

Microsoft Corporation
16011 NE 36th Way
Box 97017
Redmond, WA 98073-9717

Tel 206 882 8080
Telex 160520
Fax 206 883 8101

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Microsoft Memo

OEM AND MICROSOFT CONFIDENTIAL

TO: Richard Fade
FROM: Melvin Henderson-Rubio *MHR*
DATE: October 24, 1989
RE: Q1'90 Results & Q2'90 Objectives
CC: MHR Group

The purpose of this memo is to document Q1'90 results and outline Q2'90 objectives.

REVENUES:

Details of actual account activity are outlined on attached spreadsheet.

Revenues:		QTD
Royalty:	Actual	4,489,379
	Budget	3,332,436
	%	135%
PP	Actual	2,265,620
	Budget	1,976,500
	%	115%
Total	Actual	6,754,999
	Budget	5,308,936
	%	127%

New Licenses signed in Q1:

o	Royalty	15 licenses	\$2,552k
o	PP	32 licenses	\$470k

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Comments on revenues. As the above chart indicates the MHR Group came in above budget for both PP DOS sales and royalty revenues. Revenues increased based on the following factors:

- o A much more focused and dedicated effort by the Group to secure more business.
- o Reminding and pointing out to OEMs the benefits of a direct relationship with MS.
- o "Belly-to-belly" visits to OEMs.
- o Being much more competitive on terms and pricing.
- o The "suspected under reporting " of EmPac DOS units seems to have dried up.

Threats to maintaining growth:

- o Having enough time for each member of Group (which includes the account managers, admin and sales manager) to provide the highest level of customer service. This includes: handling calls; making prospect/customer visits and the processing orders.
- o Not having enough PP inventory on hand. I will continue to increase forecast. In October the high priority to build MS-Works for IBM caused us some problems.
- o Numerous OEMs have indicated pricing for Phoenix DOS anywhere from \$40 - \$48. Indications are that this is "slim DOS". We are trying to gather proof of these rumors. Meanwhile, I and my accounts managers have a high level of confidence that these rumors are accurate since the rumors are coming in from all parts of the country and are consistent. Once we have proof of these rumors I will evaluate threat and recommend plan.
- o We will began shipping our version of "slim DOS" (3.3) later this week. We might experience some back-lash. Will monitor very closely. 4.01 "slim DOS" will begin shipping the first week of November.

PP SALES WATCH:

	July	August	Sept	Q1'90	Q1'89
% of PP 3.3	53%	69%	59%	69%	100%
% of PP 4.01 (5.25")	47%	29%	39%	29%	
% of PP 4.01 (3.5")	0%	2%	2%	2%	
Units of PP	9,118	14,870	19,496	43,484	8,572
Avg. Selling Price	\$51.64	\$52.21	\$51.05	\$51.57	\$62.15

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Although our sales increased every month and continue to grow, stand-alone and competitive pricing by our competition seems to be sneaking in and taking some OEMs away. We will stay on top of our accounts to monitor and minimize lost revenues to the MHR Group.

Actual COGS for the new "slim package" are not available at this point. Manufacturing has to have a "real first production run" to be able to actually estimate and provide actual COGS. I hope to have estimates and/or actuals COGS for my October Status Report.

Concern:

- o The availability of DOS stand-alone is everywhere. You can buy MS-DOS via ads listed in most trade magazines and at numerous retail stores nationwide. Phoenix product is available at EggHead Stores in Atlanta, GA, and Redmond, WA, to name two. During our belly-to-belly visits and everyday during phone conversations our OEMs clearly point this out to us. Although some are guilty as the next OEM, the message is VERY clear. It appears that MS has lost control of the distribution of MS-DOS. This is evident in that numerous resources available for MS-DOS nationwide. Many OEM's are wondering/questioning why they should incur the added cost to bundle MS-DOS when End Users or the OEM can go out and buy DOS as a stand-alone product nationwide. Some being "improper" distribution of our or our OEMs' product and some being "counterfeit". In many cases for less than we will license to the OEM and at lesser volumes levels. Most available are Phoenix or EmPac product. Here is a breakdown of stand-alone purchased or knowing to be available first hand:

o January 1989 to Today, Stand-Alone MS-DOS Packaged Product bought by Microsoft: Total of 99 units broken down as follows: Phoenix, 64; MS-DOS PP, 11; EmPac, 7; GCH, 7; PC Craft, 3; ARC, 2; Everex, 2; Genisys, 1; Blue Chip, 1; and AST, 1.

- o I believe this will be addressed at a meeting between OEM and legal this week. Results of that meeting will have an impact. If we do nothing, more and more OEMs will consider not bundling in the future. In addition, many OEMs who still desire to bundle MS-DOS will buy in the "gray" or "counterfeit" markets as long as product is available at terms and pricing much easier than those offered by MS.
- o Observation. The easy access of MS-DOS on the open market either "improper" or "counterfeit" is a direct result of MS not aggressively addressing the issue. I hate to say this, but OEM's have laughed in our face when I or my account managers tell them that MS is aggressively addressing this issue. Their bottom line question is, "If MS is aggressively addressing why is it that I can order via any trade magazine ad or go in to any store and buy it?" It's very difficult to provide a real comeback that has "bite". I know we are attempting to address, but wonder what real leverage we have? I am not giving up, just echoing the concerns of our OEMs and of my staff. Again, I hope that the meeting with legal will address this issue.

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ROYALTY BUSINESS WATCH:

- o OEM's such as Arche (122%), ISC (282%) and Northgate helped exceed budget for budgeted OEM's. In addition, we blew our miscellaneous budget out of the water. There were three major OEMs (budget as Royalty Misc) who contributed, Emerson (\$210); EmPac (\$87.5k) and Packard Bell (\$65k).
- o See attached spreadsheet for details on Forecasted revenues for Q2 and the rest of FY'90.
- o Sun Moon Star (SMS) is an OEM which will require much more attention. Richard will meet with them at Comdex to explore future relationship building. Meanwhile, SMS is a DRI OEM and we expect to sign them for MS-DOS and Windows. As a result, SMS will be a two operating system OEM. Overtime, we will explore the opportunity to displace DRI, but it will take some very aggressive giving by MS, since DRI and SMS have a 2 year relationship and SMS (claims) to be DRI's largest OEM. DRI will do just about anything to keep SMS. The question is, what will MS do to win SMS over? We must be careful and not just go after price. i.e., Headstart and Emerson.

MHR GROUP INCENTIVES:

- o Implemented and for Q1 the full 120% was achieved. For October it appears that it too will be achieved.

RESULTS AGAINST Q1 OBJECTIVES:

- o Close Packard Bell license for MS-Works.
- Signed
- o Close Emerson License for MS-DOS.
- Signed.
- o Close PP license with Distec which could result in 4K units per month.
- Postponed until October. Estimate lowered to 1k units per month.
- o Have Admin (Kristen) enter PP orders directly into NCA by September 1.
- Cancelled, due to less than expected benefits and greater than expected overhead.
- o Visit each budgeted OEM by the end-of-Q1. Either visit them or invite them to MS.
- All key minus Northgate completed. Northgate postponed to Q2.
- o Visit our Top 10 PP OEM's at least once.
- 7 of 10; other 3 for Q2.
- o Transition letters sent by August 7th. Follow-up phone calls.
- Completed.

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- o Announce Incentive Program by August 11.
- Completed.
- o Mass Mailing Letters sent by August 14th. Follow-up phone calls.
- Completed.
- o Previous PP OEM letters sent by August 21. Follow-up phone calls.
- Completed.
- o Schedule License and Finance Overview sessions.
- Completed.

Expense budget for Q1 \$191,404., Actuals \$181,862. This includes direct expenses and allocations (srubs,etc).

ACCOUNT FOCUS:

- o Now that the account managers have had 4 months to work and develop their respective territories, we are evaluating if we are properly applying our resources. Expect result summary by the first week in November.

Accounts which require more attention in Q2, alpha order:

- Arche to grow DOS futures.
- Dynabook to grow technology opportunities.
- Emerson to grow the Windows and other technology opportunities.
- Everex to understand DOS futures.
- Northgate to close a Win3 license.
- Poqet to grow technology opportunities.
- Sun Moon Star to grow overall business opportunities, beginning with DOS and Windows license.

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Q2 OBJECTIVES:

- o Exceed PP DOS budget by 20%.
- o Exceed Royalty budget by 25%.
- o Sign new licenses where for October 15%; for November 20% and for December 25% of PP DOS sales will be from NEW licenses. Either signed during the month or repeat sales from licenses signed during the quarter.
- o Sign the Sun Moon Star license for MS-DOS and Windows.
- o Sign Northgate to a Windows license.
- o Conduct sales presentation sessions.
- o Conduct license knowledge sessions.
- o Prepare plan for having Kristen (and additional resource if required) handle ALL aspects of ordering and tracking for PP sales.
- o Hire and train new account manager.

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