

6/26/90.

ACER UPB PLAN

ACER UPB ANALYSIS

The purpose of this memo is to define the UPB status at Acer and outline plans for reducing the prepaid balance to an appropriate level by Q4FY91. The Prepaid balance for Acer as the end of March 1990, was \$6.2 million. (\$4.8M for DOS, \$0.99M for Windows, and \$0.4M for OS/2) The prepaids, allocated between three agreements, will be addressed below.

DOS AGREEMENT

This agreement has an effective date of July 1, 1988, and expires on June 30, 1990. It covers all Intel processor machines manufactured by Acer. The DOS royalty for 8086 and 8088 processors is \$11 per system and the royalty for 80286, 80386 and 80486 processors is \$15 per system. The DOS 4.01 Shell royalty is \$0.00. The original Acer commitment was for 500,000 units per year for two years. The UPB problem started in the first year when shipments were only 230,000 units. The second year shipment is estimated to be about 300,000 units. This resulted in a license that will expire with an outstanding prepaid of about \$5.7 million.

During the original contract negotiation, Acer's tactics was to go for the lowest possible DOS royalty rate and force itself to commit to a large volume. Over the term of the agreement, Acer's shipments were impacted by several factors. First, Acer changed to an inferior supplier for several critical chip parts. Poor incoming quality resulted in a reduction in finished machine shipments to less than half of what was forecasted. It took Acer 2 quarters to recover. This was further compounded with a DRAM shortage which continued to prohibit shipments. Acer was also too aggressive in its business plan and did not achieve the sales volumes they forecasted.

Acer will end this agreement with a shortfall of about 466,000 units to their committed volume and will have an outstanding prepaid of \$5.7 million. During the last three quarters of the year, Acer's shipments have increased. However, it is only in Q4FY90 that they might reach a quarterly level of 125,000, which is the required minimum units level they must have to meet its commitment to MS.

FUTURE FORECAST AND REMEDIAL PLAN

Future Forecast

Acer shipments have been increasing over the past year and this trend will continue. The MS forecast for FY91 is 430,000 machines. Acer feels that it can ship over 500,000 machines. They are putting a major effort into marketing and sales promotion on a world wide basis to increase sales.

Remedial Plan

The current agreement should be extended for six months, from July 1, 1990 to December 31, 1990, with no additional minimum commitment payment.

An additional safeguard in the form of a ROM-DOS amendment has been added to this license agreement. This is for a new low cost machine at a royalty of \$5 per system. Most likely, Acer is planning to ship ROM/DOS 3.22 products beginning from Q2FY91 for home product market place.

We are also plan to put Chinese-DOS into DOS agreement since the original CDOS contract was expired on April 1, 1990.

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## WINDOWS AGREEMENT

Effective November 1, 1989, all Acer Windows agreements were combined under a new agreement (Windows 286 & 386 version 2.11 and 3.0). This agreement expires on October 31, 1991. At the end of March, the prepaid balance was \$994,240. The projected shipments of 150,000 Windows per year is forecasted to fall behind schedule until Windows 3.0 is released and selling in volume in the U.S. and European countries.

### Remedial Plan

In order to prevent a build up of prepaid balances, the minimum commitments for the first period were moved to the second period. The Due on Signing should cover the forecast shipments for the first period. During the second period, Windows 3.0 will be shipping to both the U.S. and Europe, and the volumes are forecasted to match the minimum commitments. This will result in shipments averaging 58,132 units a quarter, and it is anticipated that the agreement will expire in October, 1991 with a zero UPB.

## OS/2 AGREEMENT

The current OS/2 agreement for versions 1.0 and 1.1 expires on June 30, 1990. This agreement was for a minimum of 2,400 copies per year over two years at a royalty of \$115 per copy. Our budget plan was to ship 9% of 80386 processors, or 2400 unit, in FY90 with OS/2. The actual shipments over the term of the agreement is estimated to be about 1000 units.

### Remedial Plan

We are planing to extend OS/2 contract for another 6 months as well as amend version 1.2. The amendment right now is in Acer for signed, This will help Acer to reduce their UPB build up.

## SUMMARY OF UPB STATUS WITH ACER

Acer is working with Microsoft to utilize outstanding prepaids. There is a mutual understanding today on all possible methods to reduce UPB.

Amendment to add European language version for Windows V3.0 is in Acer for signed, Acer plan to ship Win 3 start from Q1FY91, The forecast of increasing Windows V3 sell will help to reduce UPB right now.

Amendment for add OS/2 version 1.2 is in Acer for signed, Extended this contract for another 6 months also included, Acer plan to ship OS/2 1.2 start from end of July this year.

The amendment to extend the DOS contract is at Acer, with no minimum commitment included for 6 months, UPB reduction is expected.

Works agreement is also under discuss right now, with forecast 25K units shipment in one year, for two years contract, our planning is we take no due on signing and minimum commitments for the first year in order to reduce their DOS UPB.

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UPB STATUS REPORT - AS THE END OF MARCH 1990

AGREEMENT	UPB
DOS	4.8M
WINDOWS	0.99M
OS/2	367K
TOTAL PREPAID	\$6.2M

UPB FORECAST

	FY90Q3	FY90Q4	FY91Q1	FY91Q2	FY91Q3	FY91Q4
Machine ship	65K	106K	111K	130K	109K	118K
DOS	50K	97K	93K	103K	87K	96K
Windows	15K	9K	18K	27K	22K	22K
OS/2	263	200	260	260	260	260
M/C \$	\$1694K	\$1694K	\$0K	\$1M	\$3890K	\$2265K
Revenue \$	\$942K	\$1605K	\$1952K	\$4026K *	\$1932K	\$2066K
Tot. UPB	\$6.2M	\$6.2M	\$4.2M	\$1.1M	\$3.1M	\$3.3M

*royalty report*  
R/R records

*DOS UPB*  
*supplies*

*new licenses* →

	FY90Q2	FY90Q3
DOS \$ (units)	\$1417510- (99K)	\$722536- (50K)
Windows \$ (units)	\$63665- (4.9K)	\$189284- (14.5K)
OS/2 \$ (units)	\$18515- (161)	\$30245- (263)
Tot R/R	\$1499690-	\$942065-

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