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Microsoft Memo

To : Bernard Vergnes, Chris Smith, Gary Gigot, Scott Oki, Russ Werner, Patty Stonesifer, Bob McDowell, Joachim Kempin, Greg Tibbetts, Mike Maples, Steve Ballmer, BUMs, GPMs, IPMs, Eurodir, FE/ICON Directors, Mstaff, Nancy Lanning, Rick Devenuti, Tom Hudson, David Brooks, Bob Caldwell

From : Charlotte Guyman,
International Marketing

cc : Imstaff

Date : November 27, 1991

Re : International Marketing Summary

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Im9

October was a painfully busy month -- we worked with U.S., ROW, and European counterparts on TWENTY worldwide agreements (two of them OEM) as well as on improving the process. This is much more than originally forecast and consequently I will be taking an open headcount from the distribution area and moving it to large accounts solely for the purpose of building a smooth and profitable program for selling worldwide to multinational accounts. We'll fill this position asap as we believe that Microsoft has all the right stuff to be THE leading software vendor for multinational accounts.

We are also spending more time than planned in just properly communicating marketing programs from the U.S. to International. Whenever programs are created quickly (or are changed as in the case of the DOSrup 100% program) and have a potentially significant impact worldwide, we have to re-prioritize our activities to ensure the subs have the information and the program "internationalized" (legal and financial changes) in time to implement or respond. As a result we are still much too reactive in communicating programs and are not providing a good enough filtering mechanism for the information.

And finally, we seem to be signing up for (or inheriting!) several "special projects". These are things that need to be done and are impacting the subsidiaries (or corporate) negatively or could have a very positive impact if addressed, but again, we have not been very good at planning for most of them (see special projects section below).

Special Projects/Trips

Obsolete SKUs (Annap/Stevea)

The first large list of SKUs identified as potentially obsolete has been created, and will be distributed to the subsidiaries et al. by the end of the second week of November. These SKUs were selected based on low shipment and sales volumes over the course of the past 6 months. Following feedback from the subsidiaries, we will

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formally mark these SKUs as obsolete and unorderable, and gradually remove them from various Corporate systems.

Comdex (Tinam/Kristb)

This was the best "International" Comdex yet thanks to good communication from Martyta's team to us. Over 2,000 International customers visited the booth (up from 1,100 last year). We saw a lot of enthusiasm for our products and the new Int'l brochure (developed by Corpcom at our initiation and attached to this report) was very well received. This year we began using Subsidiary personnel to staff the booth (as opposed to Redmond-based international people). This was good as they got the benefit of learning from Comdex and they were better suited to address customers. We also gave successful individual briefings to eight International customers from Australia, Canada, Chile, Germany and Sweden through the on-site EBC program.

Lan Metering tools (Annap)

A listing of all "known" 3rd party Lan Metering tools was published on the network for subsidiaries to use (as it turns out, the US field will also use this!). We created two lists - one to share with customers (it has information on the product provided by the 3rd party itself), the second is a list to be used within Microsoft only on all known metering products (it contains our notes on each product). We are still waiting for a few completed templates from 3rd parties, but the material can already be used.

Licensing Booklet (Annap)

A "Microsoft International Licensing Policies" booklet has been completed for use (and/or localization) by subs and distributors. The booklet covers areas such as "what is concurrent use?" and other licensing issues. Final copy will be distributed to subs early Nov. Intl Mktg will do first print (late Nov) and distribute final booklets to subs.

International participation in US Beta programs (Annap)

This project is now well on it's way. All groups within MS which handle beta programs have been interviewed. In Nov. we will hold a roundtable discussion at the Tech managers meeting in Redmond on this topic. Proposal and guidelines for both subs and US groups are expected to be done by end of this year.

Business Planning/Mid-Year Review (Charlotg)

We worked with Peter and Robbie as focal points for the FE/ICON and European GMs as well as with the International controllers (who were here for their annual meeting) to refine the business planning process and specifically to develop a framework for analyzing the business strategically as part of the Mid-Year Review. After last year's planning process, the consensus was that not enough time was spent with the executives discussing strategies in various countries and we're trying to change that by providing a Strengths/Weaknesses/Opportunities/Threats framework as a part of the Mid-Year Review (see memo if interested).

Visit to Scandanavia and EHQ (Charlotg..see trip report)

Worldwide Agreements

OEM

DEC (OEM & End-user & Reseller)

The agreement was signed in October with a scheduled announcement date of November 19. Materials are being distributed to the international field the week of November 8. We have worked closely with product marketing and OEM to make sure that this agreement is implementable worldwide. EHQ is driving European implementation.

Dell (OEM)

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The terms of the agreement are still being negotiated, with Dell's biggest concern being a central contact for order processing and billing. A proposal is being developed with accounting to find a solution to this program.

Large Accounts

Process

Worked with US Special Agreements group to prepare a guideline for the US field sales force for negotiating one-off terms & conditions. Wrote the International section which states, in sum, "Do nothing without the express approval of Microsoft's International subsidiaries. Since its implementation (and an educational presentation made by International Marketing at the US National Sales Meeting) requests to ship US product overseas have been virtually eliminated.

Reuters

Actively shipping into primarily European accounts. Most accurately characterized as an OEM-type agreement being supported out of the US Field Sales Office. As of October 11, Reuters is buying Excel at \$243.40, Windows for \$70.40 and the Mouse for \$65. Proposals are on the table to bundle Excel 3.0 on 100% of the Reuters systems and another to upgrade all installed Reuters Terminals ("RT's") to MS-DOS 5.0.

Note: If Reuters are pursuing Technical Support through Subsidiary organizations, please let me know! Reuters are contractually committed to limiting supporting themselves internally. If your SEs or PSS personnel are being approached by Reuters or customers of Reuters for support on the "RT" (Reuters Terminal), you can offer to support them on a billable basis, but you are not obligated to support them at no charge. If Reuters or their customers have purchased Excel from your channel (rather than on the Reuters hardware) then normal support provisions apply.

Arthur Andersen

Microsoft made a final proposal to AA on the 19th of October. The agreement priced the Win+Office package at \$283 ZXA and 355 localized. Andersen have not yet responded to this agreement. Microsoft has agreed to offer Andersen 55% off of local SRP for packaged product in lieu of a signed agreement (per Jeremy Butler). We expect a letter from AA on 11/14 responding formally to our last proposal.

Electronic Data Systems

EDS have signed one agreement for the US Strategic Integrator Program and are pursuing others for internal use. They would like the STI program to be worldwide. This would essentially provide them with the ability to act as a Systems Integrator in all countries worldwide. EHQ is pursuing a Pan European reseller agreement for EDS-Europe. Discounts range from 44 - 52% from US SRP (for STI in the US). Europe is, I believe, 44 - 46% from local SRP.

Ernst & Young

Have renegotiated their discounts. Essentially, non-US prices are calculated as a 67% discount from the US SRP plus an uplift. The uplifts are 1.15 for PTY & LTD, 1.12 for INC, and 1.3 everywhere else. This price does not include documentation. A complete package is being prepared for distribution to the subs next week.

Exxon

ECI have agreed to standardize on DOS 5, Windows 3, WinWord and/or Word 5.5 for all workstations. They have received a proposal for a 56.8% discount from local prices for software installed on new machines. A competitive upgrade program is included whereby Exxon receives a 74% discount from local SRP if another Word processor is already installed. This is an MCD agreement, so COGS are eliminated. The proposal has been presented and it appears we will be proceeding.

General Electric

Have approached for worldwide pricing, but no details are established yet. They appear to have an offer from Lotus (in France) for a "golden master" at \$100 per copy!

Honeywell

Honeywell have been offered discounted pricing for a 100% commitment to mail on all Intel workstations. Initially this will only impact European sites, but will ultimately be requested in FENCON. The contract is not signed. The open item is pricing for remote mail clients.

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Intel	A contract is now signed wherein Intel will receive a 45% discount from local SRP for finished goods. A synopsis is being prepared for the nine subsidiaries impacted by this agreement. It will be distributed this week.
Johnson & Johnson	Coordinated the delivery of an International DOS 5 VPP offering. Customer sees Microsoft working as a coordinated team, while product will be delivered through each subsidiary's (US & Canada) channel.
Compaq	Compaq approached Microsoft for a worldwide licensing scheme. We are working with them understand the level of commitment they wish to make, the nature of their requirements and the volume of business. Compaq has offices in Europe (2000 PCs), Asia (460), the US (11,000) and South America (20). They hope to acquire pricing for Windows and Office. Working on outlining the approach for an agreement.
KPMG	Worldwide contract for Mac Office and maintenance. MCD, distributed on CD from the US including Intl versions. Intl revenue for product will be \$260,000 and \$2,300,000. Contract being developed.
Northern Telecom	Approached Microsoft for a centralized agreement. They would like to evaluate a single agreement for all facilities. Prefer transactions to occur in the appropriate country where software is being used and 'demand' reseller involvement. They would like a proposal showing FG at a standard discount, an MCD agreement (volume-discounting), and a 100% commitment agreement. In the process of creating a letter of intent outlining the proposal parameters
Baxter Healthcare	Baxter has received a proposal from MS for a worldwide agreement of Office+Win at \$350 for ZNA and \$455 for localized. We are testing with a new transfer-price model which would retain a 38% gross margin for the subs on this transaction. The agreement is MCD, distributed from the US, with reporting and payment occurring in the subsidiaries. Successfully avoided the transshipment of US product. Draft proposal based on provisions for delivery through the appropriate subsidiary channels.
Raychem	Subs have agreed to pricing and a Letter of Intent is being drafted in the US. Objective is to prepare a 3-option proposal (discount from local SRP with no commitment on finished goods, discount from local SRP based upon a measurable commitment with downloading, discount based on 100% platform commitment with downloading)
Others	Nestle, Union Bank of Switzerland, Smith-Kline-Beecham

Large Accounts Marketing (Craig/Jeannec)

- 1) *European Banking Project* - Met with Bill Andersen and Jeff Drexler of US Corporate Account Marketing (CAMP). Described the nature of customer commitment to OS/2 outside the US. Overviewed the structure of Microsoft International. Pointed to key banking customers, creating a starting point for their study. Suggested key contacts within Microsoft International.
- 2) *C/O Newsletter* - Acquired and distributed electronic copies of the US CAMP Chief Information Officer newsletter to the General Managers and Large Account Marketing Managers for use within their territories. Made necessary arrangements to systemically receive copies in the future.
- 3) *Information Flow* - Identified valuable electronic sources of Large Account Marketing information and attached appropriate international personnel to the distribution lists. Examples include Competitive Updates and News Flashes.
- 4) *Case Studies* - Acquired and provided a set of Case Studies on Corporate Downsizing to Country Managers. Examples included Kodak, Commonwealth Bank and NCMS. (All located on Smartpages in the directory; \prod\sys\mktg\info\s\slsvr\cases\study)
- 5) *Upgrades* - Coordinated the resolution of upgrading a US headquartered company's (Occidental Petroleum) Canadian subsidiaries from Excel 2.1 to 3.0. All products were delivered through MS-Canada.
- 6) *Corporate Briefings* - Met with customers from the UK (Nationwide) and Argentina (Telefonos). Presented aspects of the Microsoft Systems strategy. Contrasted the Microsoft approach to that of our competition; particularly IBM and various Unix vendors. Also discussed the strength and breadth of our ability to connect to existing IBM VTAM environments.

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7) *IBM Connectivity* - Met with Mike Fritz from Adv OS Group to discuss an IBM connectivity seminar. Outlined the issues necessary to convince customers Windows is the connectivity platform of choice. Also covered topics which should be included in future internal educational offering. Plan is for a Q2FY92 event.

8) *Large Accounts Database* - Gathered relevant information on the development of Large Account databases occurring in the US and Europe. Outlined areas of similarity and overlap. Working to ensure compatibility of development efforts.

9) *Proctor & Gamble* - Performed research for Michel Perrin to learn where P&G has contractual relationships with Microsoft.

10) *LA Personnel Sales Training* - Evaluating US programs and their possible applicability for FENCON. Results of the project will also be made available to EHQ when complete.

11) *Microsoft Support Coordinators Program* - Initiated the analysis of the level of effort required to make this program available internationally. Completed technical review, complete memorandum is forthcoming.

12) *Aramco* - Researched the marketing and sales efforts occurring in Saudi Arabia to help the US Field Office explain to the US Reseller why sales to Aramco declined precipitously. Aramco had been buying product in the US and shipping overseas. Upon learning Microsoft have an excellent distributor in Dubai, they ceased US procurement and bought through the International channel.

13) *Pricing* - Worked with David Brooks to test a new transfer pricing method for Large Account downloading agreements. If successful, this program will deliver a more 'rational' way to establish transfer pricing for large accounts. In essence, the model creates a minimum acceptable price for a product, charges a base royalty and 50% of the revenue generated beyond the base. Using this method, Large Account downloading contracts will be deliverable at higher profit margins to the subsidiaries.

14) *Disney* - Provided information to the US account team on how Microsoft is structured internationally to support customers such as Disney. Also provided International PSS information and a copy of the Special Agreements Guide (see below for detail).

15) *End User License Agreements* - Worked with legal to generate a letter explaining the retroactive nature of our new End User License Agreement. Provided to EHQ and SARL. Available on \mars\nova [pw = orbit] as \license\ula\ulaamd.doc.

16) *Non-Disclosure Agreements* - Responding to several requests, worked with legal to make english language, international NDA forms available. Now located on \mars\nova [pw = orbit] in \license\nda. You will find three documents for beta products, unreleased products and one specifically developed for Win 3.1 ISVs.

17) *CAMP Review* - Prepared and delivered complete overview of all Large Account Marketing Programs being prepared or offered by the US Corporate Account Marketing Program (russw) organization. Please see the October 11 memo for review -- available on \mars\nova [pw = orbit] as \ntlla\campover.doc.

18) *Coca-Cola* - Advised the US Sales Team on how best to proceed if Coca-Cola elect to pursue an international agreement.

19) *Pepsico* - Participated in Pepsico Executive Briefing and outlined the process for International agreements. Worked to understand their requirements. Coordinated the participation of Peter Devine (National Sales Manager, MS-Pty). Preparing overview of Microsoft International for Pepsi.

European Customer Briefings (Sept. & Oct.) (Tinam's group with EBC)

1) *AGENA* - MS France's major distributor brought 13 large accounts (with Compaq France). The briefing went very well. Pen and Multimedia demos were a bit hit.

2) *BNP* - largest bank in France. We received great feedback from BNP, who left with no doubts about our strategy. This briefing will further MS France's efforts to close a \$1.5 million deal and spur an evaluation of our systems platform vs. IBM's. A follow-up meeting in Paris with Mikehal (Nov.) will build on the work done here.

3) *Compagnie Bancaire* - A study tour of 25 representatives (mainly CEO's) from French financial institutions, consultants and France TELECOM. The briefing went extremely well; Multimedia and Pen were enthusiastically received (the group visited GO, but were more excited by our Pen technology). Two French journalists accompanying the group should generate good follow up PR.

4) *Compaq Sweden* - We usually find limited value in hosting Compaq group visits (dealers or LA's), as the objectives tend to be strictly PR. MS AB pushed this briefing through after we turned it down. Since it was

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scheduled during Networld, the NBU product managers were not in town and the briefing results were questionable. No feedback from the sub.

5) *Datev* - German DP center for tax consultants - also an ISV. Founders of 12 PC user clubs who heavily influence German computer users. Briefing was focused on Windows/NT. As a PM developer, they are taking a wait and see approach towards NT.

6) *RSV* - Swedish equivalent of our IRS. They are a huge LAN Manager site (600 servers) who have received quite a bit of attention from our NBU. Unfortunately, the representative sent for this briefing was not very technical. Our objective of pushing them toward moving their workstations and apps to Windows instead of OS/2 may not have been furthered.

7) *SIZ* - DP organization of the SKO German bank group (largest in the world). This technical briefing was a follow up to their meeting with Mikehal in May. They are faced with the enormous project of re-organizing their DP functions on one homogeneous platform. SIZ has proposed establishing an alliance with other key players in the German DP arena (SNI and key LA's such as Daimler Benz) to promote a competitive alternative to IBM. They want to become a strategic partner of Microsoft's and GmbH will continue to build the relationship.

8) *Swedish Large Accounts* - This study tour group was much smaller than expected - 6 customers instead of 14 and SAS did not show. There was little interaction with presenters and the group had too diverse of objectives to make the briefing effective.

* We were forced to turn down the *French Ministry of Defense* due to short notice and a requested briefing date during COMDEX. Another briefing for *AMADEUS* (European airline consortium) was canceled by the customer and Paul Maritz visited them in Paris instead.

XLA Program

This is becoming increasingly popular in the US market as an effective, discretionary tool for obtaining 100% of the accounts installed base. In essence, the account purchases Microsoft applications (Windows or Mac) for 60% of their installed machines, through the standard reseller channel. When the account reaches the 60% hurdle, Microsoft grants the customer a license giving them the ability to run our applications on the remaining 40% of their hardware. XLA is not offered to every Large Account, but is proving useful for obtaining 100% market share within a specific account. Please contact craigfi or jeannec for additional information.

Education (Kimberd/Annap)

The preliminary proposal for changes to the transfer pricing model for education product was presented at the European Education Meeting, and was well received. A few comments and changes were made. We expect to have a complete proposal by December 15.

Proposed solution for Australian 10-pack situation and pricing for University large volume deal - more on this next month.

Product Marketing (Annap)

3 new IPMs joined. Beth Featherstone in Spag, Steve Murch in Dabu and Hugh Chang in Multimedia (part time). We met with each to orient them to international, roles and responsibilities for various groups working with international, and to offer any on-going help.

Systems Marketing (Craigfi/Mikeols)

1) *NT* - Assisted in the preparation of an International rollout for internal use of NT and demonstration kits. Shipment to International will occur concurrent with US delivery. Assisted in the arrangement of special training for the International SEs at the WWSE Forum in late November.

2) *Bill Gates Video & Brochure* - Arranged for the shipment of several hundred copies of the video and several thousand copies of the brochure to our International subsidiaries. Shipment occurred at the same time as the US distribution.

3) *South America* - Proposed Systems Strategy Briefing for South America to Orlando Ayala (Dir. Latin America) and prepared for the delivery in December. Contact craigfi or mikeols for specific details of the briefing.

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4) Canada - Initiated planning and preparation for one-day Strategy Briefing for 25 British Columbia customer executives. Delivery planned for late November. Topics include Systems and Applications strategy with a focus on the delivery of solutions via Microsoft products.

OEM Marketing (Kimberd)

1) Unisys - Coordinated the response to a need for Windows product delivered to a customer via Unisys. Unisys and the end user were in Sweden, but negotiations occurred via the US OEM group. Solution delivered packaged product Windows to Unisys-Sweden at 46% discount from local SRP. US handled special terms for existing OEM agreement.

Channel Programs (Kimberd)

DOS VPP rollout

Rollout in the U.S. was completed on Oct. 21. Program modifications for intl are being made, and new legal documents should be available by mid November. The way the MS DOS group has presented things, subsidiaries will have the option of using this new program or staying with the 100%.

Sales & Marketing Training & Communication

Recovering from International Orientation. Europe has decided that we should do another which we are planning for May. FE/ICON still unsure of participation in next IO. SMSD got our headcount for delivering FOSA and Rond is putting together a training proposal for sales/marketing course offerings for International which he'll present later this fall.

International System Engineering & Communication Tools (Mikeols)

Worldwide SE Forum

The plans for the forum are in place. The US SE Development folks have been very helpful and the response from the subsidiary SEs has been excellent -- roughly 75% of all Intl SEs will be attending.

Microsoft Certified Professional Programme

Worked with Sandra to ensure this programme can be implemented world-wide. So far Drake appear to have the testing situation well in hand and will have good coverage of our subsidiaries. Sandra is working very hard to solicit input from the subs so she can take their views into account. There appear to be no insurmountable issues.

SE Advisory Council

The recent meeting of the SE Advisory Council were not as productive as had been hoped. In particular there are US-centric "political" issues which limit the extent to which the SEAC is able to set direction for the SE community-at-large. Mike Olsson will be looking into ways to provide coherent direction for the International SE community. As an increasing number of subsidiaries are now appointing dedicated SE supervisors or managers it is likely that a regular SE Managers Retreat or equivalent will be the best vehicle for this.

European Subsidiary Liaison Activity (Tinam and group)

Julie Kirk, our new liaison for Spain/Italy/EHQ is now on board and spent most of October training. The group focused on customer briefings and coordinating executive trips.

Executive Travel

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Paul Maritz Europe trip - Paul visited four subs Oct. 6-12. His tour included a UK Developer's conference, OEM meetings (Olivetti, ICL, Siemens/Nixdorf), press interviews and large account meetings (AMADEUS). He focused on spreading the word on our NT strategy.

Susan Boeschen Europe trip - Susan visited four subs Oct. 13-19 with a focus on introducing the Solution Series. Mike Metzger accompanied Susan and indicated that the trip went very well. In France and Germany her activities were mainly external, including a French road show, OEM meetings (re: bundle opportunities) and reseller meetings. In Sweden and the Netherlands, Susan spent time internally becoming acquainted with the subs' marketing staff, being educated on the local EBU markets and discussing product plans.

Market Research & Analysis (Stevea)

White Box reporting & analysis

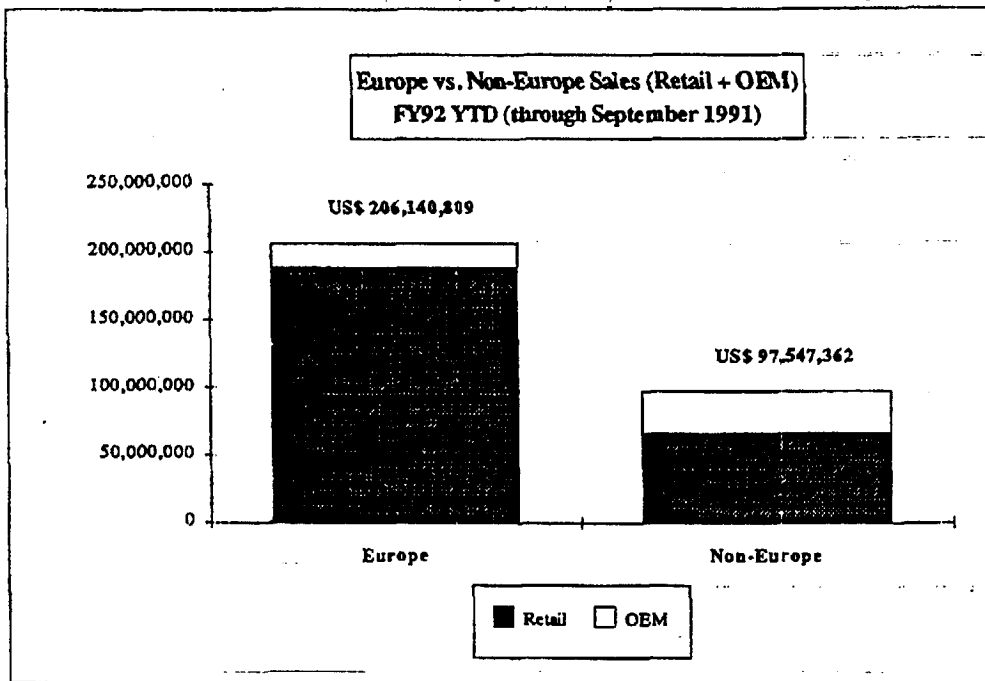
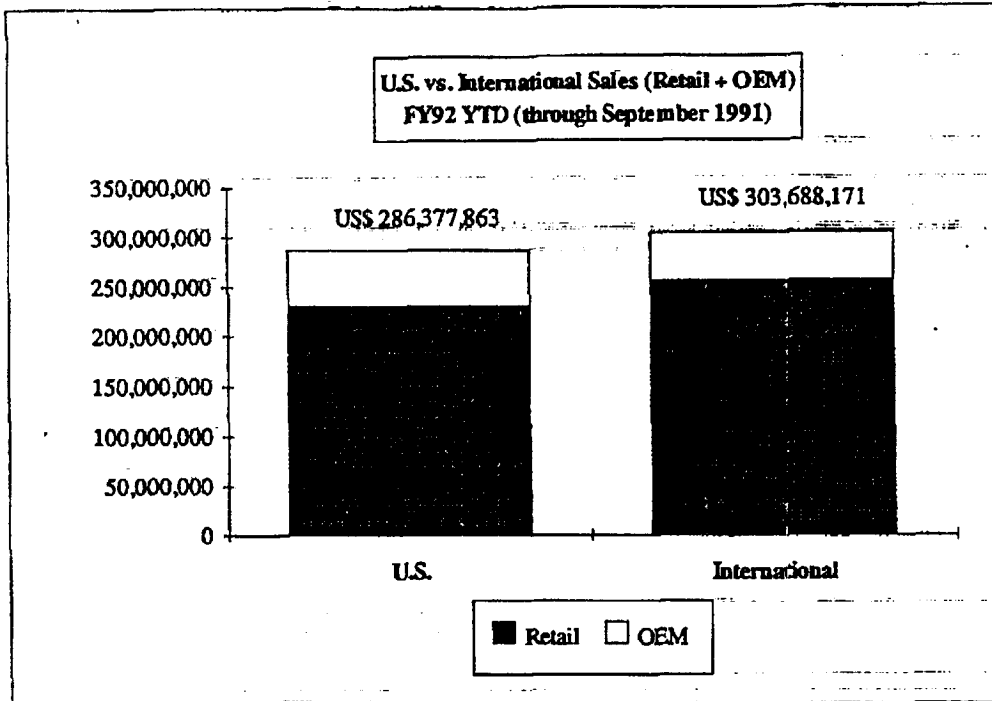
International MIS (carolba) is making changes to the program that outputs each subsidiary sales file to Corporate at the close of each month. These changes will allow us to view white box sales by product type (Academic Edition, Updates, OEM Bundles and Promos) in the Worldwide Sales database. This data view will be available in early January, and will include sales data from November 1991 onward.

"WVWDATA" alias

This email alias has been established to facilitate information exchange about market research and analysis between the subsidiaries (including the U.S. "subsidiary"!). Included on this alias will be people in each subsidiary responsible for market analysis (research, market share, sales analysis, industry resources, etc.), as well as the Library and the U.S. MRMA group.

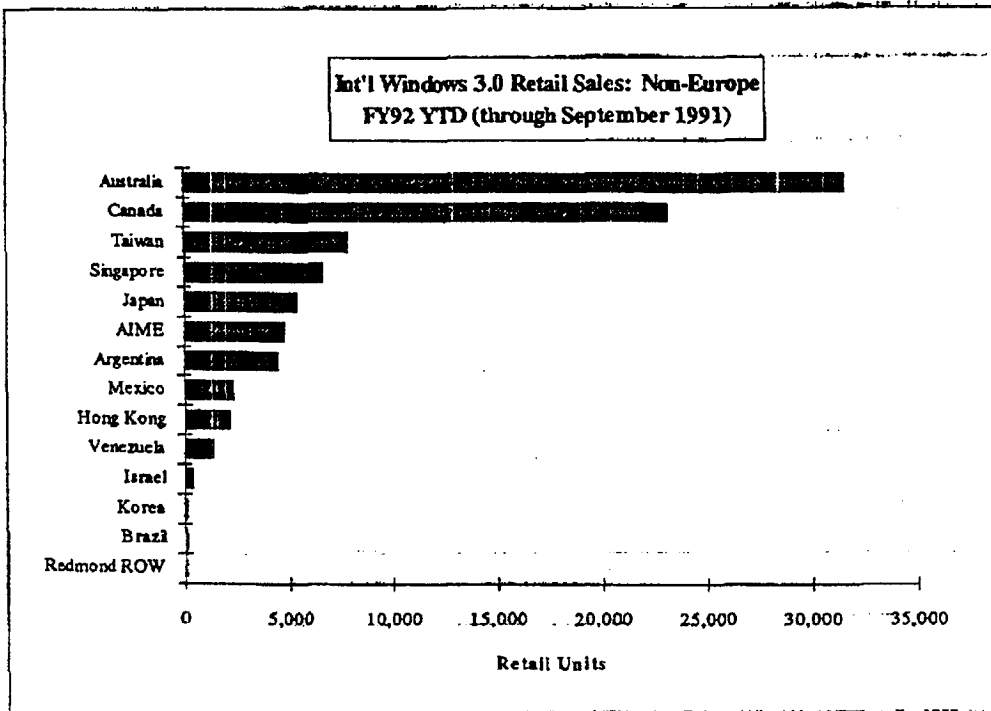
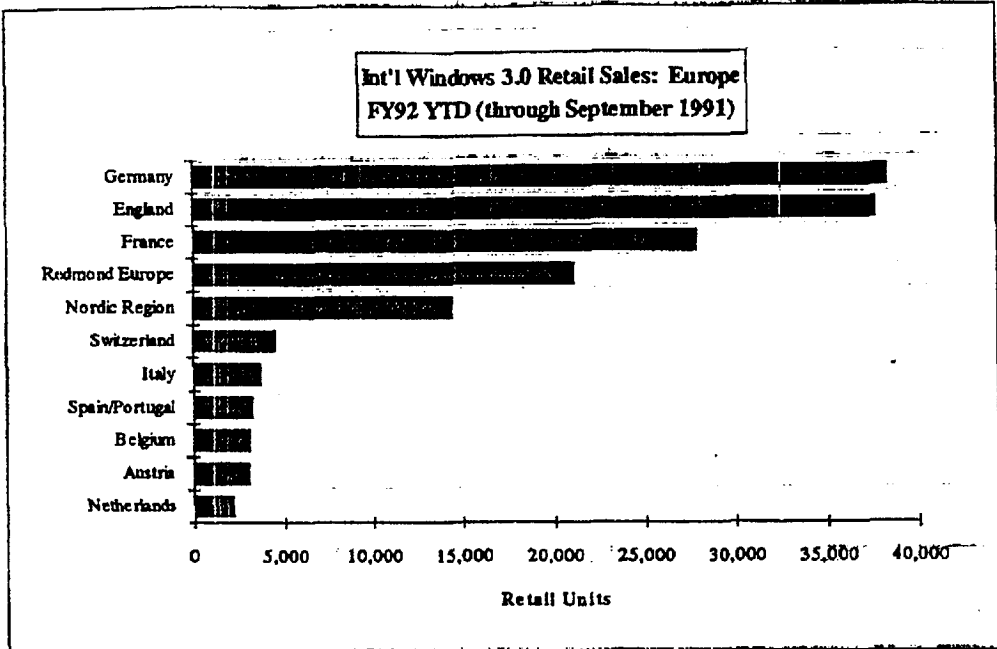
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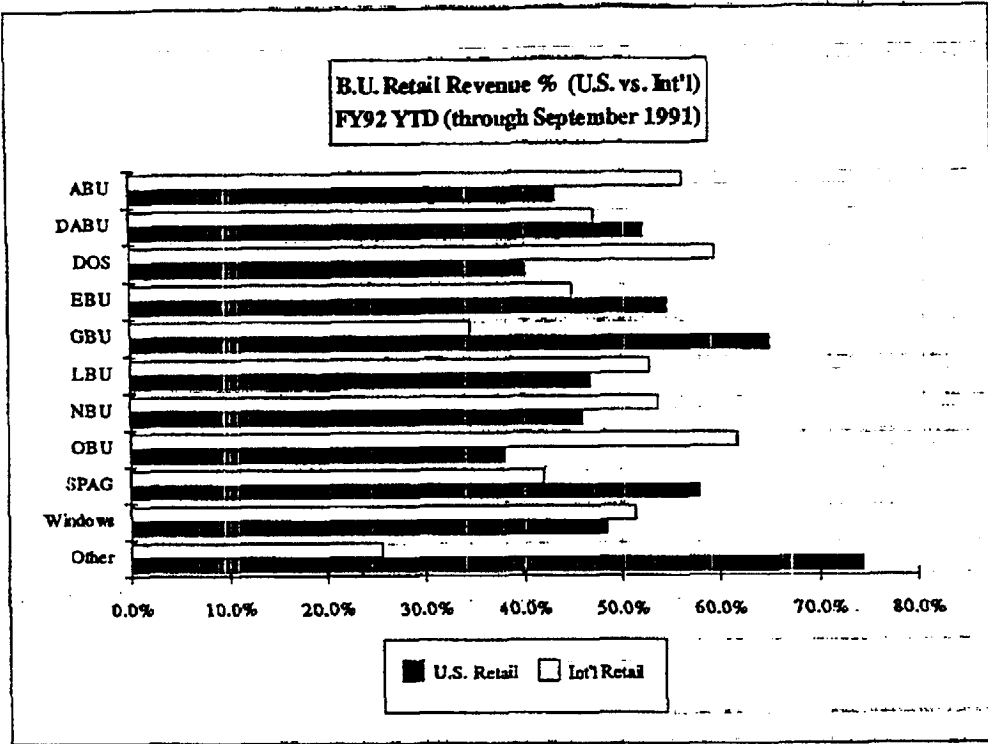
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