

November Status Report
MHR Account Team



REVENUE

Revenues		NOV.	Q2	YTD
Royalty:	Actual	1,193,944	3,868,447	9,193,073
	Budget	5,460	5,836,762	11,672,033
	%	21867%	66%	79%
FG*:	Actual	1,102,896	2,389,041	5,249,278
	Budget	458,350	2,848,045	5,444,470
	%	241%	84%	96%
Total:	Actual	2,296,840	6,257,488	14,442,351
	Budget	463,810	8,684,807	17,116,503
	%	495%	72%	84%

Due to the fact that Focus does not allow me to breakout D-Team's percentage of miscellaneous budget for both FG and Royalty, I carry the whole budget for miscellaneous revenues. As a result, the Revenue By Company Report incorrectly lists my numbers. My true numbers are reflected in the attached Excel Spreadsheet.

With a few exceptions, business looks pretty good. The exceptions being two PP DOS budgeted customers Distec & Orange Micro. I expect Distec to make reasonable purchases in December. Unfortunately, Orange Micro will not recover. The other big hit is Packard Bell who stopped shipping Works (budgeted at \$433k). We also expect to mutually terminate a license (Lan Manager) with Standard Micro which will cost us \$43k. I still expect we will close Q2 at 110%. The main factor will be December orders for combo and/or PP DOS.

NEWS

Demand for combo product not as high as anticipated.

Meeting held with Luisi at Comdex to avert DRI.

We anticipate Gateway 2000 to increase their commitment to by \$2.2m for DOS & Windows.

Znix sues Microsoft claiming unfair trade practices in the licensing of Windows with their Mouse.

Demand for TI's notebook greater than forecasted by TI, even without Windows (not for long). See Account Summary & LapTop for details.

Austin Computers not meeting their minimum commit schedule.

Negotiations continue with Digi-Pro to license MS-DOS Russian.

Osicom not honoring their "modified" minimum commit schedule.

Negotiations with Model America for DOS & Win still going strong after 18 months (sounds like a battery commercial).

Comdex pay-off for "new business" yet to be determined.

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"Fit-it" negotiations continue with Standard Microsystems (large Lan Manager prepaids) and Alloy who appears to have no money.

Customers meetings in November (alpha order): Amkley; Austin Computers; DAK; Dauphin; Digi-Pro; Distec; Gateway 2000; Mitsuba; Orange Micro; PC Brand; TI; Technology Works; Tokyo Cobra and Tricord.

NEW BUSINESS SIGNED

<u>OEM</u>	<u>Product</u>	<u>Amount</u>
Automated Computer Technology	MS DOS 3.3/4.01 PP	\$2.75K
Biosonics	MS DOS 3.3/4.01 PP	\$1.8K
Computer Marketing Corporation	MS DOS 3.3/4.01 PP	\$1.5K
KMS Fusion	MS DOS 3.3/4.01 PP	renew
Liuski International	MS DOS 3.3/4.01 PP	renew
Master Computer	MS DOS 3.3/4.01 PP	\$2.75K
Northern Computer Systems	MS DOS 3.3/4.01 PP	\$2.8K
Uson Corporation	MS DOS 3.3/4.01 PP	\$3K
Weetech	MS DOS 3.3/4.01 PP	\$2.75K
Subtotal		\$17.35K
Ariel Design	Combo/Mouse	\$8.125K
Northern Computer Systems	Combo	\$5.75K
Subtotal		\$13.87K
Northern Computer Systems	Windows PP	\$4.25K
Subtotal		\$4.25K
Gateway 2000	Bus Mouse Royalty	amend
Miltope Business Systems	MS DOS 3.3 Royalty	\$7K
Z-Nix Company Inc.	Windows Royalth	\$1.71M
Subtotal		\$1.717M
Northern Computer Systems	50-Pack Mice	\$2.575K
MHR TOTAL		\$1,755,045

III. MS-DOS PP WATCH FOR ALL OF NEW BUSINESS (MHR & DTEAM):

	November		Q2		FY 91		FY 90
	Units	%	Units	%	Units	%	
PP 3.3	5,521	27%	13,287	32%	32,962	32%	
PP 4.01(5 1/4)	12,281	60%	24,311	59%	56,685	55%	
PP 4.01 (3.5)	2,604	13%	3,713	9%	13,007	13%	
Units of PP*	20,406	100%	41,311	100%	102,654	100%	88,234
Dollars of PP	\$1,031,775		\$2,099,125		\$5,234,440		\$4,521,569
Avg. Selling Price	\$50.56		\$50.81		\$50.99		\$51.25

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IV. TERRITORY BREAKDOWN FOR MHR TEAM (ONLY):

	Nov.		Q1		Q2		Q3		Q4		YTD	
	Units	%	Units	%	Units	%	Units	%	Units	%	Units	%
Doris	2,971	25%	14,930	44%	5,625	25%	0	0%	0	0%	20,555	36%
Dave	550	5%	5,655	17%	1,635	7%	0	0%	0	0%	7,290	13%
Tom	370	3%	950	3%	730	3%	0	0%	0	0%	1,680	3%
Rick	3,800	31%	12,376	36%	8,715	38%	0	0%	0	0%	21,091	37%
David	4,400	36%			6,210	27%	0	0%	0	0%	6,210	11%
TOTAL	12,091	100%	33,911	100%	22,915	100%	0	0%	0	0%	56,826	100%

ACCOUNT SUMMARIES

Austin Computers has a 286 & 386 pre-Processor license for MS-DOS, Windows & Mice. Austin Computer claims not be receiving it's Intel 386 chip allocation. As a result, Austin Computer is behind in their 386 shipments. Tom & I went down to Austin, TX to meet with Austin Computers in an effort to gain a better understanding of the situation. It definitely appears that Austin Computer is not receiving their forecasted level of Intel 386 chips. As a result, Austin Computers has had to convert over to manufacturing 286 systems for which Intel has plenty of chips. Meanwhile, Austin has fallen behind in cash flow as a result of not being able to meet customer demand for 386 systems and trying to substitute 286 systems. Several options were discussed to make the situation as workable as possible. The one Tom will pursue is to restructure their payment schedule for DOS & Windows (with no reduction in commitment level). Extending the license by 6 months. In addition, due to lower than anticipated systems shipments, their Mice orders are not meeting their commitment schedule. The Mice situation will take a "little" more creative problem solving. Anticipate having a revised license to Austin by December 15th with closure by January 15th. On an up-note, they did make good on a verbal commitment given at the meeting to pay at least \$140k (50%) of their then Over-Due scheduled commitment.

Digi-Pro in Huntsville, Alabama via it's broker has been given preliminary verbal commitment by the Soviet Ministry of Education to purchase 20k PC's from Digi-Pro. Digi-Pro's royalty for 20k units of Russian MS-DOS would be \$40.00 Russian. The "big sky" potential is as high as 100k units at \$28. Dave Wright has kept Dale Christensen current on the details of the negotiations. We (davewr) expects Digi-Pro to request a license by December 17.

Gateway 2000 is currently licensed on a per processor license for MS-DOS & Windows at a rate of 75k per year. Gateway 2000 has expressed an interest to license MS-DOS 5.0 (along with Windows) with only an incremental cost increase per system. In order to maintain as close as possible to current cost Gateway will need to increase their unit commitment. Since their run rates are well within a rate of 125k units per year we will be able to license them DOS 5.0 and Windows with minimal increase cost per system. We (davewr) expects verbal agreement from Ted (Owner/President) by December 17 to proceed with the 125 unit rate.

Currently, Luiski purchases PP Dos from Phoenix and/or Microsoft on a "per need per copy basis". We have been trying to get Luiski to bundle MS-DOS per processor, but they have resisted. Main reason shared with us is the added cost of any operating systems being bundled with their systems. Meanwhile, a couple weeks prior to Comdex Rick's source at Luiski advised him that DRI had been aggressively attempting to get Luiski to bundle DRI-DOS with them systems. Hearing of DRI's aggressive posture, Rick was able to get Morris Lui (as in Luiski) their Owner/President and Manny Tan (Executive VP) to meet with us at Comdex. It appears that Luiski very much wants to ship MS-DOS, but is using DRI as a "low cost" threat. As I wrote this status report Rick was back in New York meeting with Luiski to figure out run rate and appropriate royalty rates. Expect to have license proposal to Luiski by December 17.

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Tom & I went down to meet with TI to gain a much better understanding of their operation and to show we care about them. TI recently (November) introduced one of the first real industry "notebook" PC's (see LapTop for details). TI initially was not interested in bundling Windows with their notebook PC. Reason being that they were selling everything they could manufacture and saw no reason for the added cost of Windows. Tom's inside source advised him that there appears to be a growing demand for Windows on the notebook, after all. As a result, TI is now asking what the possibility is of a 6 month promotion for Windows on their notebook. Reason being that since the target audience for the notebook will in most cases have Windows on their desktop they wish to work in the same environment when using their notebook. We expect an Amendment to their DOS for the Windows promo by January 2. In addition, due to the expected success of the notebook, TI might increase their unit commitment to MS from 18k to 50K units. Tom is reevaluating TI's run rates for DOS which may result in an increase, with incremental revenues. In addition to the above we agreed to hold quarterly review sessions to keep better informed of respective needs and plans. The next session is planned for mid-January here at MS.

After months of negotiating with Osicom to allow them to recoup some of their pre-paid balance from a previous license toward a new license, it appears that Osicom is not honoring the basic license itself. Rick plans to stick with the letter of the license and if need be to send out the Intent To Terminate letter and avoid another 9 months of renegotiating, since they show no or little intent to honor the license.

Many hours were spent this month in negotiations with Model America to license Dos & Windows. The fact is that Model America is not ready to make a royalty license commitment. At this point the route taken was to license them combo product. Once they are serious about a royalty license they have price quotes as low as 20k as high as 250k units and clearly understand our Terms & Conditions. Again, these negotiations have been going on for 18 months now.

Davewr and I met with PC-Brand to discuss licensing issues and opportunities for MS-Dos and Windows. Closed MS-Dos PP license and should receive Combo license within a week. Discussed royalty license and agreed run rates still slightly too low for this type of licensing to be beneficial. Possibly royalty license around middle of CY91.

Dauphin Technologies - Davewr and I met with Alan Yong (Pres.) to discuss converting their business from DR-Dos. He agreed that before too long his customer base would demand MS-DOS and he will then license from MS. Until that time (estimated at 3rd quarter CY91) mutual loyalty with DRI will keep him buying DR-Dos. Agreed to keep in touch over the next few months but no licensing likely during that time.

Doris and I met with Shawn of Distec at their offices in Southern California. The main objective of the meeting was to gain a better understanding of Distec's plan to "franchise" and provide name brand via these franchises. The name of the franchises are SBDI (Solutions Business Design, Inc.). Currently there are 14 set-up and plans to possibly expand to 40. Distec has hoped to be able to work through the OEM Division to obtain retail type Microsoft product. We advised Distec that they will need to work directly with USSMD or various dealers. We also discussed the pricing for the combo product and continued availability of counterfeit product in CA. As usual, Shawn wanted special pricing for product he buys from OEM, such as PP DOS and combo.

Privilege Material Redacted

Doris and I met with the President of DAK (Drew A. Kaplan, his initials are DAK) and others to discuss how our two companies might enter into license agreements for various MS products besides Windows. At this point negotiations are in the early stages. Thus, I will wait to report as various products are closer to being licensed. One issue which was discussed was the fee for the Mouse Drivers shipped with Windows. It is a confusing issue and Doris has the action item to resolve. The solution may likely have OEM wide implications.

Tricord Systems - Davewr presented the new features to Lan Man MP licensing program (since they are currently the only licensee). Internally MS has agreed to give them all of the features of the program, even though they did not pay full price (due to licensing before the final price was set) but I feel that there is money left on the table that is due MS. The final features of the program are new additions, beneficial to Tricord and will cost MS to deliver them. Therefore, I feel that they are worth charging for. Having the approval of various people in management to present the balance of program with dollars attached I met with VP of Engineering and various Support members. Meeting went well and I should know results by the end of December with signature in January if it is approved. Several minor issues discussed including MS Support which Tricord continues to be unhappy about. I am working on outstanding issues and clarifications in this area.

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The details of the Znix negotiations do not need to be made much more public than have already been done so as a result of the law suit and subsequent Press Release by Znix. At this point, agreement was reached and a license signed to allow Znix to bundle Windows with their Mouse. We learned that in the future, we need to do a better job in evaluating unique business opportunities and walk-away if they do not make sense. We should never make the same mistake twice, which is what sort of happened in this case. Somehow both parties did not spend enough time to understand the plus & minus' of the LogiTech's license and moved to quickly to try and duplicate such a deal with Znix. In addition, we should have done a better job to document and confirm our intend via follow-up letters after various phone conversations. By not having done so, Microsoft's intent were self-interpreted by the customer.

General "how are you, how is business, is there anything you need from me and Microsoft visits to" Amkley; Mitsuba; Orange Micro; Technology Works; Tokyo Cobra and Tricord.

CONCERNS/ISSUES

We are behind actual anticipated orders of our combo product. The main reason appears to be cost. We have a very aggressive price. Unfortunately, when the OEM adds their mark-up to the combo cost the selling price of their systems becomes to expensive to remain competitive to their customers. A couple of OEM's have sited the following example. "I pay MS \$115.00, I mark it up to \$150. If I ship my systems with only MS-DOS PP I buy from MS, I mark the DOS up to \$60. The End-User can shop around and get Windows for about \$80. Thus, the End User can get both for about \$140 versus my \$150. In the forementioned example give or take \$5-\$10. It just is not worth my sales effort. Microsoft, you have a great product, but we just can not incur the added cost to our system out the door"

Alloy is behind in payments. The reason is that they have very little or no money. The documents they provided at our requests: Annual Report; Qrt Report and 10k Form support their claim. The documents have been reviewed by our Finance Department who agree that Alloy has very little to no money. At this point, Rick has the action item to see how our two companies proceed.

Once the amendment is signed we will be refunding Standard Micro \$43,750 and cancelling three mins which total \$131,250. The reason for this action is that we at Microsoft had been representing ourselves that indeed we would have a tradition solution to license LanManager to our OEM's. As we all know, this is not the case. As a result, the right thing is to allow Standard Mirco to withdraw from their LanManager license, since we will not be able to help them compete in the market.

A couple weeks back I received a call from the MS-DOS Product Marketing Group (tomja) that the possibility existed that 8k units of combo product were built without the MS-DOS manual. We still have not been able to verify. We have checked stock at Canyon Park and surveyed our customers. We have yet to confirm that indeed combo product might have been built without the MS-DOS manual. Meanwhile, we new are fully prepared to address this issue if it is true. Basically, we will ship the OEM at our cost (Canyon Park) the MS-DOS manuals.

George and I will workout a policy and procedure with: Johnj; Tedha & Markche as to how accounts are transferred to new business Sales Teams.

Time and tack required to work future business opportunities with Kaypro. I anticipate we will go with "pre-pay" on FG at our regular pricing guideline.

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LAPTOP/NOTEBOOK

TI introduced it's "true" notebook:

Processor:	286	386
Name:	TM 2000	TM 3000
Size:	8 1/2"x14"x1.4"	8 1/2"x11"x1.8"
Weight:	4.4 lbs.	5.9 lbs.
Config:	20 mb HD	20mb to 60 mb HD
	640x480 VGA	640x480 VGA
	3.5" floppy	3.5" floppy
	(optional)	(standard)
SPR	\$3,999	\$5,4999

RISC WATCH

N/A

MS-DOS 5.0 WATCH

None signed, but serious negotiations with Gateway 2000.

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MHR TEAM FORECAST

Account	FYQ1 Budget	FYQ1 Actual	%	FYQ2 Budget	FYQ2 Forecast	%	FYQ3 Budget	FYQ3 Forecast	%	FYQ4 Budget	FYQ4 Forecast	%	FY91 Budget	FY91 Forecast	FY91 %
LR (FG)	75,000	0	0%	75,000	0	0%	80,000	0	0%	85,000	0	0%	315,000	0	0%
LLOY COMPUTER	132,000	132,000	100%	132,000	132,000	100%	132,000	132,000	100%	132,000	132,000	100%	528,000	528,000	100%
PATAMEDIA (FG)	104,000	53,180	51%	78,000	106,080	136%	109,200	52,000	48%	78,000	45,000	58%	369,200	256,260	69%
ISTEC (FG)	800,000	304,150	38%	850,000	325,000	38%	850,000	350,000	41%	900,000	400,000	44%	3,400,000	1,379,150	41%
ATEWAY 2000	834,396	1,058,743	127%	834,375	1,432,246	172%	834,375	1,300,000	156%	834,375	1,200,000	144%	3,337,521	4,990,989	150%
IC	445,000	603,019	136%	464,950	467,654	101%	485,075	600,000	124%	460,050	625,000	136%	1,855,075	2,295,673	124%
UISKI INT'L (FG)	180,000	335,000	186%	225,000	395,000	176%	360,000	360,000	100%	270,000	350,000	130%	1,035,000	1,440,000	139%
RANGE MICRO (FG)	42,500	0	0%	50,000	2,500	5%	50,000	0	0%	45,000	0	0%	187,500	2,500	1%
ACKARD BELL	433,329	423,046	98%	433,329	0	0%	433,329	625,000	144%	433,329	625,000	144%	1,733,316	1,673,046	97%
C CRAFT (FG)	350,000	270,000	77%	400,000	401,000	100%	400,000	300,000	75%	425,000	280,000	66%	1,575,000	1,251,000	79%
CO	2,074,980	1,827,361	88%	2,074,980	2,283,008	110%	2,074,980	2,000,000	96%	2,074,980	2,200,000	106%	8,299,920	8,310,369	100%
PSS	16,875	3,470	21%	15,000	15,000	100%	13,125	4,000	30%	11,250	5,000	44%	56,250	27,470	49%
TANDARD MICRO	43,750	43,750	100%	43,750	0	0%	43,750	0	0%	43,750	0	0%	175,000	43,750	25%
YSCORP	18,750	18,750	100%	18,750	18,750	100%	18,750	18,750	100%	18,750	18,750	100%	75,000	75,000	100%
L	18,750	173,450	925%	5,460	168,250	###	4,550	175,000	###	3,640	150,000	###	32,400	666,700	2058%
PD - ALLEN GROUPE	83,270	83,270	100%	16,875	68,070	403%	22,500	22,500	100%	22,500	22,500	100%	145,145	196,340	135%
YLE LAB.	30,300	19,375	64%	30,300	19,300	64%	30,300	10,000	33%	0	0	###	90,900	48,675	54%
EOS INT'L	457,084	684,500	150%	463,158	780,000	168%	463,158	600,000	130%	463,104	650,000	140%	1,846,504	2,714,500	147%
IISC FG	950,424	1,078,288	113%	1,464,000	1,767,500	121%	1,257,800	1,500,000	119%	806,250	925,000	115%	4,478,474	5,270,788	118%
IISC ROYALTY	1,424,557	902,258	63%	1,393,281	1,600,000	115%	1,353,954	1,400,000	103%	1,289,854	1,369,933	106%	5,461,646	5,272,191	97%
FY90 YTD TOTALS	8,514,965	8,013,610	94%	9,068,208	9,981,358	110%	9,016,846	9,449,250	105%	8,396,832	8,998,183	107%	34,996,851	36,442,401	104%
DIFFERENCE		-501,355		913,150			432,404				601,351			1,445,550	

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