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Plaintiff's Exhibit

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Comes v. Microsoft

*Microsoft*

Friday, September 22, 1989

Mr. Leonard Liu  
President  
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*File Acer*

Dear Leonard,

It was good to talk to you on the phone the other day. I hope we can see each other again soon. Maybe Comdex?

Attached to this note is your personal copy of our analysis of the ROM versions of DRI's product versus Microsoft's. I think you'll see that we have a large advantage over DR-DOS in the size of the operating system kernel: this is surely critical in machines designed to ship with 256 k memory. There are several other important strengths mentioned in the document.

What I really want to tell you - on a confidential basis - is the answer to the question you raised when we talked. You asked "Is this ROM DOS strategic for Microsoft?" The answer is a strong "yes".

On the 26<sup>th</sup> of this month, we are going to announce officially the ROM DOS product. That announcement, which will be made in Europe first, will be accompanied by Psion's announcement that they have licensed Microsoft ROM DOS. Psion, a British company, is the maker of the Psion Organizer which is probably the largest selling pocket computer in the world: it is a huge hit in Europe. Their current technology is eight bit, but they will be moving to 16 bit and MS-DOS. Psion will also announce that they will use our Flash File System, which supports the FEPRM technology that Psion has designed into its system for mass storage. We will also announce that Poqet, a California company, has licensed Microsoft ROM DOS and will be incorporating it into a future version of its pocket PC. We expect similar announcements from Japanese companies in the near future, for pocket PCs, embedded control machines and small personal computers.

Our US press release is scheduled for October 2<sup>nd</sup>, as we believe this date will get us better coverage in the US.

This product is by no means "something that we have dreamed up to just propose to Acer". It has been in development for a year. It and its future versions are a key business line for us. It is our plan to expand the range of our offerings as 16 bit processors move into new markets.

I'm sure that Alan Sugar would not mind me telling you about his decision for Amstrad. He decided to stay with MS-DOS (they use the disk version). In 1985 when he first came out with his low end 512k machine, he shipped both DRI's then-current product and MS-DOS: his market research showed that virtually all users chose to use the Microsoft product, rather than risk the compatibility questions that DRI's operating system products raise. His more recent machines dropped the DRI products entirely. Amstrad is a

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company that ships most of its machines into the home and small business market; but some of their machines go into businesses that use networks, or that use Windows. It only takes a couple of reports about non-compatibility to give the kiss of death to a PC: we've seen that on the hardware side as well in as in the operating system area.

Your concern about Basic supporting Hercules is legitimate. We actually have two solutions to that. We can license our famous Quick Basic Interpreter to you at very little cost, or with a little engineering work we can provide a version of GW Basic that supports Hercules. Quick Basic is one of the products that we are evaluating for localization into Chinese. While localization will not be completed in the time frame of the shipment of the Third Wave machines, it would surely make more sense in the future to move from the US version of Quick Basic to a Chinese version of the same product. Also please remember that Microsoft is very committed to future versions of Quick Basic; Borland has announced that they are not planning further Turbo Basic work.

Regarding the commercial terms we have proposed, I'd like only to point out that we have already agreed, contrary to our usual practice, to license these new machines for our ROM DOS without any increase in financial commitment. This recognizes the large volume of business that Acer already does with Microsoft - business that we very much appreciate. I am sure that once you have had a chance to look at the data, you'll agree that the slightly higher cost of including the real MS-DOS product will ensure a more successful product.

Microsoft cares very much about your decision on this operating system requirement. There are many exciting developments due at the lower end of the market in the coming year or two, including the optical or multimedia PC that Ken Tai and I talked about last winter. We want to see our relationship cover the high *and* low ends of the personal computer and workstation markets. If there is any other information you need, don't hesitate to have your people call us. As you know I am ready to receive your call at any time. As leading companies in the industry we would be foolish to not work as closely as possible together.

Yours sincerely,



Jeremy Butler  
Senior Vice President

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