

4/2056
Oh

Windows Update Plan



List

Executive

Jon Shirley
Bill Gates

Systems

Russ Werner
Steve Balmer
Rich Abel
Celeste Boyer
Sherry Richardson
Tom Jaffee
John Fitzpatrick
Dan Bourgojn
Jon Lazarus
Kai Kaitenbach

Apps

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Pete Higgins
Jeff Ratkes
Lewis Levin
Jeff Sanderson
Ruthann Lorentzen
Leslie Koch
Jon Reingold
Hank Vigil
Rich Tong
Joseph Krawczak
John Parkey

USSMD

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Rich Macintosh
David Jaworski
David Vaskevitch
Mike Negrin
Marty Taucher
Mike Rhomey
Ron Davis
Bill Henningsgaard
Jean Thompson

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Karen Durham
Stacia Cammarano
Sharon Decker
Alison Clark
Tony Dirksen
Peggy Gladner
Patricia Hillis
Doris Jackson
Rick Kerbs
Mike Merker
Celia Pager
Anne Hoffman
Susan Sullivan
Karya Thale
Kate Isler

International

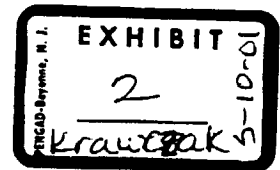
Ida Cole
Tina Podlodowski
Alison Conn
Anna Prinz
Steve Albertson

OEM

John Jenkins
Ted Hannum
Bob O'rear

PSS

Dave Vineberg



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To: List
From: Jonathan Roberts
Re: Win 3.0 Update Plan
Date: February 21, 1990

Executive Summary

Strong and early support for Win 3.0 is integral to its success. Adoption of Windows, or any operating system, is primarily based upon the recommendation of users. The initial users of Windows 3.0 will become the foundation upon which the wide spread adoption of the product will be built. Since the majority of the early adopters will come from the current Windows franchise, the Win Update/Upgrade programs are the most strategically important post-announce programs. Quickly and effectively updating a large percentage of current Windows owners to Win 3.0 will encourage a wave of acceptance that will carry us into the peak Fall selling season.

\$50, plus \$8.50 in shipping and handling fees, will be the update price. The \$50 price will be extended to all Windows owners: 286, 386, and runtime users. Having one price for all types of Windows owners greatly simplifies the program and will promote updates.

The Win 3.0 upgrade plan comprises three aggressive programs designed to dramatically increase the number of users who update their current Windows, whether they be full packaged goods users, runtime owners, or OEM owners. Microsoft's standard upgrade programs target only the registered owners of a given product. Microsoft's typical response rate for a registered base mailing is 35 percent. With an anticipated registration base of 300,000 at time of ship, we could expect to upgrade 105,000 users (assuming a 35% response rate). Through incremental programs and the use of recently developed corporate update programs we hope to increase the number of those who update by 245,000 and generate an additional 11 million dollars in revenue.

There are three components of the upgrade plan: corporate push, direct mail focus, and direct response reach. The executive summary contains a brief summary of each component.

Corporate

The first component of the plan expands our current "Corporate Update Agreement" program and enhances our standard authorized reseller update program. The Corporate Update Agreement allows accounts to sign a contract with Microsoft indicating how much product they have and how many units they wish to upgrade. Expanding the program will allow us to dispense with cumbersome verification procedures, while at the same time maintaining control over distribution. By optimizing our corporate programs we hope to substantially increase the number of Corporate updates. Upwards to 40% of our updates will come from our corporate accounts.

Direct Mail

An aggressive direct mail campaign is the second part of the plan. In addition to our standard mailing to our registered users, we are planning a second mailing approximately two months after the first, targeting those users who did not initially update. A second mailing will increase our response rate by approximately 20 percent. Encouraging our ISVs to mail their registered users with the same \$50 upgrade offer is a further extension of the direct mail program. Through this program we hope to more than double the number of users we reach through direct mail. We estimate that there is a total of 375,000 application users we will reach (300,000 ISVs (runtime & non runtime) + 75,000 MS Apps). The Apps upgrade mailings should generate an additional 75,000 upgrade units (factoring in duplication of reg basis and discounting non runtime Apps).

Direct Response

The third, and most involved, part of the plan is our direct response campaign, which is targeted at getting our non-registered users to update. Through direct response advertising we will activate non-registered users to call a Microsoft 800 telephone and order their update over the phone. Encouraging people to update their products through direct response advertising is unprecedented. Predicting results is difficult due to the lack of applicable

Windows Update Plan

Executive Summary

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experience. Estimates of success vary from 30 to 100,000 incremental updates sold. Break even on the program is 20,000 units. The rationale for the direct response ad campaign is that there is a unique and substantial opportunity to sell a large number of updates, it is the only way to reach 1.6mil owners who are not registered with any vendor and whose names do not appear on any list, and at the very minimum we will at least break even.

The destination of the 800 number is what we are calling the "Microsoft Clearinghouse". The current plan is to staff up the Microsoft Consumer Response group with temporaries to accommodate the incremental calls generated by this program. The clearinghouse's objectives are to provide a quick and easy update service, clarify Apps compatibility status, and refer customers when necessary to the appropriate ISV for a compatibility update. In short, the clearinghouse will serve an order taking and information decimation function, it will not be a fulfillment house. I examined ways of having the clearinghouse serve a more proactive role (e.g., distributing ISV exes), but feedback from the ISVs themselves and our own operations people indicated that such a program would be prohibitively difficult to implement. The primary source of incoming calls will come from the direct response advertising. Our direct mail to our registration base will also produce a high percentage of calls, particularly from the second mailing when we emphasize the 800 number.

The majority of the clearinghouse expenditures are variable. The fewer calls that come in the less it costs. Consequently, I believe we should staff it up to handle the maximum number of calls, which is three to four thousand, and then scale it back accordingly.

Marketing Budget Summary

	Total	Funded from plan	Win Push funding	FY 91 base budget	Estimated units sold
Win reg base mailing	\$306k	\$306k			105k
2nd Win reg base mailing	\$135k			\$135k	55k
Apps direct mailing	\$67.5k	\$67.5k			75k
Clearinghouse	\$255k	\$5k	\$250k		*
Direct Response Advertising	\$500k		\$500k		100k
Corporate					15k**
Total	\$1,263.5k	\$378.5k	\$750k	\$135k	330k

*Clearinghouse is a component of both the direct response and direct advertising campaigns

**A much larger percentage of the updates will be distributed through our corp update agreement program, the 15k represents the incremental number of units generated through our corp acct programs.

Win Update Programs By Audience

	Named Accounts	LVA	End Users
Profile	200 accounts 61,930 units of Win in top 200 Accts. Only 126 Accts have more than 100 units of regular Win	1,400 accounts 68,641 units, excluding 42,175 units the IBM ACIS group purchased	2,130,000
Full Version Reg by April (300,000)	Corp Update Agreement Administered by MS Corp Acct Rep. and fulfilled either direct through Microsoft, or through our Authorized Corporate Reseller program.	Authorized Corporate Reseller Program. Our seven direct corp resellers will provide standard update service. In addition we will allow them to nominate accounts for Master Update Agreement.	Direct Mail Content: Win 3.0 brochure, cover letter, OCR coupon Timing: Dropped three days before announce 2nd Mailing: Two months after announce.
App reg (285,390 tier 1 & 2 ISVs, and 80,000 for Excel and Word)	Corp Agreement Provide Win upgrade to Runtime users of Win. The upgrade of the App is not part of the program.	Direct Reseller same as above	Direct Mail Content: Win 3.0 brochure, App cover letter, \$50 offer to upgrade to Windows. Timing: Determined by App compatible ship date.
Win Unreg (1.3mil)	Corp Agreement	Direct Reseller same as above	Clearinghouse and ads Objectives: update users to Win 3.0, coordinate and Clarify App compat updates, provide info on Win Apps.
App Unreg (600,000)			Clearinghouse and ads

Corporate Programs**Named Accounts**

Our corporate account sales force will actively encourage named accounts to sign a "Master Update Agreement" for Win 3.0, which authorizes them to do the following:

- 1) Update a designated number of users from prior versions of Windows or runtime versions, as agreed upon with a Microsoft Corporate Account rep.
- 2) Buy any combination of Win 3.0 regular or MLP updates in large quantities either directly from Microsoft or from "Authorized Update Resellers."
- 3) Remove requirement of providing disks or providing comprehensive proof of ownership. The looser proof of ownership requirements would be for the initial roll-out only (six months). Following that period, std proof of ownership would then be required to update.

The corporate update agreement is a contract between Microsoft and the corporate account that states how many licensed copies of Windows the company can update. The agreement stipulates that the company can only update employees and replace previously licensed versions. It also requires them to have an anti piracy policy. Finally, the agreement is time limited.

The current Master Update Agreement requires accounts to update at least 250 units to qualify for the program. Our LVA data indicates that this stipulation would drastically reduce the number accounts who could sign such an agreement with us. According to our LVA data, only 126 accounts have purchased more than 100 units of regular Windows in the last year and a half. Consequently, in order to make this a viable program for a larger number of Large Volume Accounts, I recommend that we lower the minimum volume requirement to 50 units.

Authorized Reseller Program

Active participation of Microsoft's authorized resellers is an important component of our corporate update program. ~~USSMD estimates that corp resellers could fulfill half of the updates for our named accounts and the majority of the updates for our large volume accounts.~~ The corporate resellers will increase awareness of the offer, provide a valuable service to the account by allowing them to make more flexible purchase arrangements, and ultimately, they will improve our corporate update penetration. Corporate resellers will also serve as our primary contact with non-named accounts.

The current resellers for the authorized update program are Corporate SW, SW Spectrum, Univar, Softmart, Egghead, 800 and Businessland. In addition, U.S. Marketing recommends that we consider GTSI and Soft Warehouse be added to the update program.

For Microsoft authorized resellers, the standard update policy, with one modifications, would apply. ~~The reseller would only sell to corporate accounts, they would be permitted to stockpile Win 3.0 updates, and re-order by providing sales reports and provide the master agreement number (std program).~~ Furthermore, resellers may nominate accounts who have not signed Master Update Agreements. In order to encourage a proactive reseller update campaign, we would provide them with an additional \$5 (10%) discount off of the standard discount structure. The rationale for this modification is outlined below in the "Reseller Discount Structure" section.

Accounts who have previously licensed versions of Excel will be able to update through a parallel Master Copy Agreement program. Reseller will have the right to nominate accounts for the Excel upgrade to Windows 3.0 and the Excel 2.1c compatible update.

The Master Update Agreement provides Microsoft strict control over the distribution of Excel and Windows updates. The licenses are individually reviewed by Corporate Account Inside Sales personnel. Inside Sales validates the license request by comparing the request to the historical LVA data.

Reseller Discount Structure

Reseller feedback indicates that our current update pricing does not provide enough incentive for resellers to proactively update the corporate account base. Increasing the Windows update discount from 10 percent to 20

Windows Update Plan

percent will substantially increase the number of updates sold through our corporate resellers into our large volume accounts.

This increased discount results in a reseller pre-rebate dollar margin of \$8 for MLP and \$10 for update. When you factor in a 11.50% rebate for Egghead (one of the accounts which caused us to reconsider this pricing), the discount becomes \$11.68 for MLP and \$14.60 for update. The reseller price becomes \$28.32 and \$35.40 respectively. The table below reflects our various discount options.

	SRP	Dealer Cost	Discount	Post Rebate	Ttl Discount	
Update	\$50	\$45	10%	\$39.83	20%	Current discount
	\$50	\$40	20%	\$35.40	28%	Recommended discount
	\$50	\$35	30%	\$30.98	38%	
MLP Update	\$40	\$36	10%	\$31.86	20%	
	\$40	\$32	20%	\$28.32	28%	
	\$40	\$28	30%	\$24.78	38%	

The table is based upon Egghead's rebate of 11.5 percent. The dollar amounts move up 50 cents if you use 10 percent average for all authorized update resellers.

According to my units and revenue forecasts, I'm assuming that with the above discount our corporate resellers will update approximately 20,000 users. In order for this program to break we have to assume that they are selling 7,000 more units with the discount than they would have sold otherwise. It is the feeling of the USSMD executive staff that the program will pay for itself as well as expand our corporate update penetration.

When we make the update discount more attractive to the reseller we will have to take extra precautions to ensure they won't abuse the program and effectively drop the street price of normal product. We will need to rigorously enforce current Master Update Agreement and reseller reporting requirements.

Direct Mail Programs

Microsoft Win Update/Upgrade Programs

Mailing to MS Win Reg Base

The Win 3.0 upgrade mailing is part of the base program. Our registered users are the most accessible users in our core franchise, they're the most likely to update to Win 3.0, and they represent the largest potential number of updates. It should be our number one priority to execute this update program well.

The CorpCom pieces include targeted cover letters (e.g. 286 and 386 specific), a special update collateral piece, and OCR coupon. Unlike our standard policy, no proof of ownership will be required for registered owners to update, since usage is relatively low and locating proof of ownership may be difficult. The first mailing will drop three days before announce (assuming we have the necessary inventory).

We are planning to drop a second mailing eight weeks after the first mailing. We will have received and processed 60 percent of the potential updates from the first mailing. We want to take advantage of the lingering excitement of the Win 3.0 announcement, reference the great validating reviews we will receive, and prompt the laggards to move. In order to encourage response, we will emphasize the clearinghouse phone number in the second mailing. According to Barbara Klein, O&M Direct V.P., a typical response for a second mailing is 80

Windows Update Plan

percent of the first response rate. In other words, if we receive a 35 percent response off the first mailing, we will receive 28 percent off of the second mailing, and dramatically improve our overall response rate.

MS App Direct Mail to Reg base

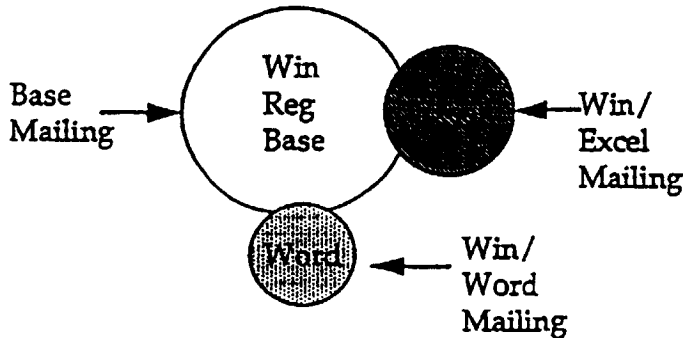
The direct mail to our MS App runtime and mutual Win/App reg bases is a logical extension of our base update program. Runtime MS Apps will be given the same \$50 update/upgrade offer as the full version registered users. The Excel group is planning to update current users of Excel to the compatible version for no charge when they upgrade to Win 3.0.

The mailing to the Win Word reg base will be extremely simple: Win Word users will be extended the standard \$50 Windows Upgrade offer. Since the shipping version of Win Word is compatible with Win 3.0, no other offer is necessary.

Why?

The MS apps mailing will include the update brochure and a cover letter outlining the Apps-specific offer. We will merge/purge the Joint MS Apps/Win reg base so that our users aren't confused by two mailings.

MS Direct Mail



ISV Upgrade Program

The ISV component of the Windows Upgrade Direct Mail program gives ISV companies the same opportunity as the Microsoft Apps to mail their registration bases and offer the Win 3.0 upgrade for \$50. We will encourage ISV companies to mail their registration bases, offer the Win 3.0 upgrade, and their own compatible upgrade. With the Excel mailing, the ISV mailing will include a product specific cover letter, the Win Update brochure, and an offer for Win 3.0 and the app-compatible update.

*what about
with app var?
Aldus &
Ami*

We intend to provide the ISVs with two Win Upgrade options. We will allow them to purchase Windows from us on 90 day term for \$40 (same as our reseller price), and fulfill the Win 3.0 upgrade with their compatible upgrade. Aldus, hDC, and Samna have expressed a strong interest in this program. Aldus and Samna are particularly interested in having their users receive the compatible app update and the Win upgrade at the same time. This will help minimize the confusion over shifting from runtime to full version.

The ISV's second option is to have Microsoft fulfill the Win Upgrade. The ISV would simply mail their registered owners and extend to them the Windows update offer. In order to implement this program Microsoft would simply provide the ISV with an appropriate number of OCR coupons which would be returned to Microsoft for us to fulfill. Corel and Micrographix have both expressed an interest in this program.

Direct Response Ad Campaign

Windows Update Plan

Proof of Concept 3

The direct response campaign targets both our non-registered owners as well as our non-registered users. The distinction between the two groups is necessary because each has a different anticipated response rate. The objective of the program is to activate non-registered owners of Windows to upgrade. The direct response ads will dovetail our power user/enthusiast evangelical general advertising. The ads will give the user two ways to respond; they can either call an 800 number to order their upgrade, or initiate the update process by mailing in the bind in card. Ogilvy and Mather Direct estimates that 70 percent will choose to use the 800 number. The rationale for the bind-in card is that it breaks the book, commands attention, signals an offer, and will ultimately increase the response rate.

Response rate

Predicting the response rate to our direct advertising is extremely difficult. We are uncertain as to how many Windows owners (particularly OEM owners) we have, and we don't know what percentage of our non-registered owners we will be able to reach through our direct advertising. Finally, we have no data upon which to base our response assumptions. That said, outlined below is Barry Briggs and my best estimate of how many people will respond to our direct advertising.

Full Product and Runtime	2,130,000
Registered Users (reached through direct mail)	- 450,000
Non-reg owners	1,680,000
60% are power users (audience for computer mags)	1,008,000
50% of power users read mags	504,000
20% respond	100,800

Direct Response Ad Cost

\$350,000	Media
\$90,000	Production
\$60,000	Agency Fee
\$500,000	Total

Clearinghouse

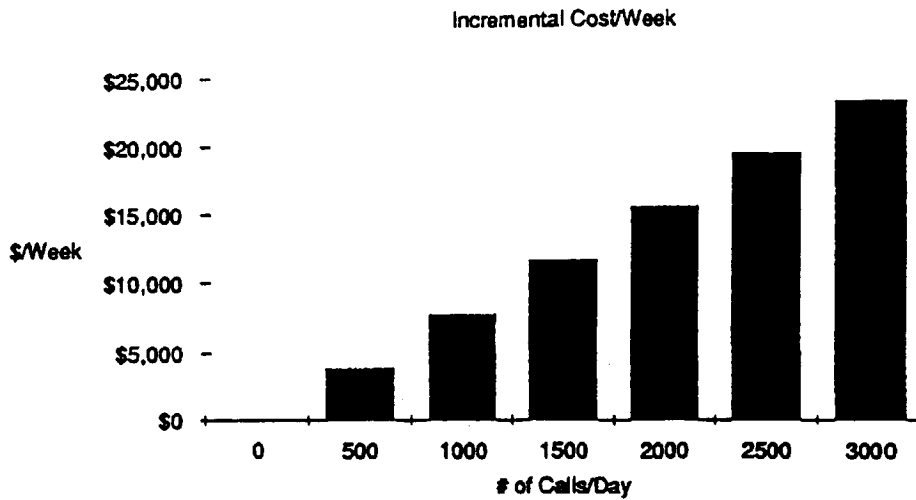
The Objectives of the clearinghouse are to update users to Windows 3.0, Clarify App compatibility issues, refer the ISV for compatible update is necessary, and upon request provide info on Apps (Windows shopping catalog).

Costs

The combined cost of the 800 line and the temporary labor account for the majority of the cost of the Clearinghouse. Since both are variable expenses, the Clearinghouse becomes a very cost efficient program. The expense of the 800 line is based upon usage, and consequently directly corresponds to the volume of incoming calls. Celiap and Anneh have also assured me that we can easily cut staffing to efficiently accommodate the volume of incoming calls. The graph below charts the variable expenditure of the Clearinghouse.

It will cost us approximately \$1.55/order taken over the phone. This is assuming a three minute call, at 18 cents/minute (56 cents/3min call), and a dollar for labor. Ogilvy and Mather Direct, Barryb, and I feel strongly that we should use an 800 line, opposed to a 206 or 900 line. This is not a support line, it is a revenue generating line. The cost of the line is approximately 55 cents per order.

Labor and the per call cost of the 800 line comprise the majority of the expense for the Clearinghouse. Both expenses are extremely flexible. The current plan is to equip the Clearinghouse to handle the maximum number of calls, and then scale it back if the volume of calls does not warrant the resources. The chart below shows the relationship between the number of calls/day and the total cost per week.



Clearinghouse Cost Breakdown

Additional Resources	Additional Costs
25 temps (125 calls/rep per day. Assuming a 3 minute call = 3,125. Upper range is 4,000 calls/day)	\$134,000 (\$12,500/wk *8 \$8500/wk *4 [17 people]) @\$500/wk/temp
800 line	\$10,956/wk (4000 calls/day) 18 cents/min, 55 cents/call
Total additional	\$254,516 (\$134,000 + \$120,516) 8wk full service + 4wk 25% less
Fixed Costs	
supervisor	\$8,100 (2,700/mo *3)
phones and lines	\$11,000
move lines	\$1,500
phones and lines	\$4,700
Total fixed costs	\$25,300

Appendixes

Item	Purpose
Microsoft Windows 3.0 Update Plan Fiscal Year 1990	Shows projected affect of the update plan on USSMD FY 90 budget
Win Update Analysis	Demonstrates how unit forecast was determined
Win LVA data for the last year and ahalf	Gives indication of Windows presence in our large accounts

MICROSOFT CORPORATION - USSMD
 WINDOWS 3.0 UPDATE PLAN
 FISCAL YEAR 1990
 IN THOUSANDS

	BUDGET		INCREMENTAL		REVISED		NOTES
	FY 89	\$ OF NET REVENUES	UPDATE ACTIVITY	FY 89	\$ OF NET REVENUES		
REVENUES							
HARDWARE	33,445	16.1%		33,445	15.9%		
LANGUAGES	30,305	9.2%		30,305	9.1%		
NETWORK	0	0.0%		0	0.0%		
MULTI MEDIA	3,301	1.6%		3,301	1.6%		
SYSTEMS	31,284	9.4%	3,791	35,075	16.4%	See Schedule A	
APPLICATIONS	235,314	70.3%		235,314	70.8%		
GROSS REVENUES	333,349	106.3%	3,791	337,140	106.4%		
REVENUE ADJUSTMENTS							
PROVISIONS-SALES RETURNS	2,409	0.7%		2,409	0.7%		
RESERVE	19,219	5.8%		19,219	5.7%		
TOTAL REVENUE ADJUSTMENTS	21,628	6.5%	0	21,628	6.4%		
NET REVENUES	311,721	100.0%	3,791	315,512	100.0%		
COST OF GOODS SOLD							
HARDWARE	28,122	9.1%		28,122	9.0%		
NETWORK	0	0.0%		0	0.0%		
LANGUAGES	5,133	1.7%		5,133	1.6%		
MULTI MEDIA	120	0.4%		120	0.4%		
SYSTEMS	9,233	3.0%	775	10,008	3.2%	See Schedule A	
APPLICATIONS	37,828	12.1%		37,828	12.0%		
ROYALTIES	4,881	1.6%		4,881	1.5%		
ALLOC - MFG & DST	19,224	6.2%		19,224	6.1%		
TOTAL COST OF SALES	99,608	32.0%	775	100,383	32.0%		
GROSS PROFIT	212,113	68.0%	3,016	215,129	68.0%		
OPERATING EXPENSES							
PAYROLL & PAYROLL TAXES	21,884	7.0%		21,884	6.9%		
EMPLOYEE BENEFITS	2,438	0.8%		2,438	0.8%		
EMPLOYEE RECRUITING	603	0.2%		603	0.2%		
TRAVEL & ENTERTAINMENT	4,980	1.6%		4,980	1.5%		
PROFESSIONAL FEES	1,532	0.5%		1,532	0.5%		
ADMINISTRATIVE SERVICES	1,219	0.4%		1,219	0.4%		
MAINTENANCE & REPAIR	383	0.1%		383	0.1%		
SUPPLIES & EQUIPMENT	1,623	0.5%		1,623	0.5%		
POSTAGE & FREIGHT	343	0.1%		343	0.1%		
COMMISSIONS	636	0.2%		636	0.2%		
MARKET FUND/INCENTIVE PRG	13,232	4.3%		13,232	4.2%		
MARKETING	44,235	14.2%	305	44,540	14.3%	See Schedule A	
MARKET RESEARCH	0	0.0%		0	0.0%		
PRODUCT DEVELOPMENT	0	0.0%		0	0.0%		
TELECOMMUNICATIONS	1,609	0.5%		1,609	0.5%		
RENT & UTILITIES	2,308	0.7%		2,308	0.7%		
DEPRECIATION & AMORTIZATION	2,189	0.7%		2,189	0.7%		
BAD DEBT EXPENSE	1,789	0.6%		1,789	0.6%		
TAXES, LIC, SETTLEMENTS, INS	2,913	0.9%		2,913	0.9%		
MISCELLANEOUS	0	0.0%		0	0.0%		
GENERAL DIRT	3,989	1.3%		3,989	1.2%		
BLDG/GRNDR DIRT	1,814	0.6%		1,814	0.6%		
EMPLOYEE EXPENSES	0	0.0%		0	0.0%		
TOTAL OPERATING EXPENSES	119,921	38.3%	305	120,226	38.3%		
INCOME BEFORE ALLOC.	191,790	61.7%	3,486	194,896	61.7%		
ALLOCATIONS							
Alloc to Executive	38	0.0%		38	0.0%		
Alloc to Legal	124	0.0%		124	0.0%		
Alloc to Admin	5,944	1.9%		5,944	1.9%		
Alloc to Dist	0	0.0%		0	0.0%		
Alloc to Corporate	4,733	1.5%		4,733	1.5%		
Alloc to Mktg	3,239	1.0%		3,239	1.0%		
Alloc to O&M	0	0.0%		0	0.0%		
Alloc to R&D	16,236	5.2%		16,236	5.1%		
Alloc to Hardware	2,399	0.8%		2,399	0.8%		
Alloc to Languages	4,735	1.5%		4,735	1.5%		
Alloc to Multi Media	3,443	1.1%		3,443	1.1%		
Alloc to Network	0	0.0%		0	0.0%		
Alloc to Systems	3,336	1.1%		3,336	1.1%		
Alloc to Apps	32,715	10.5%		32,715	10.5%		
Alloc to P&T of Resour	1,239	0.4%		1,239	0.4%		
TOTAL ALLOCATIONS	67,389	21.6%	0	67,389	21.6%		
OPERATING EXPENSES	187,310	59.9%	305	187,615	59.9%		
OPERATING INCOME	104,480	33.8%	3,181	127,501	40.3%		

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MICROSOFT CORPORATION
 WINDOWS 3.0 UPDATE PLAN
 ANALYSIS OF INCREMENTAL ACTIVITY - FISCAL 1990

SCHEDULE A

<u>REVENUES</u>	<u>TOTAL</u>	<u>UNITS</u>	<u>NOTES</u>
FORECASTED UNITS	140,000		(A)
AVERAGE PRICE/UNIT	\$45		
NET UPDATE REVENUE	\$6,300,000		
FY90 PLAN UPDATE REVENUE	<u>(2,508,600)</u>		
TOTAL INCREMENTAL UPDATE REVENUE	<u>\$3,791,400</u>		

<u>PRODUCT COSTS</u>	<u>FULL</u>	<u>MLP</u>	<u>TOTAL</u>	<u>NOTES</u>
	<u>PRODUCT</u>	<u>MLP</u>	<u>TOTAL</u>	
FORECASTED UNITS	135,200	4,800	140,000	
AVERAGE COST/UNIT	\$12.66	\$3.01	\$12.33	(B)
PRODUCT COSTS	<u>\$1,711,632</u>	<u>\$14,448</u>	<u>\$1,726,080</u>	
FY90 PLAN UPDATE PRODUCT COSTS			<u>(1,002,556)</u>	
INCREMENTAL UPDATE PRODUCT COSTS			\$723,524	
UNBUDGETED FREE UPDATE PRODUCT COSTS			<u>\$1,266</u>	(C)
TOTAL INCREMENTAL PRODUCT COSTS			<u>\$724,790</u>	

<u>MARKETING EXPENSES</u>			
DIRECT RESPONSE ADVERTISING		\$250,000	(D)
CLEARINGHOUSE		<u>254,516</u>	
TOTAL MARKETING		<u>\$504,516</u>	

NOTES

(A) Total updates for Windows 3.0 are projected to be 350,000 units. 40% of these units will ship in FY90.

(B) Average product costs represent a split in 5.25" and 3.5" updates of 60% and 40% respectively.

(C) Unbudgeted free updates reflects the projected increase in free updates over the FY90 plan. The FY90 plan assumed approximately 16,000 free updates, current projections are estimated at 22,000. 60% of the incremental free updates are projected to ship in FY90.

(D) Direct Response Advertising expenses are projected at \$500,000. 50% of the expenses will be incurred in FY90.

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Update Analysis

1	2	3	4	5	6
	Packaged Retail	OEM	ISV Fulfillment	MS Fulfillment	Total
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					

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CONFIDENTIAL

Rank	Account	Win LVA					Total
		Q3	Q4	T1	T2	T3	
	Total	5,852	15,132	28,331	34,358	27,143	110,816
1	IBM - DIRECT SALES ONLY			14,160	15,620	12,395	42,175
2	IBM	630	4,103	311	981	587	6,612
3	Arthur Andersen	5	4,272	296	262	143	4,978
4	Ford	4	1,278	748	681	823	3,534
5	American Airlines	17	6	75	1,437	1,859	3,394
6	Boeing	515	333	732	921	759	3,260
7	Hewlett Packard	82	132	536	643	588	1,981
8	Dupont	261	213	409	354	211	1,448
9	AT & T	368	359	216	324	107	1,374
10	EDS/GM	2	207	305	617	134	1,265
11	Molrola/Codex	80	94	227	358	157	916
12	GE/NBC/RCA	87	54	181	189	317	828
13	Honeywell	142	115	264	174	94	789
14	Kodak	70	44	364	121	185	784
15	Manufacturers Hanover Trust	39	37	40	430	151	697
16	Dow	63	178	177	114	133	665
17	NCR	73	50	99	322	118	662
18	PROCTER & GAMBLE			105	184	365	654
19	Intel	232	147	73	80	44	576
20	Compaq	22	57	203	200	36	518
21	Lockheed	59	90	94	165	102	510
22	Rockwell	12	16	108	84	268	488
23	McDonnell Douglas	125	25	63	234	28	475
24	Merrill Lynch	38	39	140	141	83	441
25	US Navy	12	15	283	78	53	441
26	Unisys	167	121	39	39	70	436
27	Pepsico/Taco Bell/Frito Lay/Pizza	34	42	77	170	112	435
28	Eli Lilly	8	27	119	162	116	432
29	3M/HARRIS/HARRIS LANIER			35	179	209	423
30	LIBERTY MUTUAL			78	228	114	420
31	Westinghouse	56	12	58	123	162	411
32	Swiss Bank Corp.	4	24	119	250	0	397
33	GTE	54	48	73	153	59	387
34	Mobil Oil	14	17	156	114	77	378
35	WAVETEK			377	0	0	377
36	TRW	34	59	35	34	213	375
37	Northern Telecom/Bell Northern	77	38	93	79	83	370
38	General Dynamics	125	32	87	96	23	363
39	Martin Marietta	84	33	57	67	107	348
40	Hughes	23	318	0	0	0	341
41	Price Waterhouse		6	37	124	169	336
42	US West/Bell Co's	47	22	123	108	31	331
43	Farm Credit Bank	77	16	80	36	120	329
44	United Technologies	2	0	55	72	164	293
45	California, State of	61	66	34	75	51	287
46	Aetna Life & Casualty	15	15	56	58	139	283
47	Varian	8	37	61	104	56	266
48	Bank of Amer/SeaFirst	12	21	11	161	56	261
49	SUMMATION INC.			124	71	66	261
50	Tektronix	26	22	54	79	77	258