

DEC 1991 STATUS REPORT

MSKK OEM SALES

To: Mike Naruke (KK)
Richard Fade (HQ)
From: Toshi Mikanohara
Date: January 9, 1992

SUMMARY

KK OEM Summary:

Ended up with 1H FY92 at \$26M or 96% of budget since we missed \$1.13M for NTT Data even though it's already signed. Anyway sales revenue is almost on budget as of now.
Spending hard days on our move of system products but we should make it clear particularly on DOS/WIN strategy. My goals for the latter half of FY92 are:
- Kill OS/2 2.0 and get fully commitment to Windows NT from key OEMs.
- See much more Windows pre-installed PCs from considerable OEMs.
- Convince AX players and IBMJ to live with MS DOS/V (aka M BIOS) and coop with us on development.

Revenue:

Month	% of	OTD	% of	YTD	% of
Actual / Budget	MTD	Actual / Budget	OTD	Actual / Budget	YTD
\$511K / \$4,335K	12%	\$12,910K / \$13,449K	96%	\$26,428K / \$26,857K	96%

Status by Account:

Account	Nov Revenue	Items
BMI	\$258,868.70	Royalty (MR, Chart, Net, etc)
BONTEC	\$120,000.00	M/C (DOS, Net)
LSI	\$50,000.00	M/C (DOS)
Others	\$82,026.04	
Total	\$510,894.74	

Status of Sales:

Missed \$1,130K revenue from NTT Data in Dec, which was posted on Jan 3, 1992, and we couldn't reach 100% of budget but 96%. The loss of NTT Data was from their request for placing effective date for the amendment as of Jan 1, 1992, so MSHQ Finance system couldn't work for financial process.

It's bad but anyway we KK closed first half of 1992 on budget practically. The situation of PC shipment is not good but we're targeting to achieve the year budget, except the case of change in FUJITSU deal.

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Plaintiff's Exhibit

9394

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Three month forecast:

Month	Jan	Feb	Mar
Forecast	\$1,875K	\$3,575K	\$2,965K
% Month	53%	90%	115%
% YTD	93%	93%	94%

= 5,415,000

Signals:

Review of the last Red Flag:

- Not enough concrete solution now for the migration from OS/2 to NT.

Discussing and investigating current application status and OEM's requirement. Will have NT seminar and individual meeting with PaulMa in Jan and follow-up meeting for concrete migration method in Feb.

- Still can't fully catch up with account managing activities under current head.

In rush for OJT for new account managers and also will receive new senior AM at Mar/B. In parallel cooperating with SBD Dept for OEMs managing, particularly NT and DOS/V.

Green Flag:

- A number of OEMs are fixing concrete plan to release Windows Pens and Multimedia.
- Prepared for MS DOS/V specification and started nego with OEMs for co-development and adoption of it.

Yellow Flag:

- Still confused at OEMs on move from OS/2 to NT development. Specific migration method should be presented to OEMs.
- The pace of Win shipment is not good. Seeking for the synergy of 3.0A release, new Win apps and pre-installed PC from OEMs.

Red Flag:

- Royalty nego with FUJITSU and NEC are like deadlocked. Should be fixed asap.
- No time for moving OEMs to NT. Source delivery is one of limited practical ways.

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New Business Signed:

- NTT Data	DOSS	\$30-35/sys (Amd \$370K)
	Source Codes	\$760K for WIN, OS/2, DOS, TCP/IP
- LSI	DOS, WIN, OS/2	Renewal of old Agt (\$50K)

News:

- Received RichardF and TomBru at the beginning of Dec and had OEM meetings with NEC, FUJITSU, TOSHIBA, EPSON, HITACHI and OKI, mainly focusing on NT promotion.
- Received BillG and PeterN at the middle of Dec and as for OEMs we had several meetings. With top executives at NEC, FUJITSU and NTT Data, talked on NT promotion and general business update. With top executives at MATSUSHITA, SONY and SHARP, talked on HDTV and new media ideas.
- BillG directed to name "M-BIOS" based extended MS-DOS as just "MS-DOS/V".
- The specification for the MS-DOS/V has been prepared and we're explaining it to AX players, IBMJ and other OEMs.
- EPSON revealed their Win for Pent PC plan to release in Q4 1992. We see WPE-PC in CY92 from NEC, SANYO, HITACHI, WACOM and EPSON at least.
- The PC market trend is going down and even in Japan market we may see no or 1-2% increase in the latter half of FY92. However, the shift to 386/486 is on going.
- TOSHIBA showed us strong intention to support MME and now we push FUJITSU, NEC, IBMJ and TOSHIBA for Kanji MME launching.
- NEC announced they may exceed 5 million shipment of PC98 in total next Feb.
- Hitachi announced to deal with IBMJ Note PC as OEM base.
- FUJITSU announced to release IBMJ compatible PC based on ICL next Spring.

Issues:

- Windows 3.0 Kanji has not been sold well as compared with our initial plan, about 80K copies as of Nov end against for total FY92 plan at 330K. New version of 3.0A and new apps like Word, Excel and 123/W may leverage more shipment but we have to consider about MS retail package in parallel. The key is to push NEC for Win pre-installed 98 series.
- We're having hard days on NT promotion. There have not been rationale for OEMs to change their OS/2 commitment to their customers for NT, but they've understood difficulty for supporting OS/2 without MS cooperation.
- I'm planning to have NT Seminar and meetings (PaulMa) in Jan, NT Migration meetings in Feb (DavidWo) and NEC - BillG meeting in Feb, OEM Briefing (SteveB) in Mar and ISV Seminar in Apr. Thru these event we should convince OEMs no OS/2 2.0 but Windows and NT. First priority is to do it with NEC, FUJITSU and NTT Data.
- In parallel I'm proposing seeding NT source codes to key OEMs in order for keeping their development resource for it from early stage.
- Priority for supporting OEMs are:
 - 1st tier NEC, FUJITSU, NTT Data
 - 2nd tier OKI, HITACHI, MITSUBISHI, TOSHIBA
- The shipment and marketing pace of LanMan seems not good as compared with Novel. We're pushing OEMs with LanMan 2.1 and TCP/IP, and in parallel NBU is directing MS MVL packages to

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be released in Apr starting from client portions. SOLITON is the partner in marketing and development.

- As for server apps, we can't resolve the contractual difficulty on SQL Server with NEC in a short time, then we recommended NEC to abandon the OS/2 version of the product but focus on next one for NT.

- Having the meetings with AX players, IBMJ and other OEMs on our new DOS/V (aka M-BIOS) specification, where we need to convince them for it and ask to co-work with us on coding programs.

Generally speaking they're positive to our direction.

- The nego with FUJITSU on amendment to \$40M Agt has not been fixed. Now we're seeking for a compromising point based on RichardF's final proposal to them.

- It's also hard to accept the requirement from NEC to reduce DOS royalty rates since it's too low enough. Both are summarizing data for convincing each other and RichardF will discuss with NEC directly in Jan.

DOS & Windows Watch:

Windows 3.0:

<u>Account</u>	<u>% Penetration</u>	<u>% Pre-Installed</u>
NEC	10%	2%
FUJITSU	8%	0%
TOSHIBA	5%	0%
EPSON	5%	0%
IBMJ	25%	5%

DOS 5.0:

<u>Account</u>	<u>Systems Shipped</u>	<u>% DOS5</u>	<u>% Other</u>
NEC	90,000	10%	90%
FUJITSU	15,000	0%	100%
TOSHIBA	8,000	20%	80%
EPSON	12,000	0%	100%
IBMJ	10,000	0%	100%
(cf. SANYO	2,000	25%	75%)

Next Month Goals:

- Follow up Red Flag items.
- Have Windows NT Technical Seminar successfully.
- Confirm key OEMs stance negative to OS/2 but endorsing NT.
- Convince key OEMs to coop with us on MS DOS/V.

* Please see each report by account manager on OEM status in detail.

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Monthly Report
NEC and Others

December, 1991
Kiyokazu Omi

1. OEM summary

NEC

Meeting regarding MS strategy

We, Ryojiw, Toshim and I, had the meetings.

As of today, NEC want to ship OS/2 2.0 to customers even though NEC is working with MS closely and NEC is cooperative to strengthen MS strategy in Japan. The reasons are that

- IBM-J is strongly pushing OS/2 2.0 to large accounts, including NEC's users. In the meantime, NEC can not offer any definite plans regarding OS/2 to the users. They need official vision and plan regarding MS OS strategy, i.e. migration, schedule, application programs and so on.

- In a technical point of view, almost current applications for OS/2 need more memory. NT basically solve this problem. However schedule and migration issues still remain.

I think next step is to offer definite and integrated plan, including technical and marketing information. And MS make an clear announcement if we can.

We also discussed SQL issue at this meeting. They seems to give up to develop Kanji SQL Server on "work made hire" basis. Because This SQL is for OS/2, and If the development will be started soon, completion of the development will be at the end of this year. It's out of time.

In fact, this was requested by NEC at first. And It's also true that NEC asked us to get rights beyond our standard localization agreement. But Kanji SQL Server was needed for MS as well. (Kanji SQL Server is still needed.) It might be better that we didn't persist in doing it in our standard way such as using an localization agreements. (I believe we could get equal rights unless we use the standard agreements.)

The issue regarding Kanji SQL Server for OS/2 between MS and NEC was eventually resolved. However, in general, We still have a issue how we provide a database to customers.

Essential issue regarding SQL is that MS don't have any right regarding source codes of this. It means, there was no problem in US when it was launched because MS was deeply negotiated with Sybase for this product. However I can't believe MS deeply considered Kanji SQL Server. MSKK, including MSHQ don't decide anything by ourselves in a case the modification is needed. Everything regarding SQL eventually depends on Sybase.

Re: Pen-Windows

We had technical meeting regarding Kanji Pen-Windows. In a technical point of view, we almost came to the agreement. The left issue is schedule, because it's not fixed when we ship final OAK. NEC intend to ship Pen-Windows at the end of May '92 and ship Clipboard type PC with Pen-Windows at the end of July '92.

So we are coordinating the schedule in cooperation with Pen-Windows group in HQ.

I also made a presentation Pen-Windows to marketing group. The objectives are how we address Pen-Windows in Japan and how to recruit ISVs. Consequently they made a commitment of Pen-Windows and will recruit ISVs for Pen-Windows in cooperation with us.

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Others:

Ricoh : They currently have a license of MS-Networks, but no LAN Manager. So I'm pushing them to have a license of LAN Manager. As you may know, They are one of companies which distributing MS-networks largely. We can expect they have power to sell a lot of LAN Manager in Japan.

I submitted the draft to them. The conditions are that royalties are \$17 for MS-Networks, \$34 for LM client portion, \$150 for LM server portion and minimum commitment is \$150K. They will agree with these conditions. I expect I can get Ricoh to sign this agreement by the end of February.

JVC : We, JohnSa, PaulO, MarkAn and I, visited JVC R&D Center and made a presentation of advanced systems, which mean Video PC and Wallet PC. JVC made a presentation of their organization and their peripherals, including 2.5" optical disk and MPEG2 chip. They are very interested in Multimedia as expert company on moving picture. They seems to do business of peripherals at least. For us, They will become a good partner to take the feature of moving picture in our products.

JVC started to plan to do PC business. This plan is on R&D stage. So their marketing plan is not clear, however they are going to launch their PC with NT and intend to exhibit prototype of note PC with NT around the early of '93. They don't have any licenses without CD-ROM Extensions nor a master NDA. So I'm going to contract a NDA for NT with JVC and proceed with the prospect.

Fuji Xerox : We met them because they are interested in LM for Unix. They are distributing SUN workstations in Japan. That's why they are interested. TonyLau, fortunately he was staying in Japan, explained LM/U strategy and I explained MS license policy. They understood LM/U strategy and license policy. In a business point of view, they couldn't decide if they get a license of LM/U or not at the meeting because MS license style is very different from Unix license style that they are used to. Klichik took over this deal.

Mitsumi : I submitted a draft for CD-ROM Extensions to them. The conditions are that royalty is \$1.3 and minimum commitment is \$130K. As for the conditions, I had convinced them of this conditions. However, they don't have good stuffs to deal with this kind of business so I need a few more time to close this.

2. Revenue

	Dec. Actual	Dec. Budget	QTD Actual	QTD Budget	% of	YTD Actual	YTD Budget	%of
NEC	2k	3,215k	4,294k	4,474k	96.0%	9,194k	5,640k	163.0%

3. New Business Signed

None

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4. News

NEC Organization Change
NEC announced their organization change on 12/9. They officially said the objective of this organization change is to integrate communication division and PC division. For us, this change seems to focus on strengthening export PC business and supporting 3rd parties.

As for the organization,

- Oversees Personal Computer Marketing Promotion Div. was established.
(This means to strengthen export PC business.)
- Personal Computer Sales Promotion Div. divided into Personal Computer Application Engineering Div. and Personal Computer Marketing Promotion Div.
(This means that the department which supported 3rd parties was independent and promoted Division.)
- Network Engineering support Dept. is newly established in Personal Computer Application Engineering Div.

As for personnel changes:

- Mr. Negita, who was assistant GM of 2nd OA, was promoted GM of Personal Computer Application Engineering Div.
(As the result of this change, Mr. Hikita, who is assistant GM of 2nd OA and had taken charge of just hardware, took charge of software and hardware in 2nd OA.)
- Mr. Mori, who was senior manager of overseas product engineering dept. in 2nd OA, changed to senior manager of planning dept. in Oversees Personal Computer Marketing Promotion Div.
- Mr. Yuzawa, who was manager of product engineering dept. in 2nd OA, changed to manager of overseas product engineering dept. in 2nd OA.
(I will report an overall of the organization later because I need time to check official section name in English.)

Kanji CommServer technical training took place in Nagoya, Japan. NEC is developing Kanji CommServer on "work made hire" basis. So MSHQ, not attended at this time, MSKK and DCL are supporting the development. We had a hard time because their technical level is not high. The training was successfully done after all. Target date of shipping Kanji CommServer was not slipped, and was Oct. '92.

Meeting with JohnSa. We made a presentation of advanced systems, which mean Video PC and Wallet PC, and also had Q&A session regarding MultiMedia to NEC 2nd OA. These kind of systems are integrated with technologies of several areas so they couldn't catch on quickly. Because they are just PC engineers. Anyway, We need to continuously offer these kind of technologies to NEC because market for these products overlaps PC market.

5. Issues

- Royalties

I still have a lot of issues. However one of the points is MS-DOS royalties. Royalties of other products, i.e. MMW, Pen-Windows, are not directly related to MS-DOS royalties. But we have to adjust royalties of other products according to MS-DOS royalties.

We have to fix MS-DOS royalties at first, and then we can fix the conditions for other products.

- OS strategy

We will continuously convince NEC of giving OS/2 up and pushing NT.

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6. Next Monthly Goal

NEC:

- Continue to :Convince NEC of our OS/2 and WIN/NT strategy.
- Continue to :Fix MS-DOS royalties, and then MMW and Pen-Windows royalties

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MSKK OEM SALES
 Fujitsu, Matsushita, Sony and others
 Ken Nakayama

1. Key Accomplishments

- Fujitsu
 - Drafted PPB Reduction Plan.
 - Had a meeting in order to clarify the contents of Seattle meeting subjected to "how to handle the huge PPB" with Mr.Yonekawa of Fujitsu, RichardF and Toshim.
- LSI
 - Drafted and got three of signed amendment from them in order to extend the term of these agreement. (J003-7271, J003-7272, J003-5098)
- SONY
 - Got signed amendment from them including Dos5, Win3, OS/2 1.21, LM2.0. (J023-9261)
 - held a meeting regarding Win for Pens with HQ people. Discussed about three years future.

2. Sales/Billing V.S. Budget

	Sep. Actual	Sep. Budget	QTD Actual	QTD Budget	% of QTD	YTD Actual	YTD Budget	% of YTD
Fujitsu	0	0	2.5M	2.5M	100.0%	2.5M	2.5M	100.0%
Matsushita	545K	500K	545K	580K	94.0%	545K	580K	94.0%
Sony	0	400K	0	400K	0%	0	400K	0%

3. Prepaid Balance (PPB) Status and reduction plan

Fujitsu;

PPB status: \$18.5M in their OS/2, LM, DOS and Win license (J036-8133).
 Action1: Discussing PPB reduction plan with Fujitsu, RichardF and Toshim.
 Action2: strongly pushing to make the sales bundle of DOS3 and Win3.

Matsushita;

PPB status: \$1.1M in DOS/Win license (J005-1133).
 Action1: got a commitment to start DOS3 + Win3 sales bundle to their CV-M750 from this December.
 Action2: Assisting their export business team giving DOS5/V informations.
 Action3: Pushing to manufacturing Pen and MM machine.

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4. Agreement / Amendment Signed

- Kobe Steel Agreement J100-1249 was signed including OS/2 1.21 at \$70/copy, LM2.0 Server at \$185/copy, LM2.0 W/S at \$37/copy

5. Significant OEM Opportunities in Progress / News

Fujitsu;

- Waiting for shipment forecast made by Fujitsu. I will make another plan in order to decide M/C or royalties.
- Drafted amendment No.6 to merge POQET Computer, carrying \$500K from POQET's PPB as a recoupment and they write off about \$650K of M/C.

- will release 4 types of Data Discman as follows.

DD-1	58,000yen (\$440) Sony DD-1 clone. Produced by KMEI.
DD-1EX	58,000yen (\$440) Enhanced display (256*200). Produced by KMEI.
DD-10	65,000yen (\$490) Included XA sound. Produced by KMEI.
DD-DR1	48,000yen (\$360) Without keyboard and display, and sold as an option for dedicated Japanese word processor. Produced by MEI.

Sony;

- got signed amendment for J023-9261 that specified DOS5+Win3, OS/2 1.2, LM2.0 Server and LM2.0 Workstation. But it contained some of incorrect provisions. Therefore I am working with BrianMc to fix the bugs.
- Drafted an amendment for CD-EX 1.1 (J023-8049) that specified CD-EX 2.20 and the term of this agreement.

Privilege Material
Redacted

KOBELCO;

- made press release on Sep 26 regarding LM2.0. Over 400 companies have received their press announce.
- They are very interested in TCP/IP with utility. I will make an amendment. I offered TCP/IP at \$15/copy and \$40/copy with Utilities including FTP, Telnet and others.

LSI;

- discussed about PPB (over \$300K) reduction plan for expired three agreement (J003-7271, 7272, 5098). We agreed to establish a new agreement with \$250K as a credit from old agreements with higher royalties and pay \$50K as an additional minimum commitment.

Privilege Material
Redacted

OLIVETTI/AST;

- I am supporting DOS5/V in terms of schedule, spec and other matter.
- I will have a meeting with AST HQ people on Oct. 8 regarding DOS5/V licensing policy with Toshiba.

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PAK- IN-VIDEO:

Privilege Material Redacted

This agreement will be closed November.

- got an approval from Richard F as to licensing territory and platform.

licensing platform

Gameboy (Nintendo), PC engine (NEC HE), JWP (MEI), Famicom (Nintendo), MegaDrive (SEGA)

licensing territory

Japan, US, Europe, South-East Asia

6. Next month goal

Fujitsu:

- (1) Make new plan and propose it to FJ, and get their agreement about how to handle the huge PPB, royalty balance between FJ and ICL and NOKIA.
- (2) get agreement of MMWin royalty.
- (3) Close amendment #6 for J036-8133 including Poqet matter.
- (4) Draft amendment #7 for J036-8133 including OS/2 2.0, Win3 and DOS5 source code fee.

MEI:

- (1) Visit MEI-Kotobuki and KMEI, and make propose about T1 Printer with Michiak.

Sony:

- (1) Close amendment #1 for J023-8049 including CD-Ex 1.0 and 2.20.
- (2) Close amendment #2 for J023-9261 that will be including DOS5, Win3, OS/2 1.21 and LM2.0.

LSI:

- (1) Close new agreement specified DOS, Win, OS/2 and Networks.

PAK- IN-VIDEO:

- (1) Close new agreement for Minesweeper.

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