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MS-GmbH OEM Report - April 1991

Royalty Revenues are again below forecast, we are short of roughly \$320k. Due to an early closing of books on April 26, we have not been able to bill VOBIS \$700k upon First Customer Shipment Notice. Also it looks like Siemens Nixdorf has now problems in filing their royalty reports under the XENIX agreement on time which made it impossible to bill \$270k. However because of the signed agreement with Schmitt Computer (volume \$ 2.575m p.a.) we will exceed budget by 5% (\$20m) by end of FY91.

Packaged DOS business has not recovered from last month (March: 27,217 copies shipped, April: 25,459). Order entry however is back on 24,512 copies from 21,725 in March. But, there is no enthusiasm from our top customers.

Market - PC sales of last 3 months is developing slower than expected. On the other hand, VOBIS and Commodore claim that they had no slow-down in April, which is a sign that the market is changing its structure. As the dealer channel is the crucial factor, and OEMs fight hard for more influence of their dealers, it is hard to predict how the market develops further. The widely shared opinion is that growth continues, however it is slower than expected in the first months. A stagnation however seems to be far away. Considering seasonal effects PC sales in Q4 will not exceed Q3 (both FY91)

Siemens Nixdorf Informationssysteme AG (SNI) - still struggling with the merger. PC sales has not yet recovered after the sharp decline in Q2FY. Their main activities are still concerning the merger of both companies. So, communication channels had to be set up between Paderborn and Augsburg which took much longer than expected. The competition in the sales field from former times is still there and causes a lot of tension. 'Synergie at work' will take longer than expected until its implementation.

Schneider Rundfunkwerke - is eager to have DOS 5 shipping as early as possible. This is intended to win back the lost ground in the PC market.

VOBIS - is just claiming a good PC sale in April. There was no better communication because of Lieven's (GM of VOBIS) Easter vacation.

New Business signed (by customer)

Company	Products	ann. volume	Comments
Schmitt Computer	DOS 5/Shell, Windows/Works	\$ 2,575k	standard C&T
BEC Computer	DOS 5/Shell	\$ 282k	standard C&T
Sander Computer	DOS5/Shell/Window	\$ 106k	standard C&T
Total p.a.:		\$2,963.k	

IBM Germany - Distribution Marketing is not interested in segmenting the market in IBM and Microsoft. Although they focus on OS/2, they also understand that on mid-range computer systems Windows is the de facto standard where SAA compliance is not needed. The difficulty is that IBM is not sure what to tell the market. The old image of Microsoft the enemy is regrettably up again.



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Plaintiffs' Exhibit
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Comes v. Microsoft

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MS-GmbH OEM Report

Page 2

Threats**CONFIDENTIAL**

Works from OEM - we contacted Commodore. They claimed that a few of their largest dealers unbundle Works from the computer systems. Commodore will write a letter to those, saying the dealer has to cease unbundling Works or they will be charged a fine of \$100K. We follow up with them.

OEM Financial

Royalties	month	budget	% budget	yt'd	yt'd budget	% of budget
actual	\$ 963	\$ 2,433	40%	\$ 13,135	\$ 16,299	81%
Forecast:						
month + 1	\$ 1,600	\$ 1,417	113%	\$ 14,735	\$ 17,716	83%
month + 2	\$ 5,300	\$ 1,351	392%	\$ 20,055	\$ 19,067	105%
month + 3	\$ 20	\$ 0	#DIV/0!	\$ 20,075	\$ 0	#DIV/0!
PackDOS						
	month	budget	% budget	yt'd	yt'd budget	% of budget
Revenue	DM 2,647	DM 2,105	126%	DM 24,766	DM 19,045	130%
Units	25,459	15,359	164%	228,126	140,787	162%

40 active license agreements, 191 active Packaged DOS agreements, 62 to be renewed.

Royalty Business

With having signed the large license agreement with Schmit Computersysteme, volume \$ 2.575m p.a., it is easier to exceed the FY budget by 5%. There are still a number of amendments and license agreements to be prepared, but the main contracts with the most financial impact are done. It hurts that we have not been able to bill VOBIS the \$700k I forecasted, even the First Customer Shipment Notice arrived too late after closing the books on April 26.

In April we have to put more pressure on getting royalty reports and First Customer Shipment Notices in, but there is no severe danger for FY's revenue situation.

Packaged MS-DOS Business

It looks like the market finds its average PackDOS rate of 25,000 to 30,000 packages a month. This is a clear sign of slower development. The major issue to work on is to raise the penetration which requires much more account mgr work. Also, converting customers to royalty licenses turned out to be success in means of raising the penetration. A DOS/Windows license is attractive even for PC vendors who ship a few thousands PCs per year.

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Page 2

Account Status Changes

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Siemens-Nixdorf Informationssysteme AG (SNI)

License Agreements

Cleaning up and installing correct royalty reporting is still going on. The next amendment to the DOS, OS/2 contract is in work for adding CD-ROM and some cosmetics.

OS/2 - IBM expanded their offer to SNI for a direct license for OS/2. SNI refused this because they need adaptation layers and support that cannot be obtained from IBM.

Documentation - we are trying hard to shorten the time for preparing documentation. Docuflly might not be the ultimately choice because SNI has to use own printers.

Next steps

- make sure SNI ships DOS 5 in June, shorten the leadtime for documentation
- 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

License Agreement

An amendment is in preparation for adding Shell. The sideletter they sent along with their contract was not agreed between both parties and is under rework. This should be finished within the next months and is not yet a threat.

DOS 5

Schneider is eager to get the German version out in June. This can be accomplished if we download the documentation from Redwood to a GmbH server and prepare a copy for Schneider.

Business

They are going to pop-out new low-price computer systems. This together with the early availability of DOS 5 is considered important in order to win back lost market share.

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

VOBIS

DOS 5, Windows, Works

We are working with them on Works and Windows and try hard to have VOBIS announce availability of DOS 5 in June. As Lieven was on vacation for almost 3 weeks there was not much progress in this area.

However it pleased him that we invited him to Munich for a thorough market review with Tom Gemmel. He will come and we will raise the DOS 5 issue again.

Next steps

- gain influence on their Windows and Works offering, involve our product marketing people
- work with VOBIS to promote DOS 5 from announcement date on

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Page 4

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Aquarius

As they want to ship DOS 5 as early as possible we suggested to sign the contract and work on the Russian DOS license issue and on reduction of the minimum commitment later on; this will be included by an amendment. They said the license agreement has been signed but it has not arrived at MS GmbH.

Next steps

- get the signed license agreement over to Referrad
- provide best support so that German DOS 5 ships as early as possible (end of June?)
- work on the two remaining issues and include them in an amendment

Peacock

A new license agreement has been proposed after expiration of the sweet one. Some minor issues have still to be negotiated. Peacock wants to commit 50,000 computer systems which looks too aggressive considering their shipment history which is in the range of 25,000 p.a.

Next steps

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

Schmitt Computersysteme

After consulting a lawyer for final questions they signed the license agreement to standard conditions for a period of 1 year, minimum commitment \$ 2,575,000. Products: DOS 5, Shell, Windows and Works. Competing with VOBIS, they are targeting 70,000 computer systems over the next 12 months.

Mr. Schmitt is looking forward to join in our OEM-Briefing in Cannes and our DOS5 announcement in New York and Brussels.

They showed interest in 10,000 black Ball Point Mic for their black notebook computers but we have not been able to propose a deal with them.

Next steps

- make sure the license agreement gets executed
- have DOS 5 shipped as early as possible

IBM

The Product Marketing people that have been brought in January consider Microsoft and Windows crucial. 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-washer" 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 - There is still an unexpected high gap between forecast and actual order entry. Since the market showed a slow-down of PC sales, the PC vendors face difficulties in keeping their forecasts. Considering the soon availability of DOS 5 we have to make sure that we run out of stock before DOS 5 can be shipped.

OEM Mice - We have to work on a more reliable product forecast with our customers.

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Page 1

Review of last month goals

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April

Siemens-Nordorf Informationssysteme AG

- keep Compaq Server and SQL Server in evaluation and start license negotiations delayed
- define a cooperation project between SNI and MS not yet
- close-up all license issues on-going
- arrange a strategy briefing for SNI sales force not yet

VOBIS

- initiate marketing cooperation for Works and Windows in work
- keep them testing DOS 5 on going

DOS 5 license status

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

Packaged MS-DOS

- keep DOS 4 and 3 sales going and maximize DOS/Win combo sale partly
- get a German DOS 5 and Windows combo prepared for August in work
- 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 done

Sales Calls

Account Manager	Calls	Work days	active %	Calls/head	Comments
Manfred Schindler	17	21	100%	17	
Jaap van Arkel	21	19	90%	23	2 day on vacation
Michael Rohrbuber	22	21	100%	22	
Michael John	17	21	100%	17	
Oliver Selz	9	15	71%	13	6 days vacation
Total	86	97	82%	105	21 workdays

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Page 4

3-Month Goals

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May

Siemens-Nixdorf Informationssysteme AG

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

VOBIS

- get DOS 5 prepared for manufacturing

Schneider Rundfunkwerke

- get DOS 5 prepared for shipping ASAP

European OEM Briefing

- have all top OEMs attend
- and exceed 30 seats

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 Compaq Server and SQL Server
- get DOS 5 shipping

VOBIS

- get DOS 5 prepared for manufacturing
- have them make a public statement re DOS 5

License Agreements

- get all contractual issues solved

Packaged MS-DOS

- have all customers switch to DOS 5

July

Siemens-Nixdorf Informationssysteme AG

- pursue Compaq Server and SQL Server

VOBIS

- get DOS 5 prepared for manufacturing

Schneider Rundfunkwerke

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

Packaged MS-DOS

- have all customers switch to DOS 5

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