We stopped negotiations and have prepared the final document.

Schneider Rundfunkwerke - the new license agreement have been prepared for signature. Schneider has dismissed the sales directors for national and for international sales. This is considered a step for curing current sales problems.

VOBIS - will finish this CY with 140,000 PCs sold, plan for next CY is 200,000 PCs. They will sign a per-processor license agreement for Works and Windows. A MS-DOS 5 per-processor license is in consideration, but they will not completely cease selling DR-DOS. We are still working on this issue.

New Business signed

Company	Products	ann. volume
NCR Austria	Windows	\$ 32k
Robotron B�rom.	DOS	\$ 520k
Total p.a.:		\$ 552k

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IBM - caused a lot of pain with their Windows orders although their order volume is on target: IBM subs did not understand that they have to go through IBM Denmark and tried frequently to by-pass them, we had confusion in our order entry department, IBM Denmark called us every second day for an update of the delivery schedule. Bottom line: A lot of coordinating was necessary for handling the Windows 3 orders.

Packaged DOS business - FRG: 41,620 units, including 3860 DOS-Windows combos, CH: 573 units, last month: FRG: 19,156, CH: 340. The high jump of Packaged DOS sales caused supply

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Plaintiff's Exhibit

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shortages and we are still struggling with managing the new volume. In December, the business volume should be manageable based on newly adjusted forecasts.

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OEM Financial

Royalties	month	budget	% budget	ytd	ytd budget	% of budget
actual	\$ 875	\$ 1,670	52%	\$ 4,296	\$ 6,349	68%
Forecast:						
month+1	\$ 4,130	\$ 2,537	163%	\$ 8,426	\$ 8,886	95%
month+2	\$ 280	\$ 2,101	13%	\$ 8,706	\$ 10,987	79%
month+3	\$ 0	\$ 1,008	0%	\$ 8,706	\$ 11,995	73%
PackDOS						
PackDOS	month	budget	% budget	ytd	ytd budget	% of budget
Revenue	DM 5,049	DM 2,038	248%	DM 11,350	DM 8,654	131%
Units	41,620	15,065	276%	41,620	15,065	276%

Royalty Business

Current revenues look worse compared with the new budget. Before November I worked with a \$14m budget. The new \$19m budget has not been communicated to me.

We still have pending license agreements and amendments where we expected to recognise first revenues. The two new account managers have already started to close pending business, the big numbers however, SNI, Schneider Rundfunkwerke, VOBIS, cannot be delegated because they are in final stage of closing.

In Q3FY we will have passed through this "bow wave" of pending business.

Our current forecast for FY91 targets 95% of budget. This is based on a conservative revenue expectation. At this time we see additional revenues coming from signing license agreements with larger Packaged DOS customers and from signing more Windows licenses. This will easily contribute the \$1m gap between FY budget and forecast and will help to exceed budget.

The next quarter looks better however we will not exceed budget.

Packaged MS-DOS Business

We have solved almost all supply problems caused by sales jumping from an average of 15,000 units per month to 30,000 per month. I do not trust the backlog figures of the AS400 reports, my estimate is that we have a backlog of approx. 10,000 units, which is caused by a time lag between higher order intake and increasing the production rate.

There are still credit-check problems with a couple of customers, but there is a close interaction with our F&A people to identify and solve them.

First Windows/DOS combos have been shipped, contributing additional revenue of DM 730k (3860 units). Although there is a huge customer demand, we keep this combo package short in order to not jeopardize introduction of MS-DOS 5. Till February we forecast a runrate of 10,000 packages per month.

OEM Mice

Again we shipped 5000 Inport Mice to Peacock and 5540 Serial Mice to D&S. Considering the low budget, this is nice additional business. Accumulated revenues reached DM 962k, 349% of budget, accumulated units shipped are 16,702, 224% of budget.

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Account Status Changes

Siemens-Nixdorf Informationssysteme AG (SNI)

Contract negotiations

We had one last session with Gerhard Neumann. He insisted on old issues he negotiated in the past with us. There will be no way to make major legal changes, SNI will have to "bite the bullet". As they have the final document now, there is a chance to get them signed in December, but it is more likely to have this done in January.

LM/X Source Code

In a hurry we had to prepare a source code agreement that provides SNI with access to LM/X source code. This will be initiated by amending one of the existing contracts, the source code agreement however will be carried over to the new contracts.

LAN Manager

Is not yet shipping. SNI has an inefficient procedure to get the product ready. Problems: CRC has not been ordered early enough, adaptation has taken too long, development responsibility was moved to a new person.

Communications

There are first links to Paderborn in the network area. In December we will fully establish all necessary communication channels.

Next steps

- get the LM/X source code issues solved ASAP
- take a solid position in negotiations and keep the contract "frozen"
- get the new contracts signed
- establish communication to R&D in Paderborn, continue with those in Augsburg
- follow up on getting LAN Manager shipping

Schneider Rundfunkwerke

Business

As business has sharply fallen back, Schneider has lost its international markets. First victims of the Get-Well-Program are both managers for international and domestic sales. I wonder how long Fred Koester can stay - he lacked in installing marketing resources, even for entering the international field. Microsoft should demonstrate its counselling capabilities to Bernhard Schneider, CEO, but this must be carefully prepared.

New license agreement

They have the final agreement now and will sign it after a final check.

Next steps

- get the license agreement signed
- arrange a meeting with Bernhard Schneider and make him aware of their diffuse marketing strategies.

VOBIS

The existing license agreement had an annual minimum commitment of 30,000 per-system copies of Works. They exceeded this within 3 months.

Now we have talked about a new license agreement. Last status was: They are going to license per-processor on a 200,000 PCs p.a. level either Works or Windows for constant \$15, any additional Works or Windows copy costs them additional \$15. VOBIS wants to focus on selling both per PC. Additionally we got an agreement in principle on DOS 5, provided MS-Corp approves it. Terms for DOS 5 are: commitment based on 200,000 PCs p.a., royalty is \$9 for international versions because VOBIS will not immediately stop DR-DOS and replace it with MS-DOS 5. FCS of DOS 5 will trigger the DOS per-processor royalties and an increase of minimum commitments. The beauty is that this is the only aggressive royalty, but it will help to

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close on per-processor basis. VOBIS will face a strong market demand for DOS 5 as soon as the product has been released. Considering the aggressive DOS royalty, VOBIS agreed that we can balance the royalties between DOS and Works/Windows in order to raise the DOS royalty and lowering the Windows/Works royalty. Contract term will be 2 years. An increase of the DOS royalty will help to get DOS 6 in on more reasonable royalties.

Next steps

- initiate intensive BETA testing of DOS 5 and provide a super support
 - have the license agreement prepared and signed
-

IBM

The windows packaged product deal caused a lot of pain: Orders sent by IBM Denmark were randomly forwarded, order processing people did not know how to handle this, and even the IBM subs in Germany, Switzerland and Austria tried to by-pass IBM Denmark because they believed in more advantages in dealing directly with MS. This caused a late order entry. Then IBM subs and IBM Denmark demanded delivery schedules twice a week. All this could be straightened by direct coordinating between IBM subs, IBM Denmark and our order processing people.

Bottom line: By not very efficient communications IBM was screwed to receive their product in the very late 2nd week of December which is too close to IBM's financial Year-End.

Next steps

- make sure that January orders are well taken care of.
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Packaged Product Business

Packaged DOS

Together with the DOS-Windows combos we achieved a remarkable high shipment volume of 42,620 units. It looks like the market still has a huge potential for Packaged DOS, which means we still believe to keep Packaged DOS on the same shipping magnitude (30,000 units). As the price for Packaged DOS is based on US Dollar, our average selling price has fallen down to DM 100.00. We do not intend to change this as this helps to pre-occupy the market for DOS 5. With DOS 5 we will raise prices and bring the street price back to a normal (higher) level. Our current estimate is that we will have Packaged DOS 5 available in March, the US version, and the German version in April. We will take orders two months before availability and will decrease our DOS 4 stock. Our expectation is to boost DOS 5 sales when it becomes available.

All piracy issues are now well handled by Ulrike Weinbrenner. She has a budget for test purchases. First interactions with her showed that she is aggressively attacking all piracy cases, focussing on the important ones (high volume, high market recognition).

OEM Mice

Currently we have two customers: D&S (serial Mice) and Peacock (Inport Mice). In the meantime we have significantly exceeded budget without receiving complaints from the broad distribution channel. There are two additional prospects, one is VOBIS, the other one Aquarius, but this got to be very well decide in order to prevent and distribution conflicts (unbundling, separate selling, ...).

As the OEM Mice agreement with Peacock will expire, we are already working on renewing the agreement. Peacock will likely license 15,000 Inport Mice and 10,000 Serial Mice.

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Review of last month goals

November

Siemens-Nixdorf Informationssysteme AG

- finish all contract related issues, get ready for signature done
- have the contracts signed OPEN

Schneider Rundfunkwerke AG

- finalize the new license agreement for signature done
- get the license agreement signed OPEN

Vobis

- close the Windows amendment changed
- prepare a license agreement for DOS 5 and achieve agreement in principle on conditions and terms done
- get them committed to Windows 3 and OS/2 promotion done

DOS 5

- propose license agreements/amendments for DOS 5 to all OEMs partly done

OS/2

- make sure all OEMs have OS/2 in the dealer shelves on going

Training/People

- arrange and organize the European Legal Training done
- have the new OEM account mgrs attend the Systems Training done
- hire one sales representative for PackDOS business done

Sales Calls

Account Manager	Calls	Comments
Manfred Schindler	11	
Jaap van Arkel	12	1 week training
Michael Rohrhuber	15	1 week training
Peter Prikryl	15	
Oliver Seitz	19	1 week vacation
Total	72	4.0 heads 18 calls/head

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3-Month Goals

December

Siemens-Nixdorf Informationssysteme AG

- get SNI ready for signature
- get SQL Server accepted
- initiate evaluation of Comm Server
- prepare RISC meeting according to meeting with Dr. Bodo in Oct.

Schneider Rundfunkwerke AG

- get SNI ready for signature
- get SQL Server accepted
- initiate evaluation of Comm Server

Vobis

- close the license agreement for DOS 5

DOS 5

- have all key OEM customers signed up for DOS 5

Packaged MS-DOS

- introduce that DOS 5 is available soon and issue new distribution agreements to be signed by end of January
- introduce the DOS/Windows combo and have it sold out

January

Siemens-Nixdorf Informationssysteme AG

- get DOS 5 qualified for CeBIT
- get all contracts signed and billed

Schneider Rundfunkwerke

- initiate an executive meeting with Bernhard Schneider on working with him on a Get-Well program
- get all contracts signed and billed

Packaged MS-DOS

- introduce that DOS 5 is available soon and issue new distribution agreements to be signed by end of January

February

Siemens-Nixdorf Informationssysteme AG

- get SQL server licensed

Packaged MS-DOS

- introduce DOS 5 availability and get orders in

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