

*DBS
Market*

Brad Silverberg

From: Brad Chase
To: Bernard Vergnes; Bill Gates; Christopher Smith; Frank Gaudette; Jeff Raikes; Joachim Kempin; Mike Maples; Paul Maritz; Steve Ballmer
Cc: Brad Chase; Brad Silverberg; Mack Mccauley
Subject: MS-DOS Update
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A summary of the current status on upcoming key MS-DOS 5 and MS-DOS 5 Upgrade ideas and programs as well as an update on dr dos 6 and some of our future plans. we are being aggressive.
(please be careful about forwarding, this email contains very confidential data)

Sell-Through

*80K in US
120K worldwide*

The MS-DOS 5 Upgrade has leveled off around 80K units sold thru per month after the unbelievable start - we have now sold over 2.5 million units worldwide and over 1.7 million in the US. This still makes it one of the best selling software products in the industry (generally from #1 to #5 on the PC Mag best seller lists). It appears that the MS-DOS 5 Upgrade has a sales curve somewhat similar to other application upgrade products i.e. sales start very high, level off for awhile and then taper off. Volume Purchase Program deals are on the increase, however.

DR DOS has been doing a good job. I estimate they are currently shipping about 25-30K per month in the US after peaking at more than 30K per month this fall. Mikeap received data that DR's calendar Q4 U.S. retail revenue was 5.5m. \$55/unit, means total shipments of 100,000. These estimates are consistent with what we can surmise from Merisel and Ingram best seller lists. We have been unable to get accurate data for sales outside the US.

I expect DR DOS 6 retail sales will slowly decline until they get creative or do a new release. They have penetrated many of the power/enthusiast community who is curious about the product. Expect them to figure that out and be very aggressive with marketing and new release schedules. Bradsl will give you more data on DR in your exec retreat this week.

Changing the curve

To keep the MS-DOS 5 Upgrade momentum and our large revenue per month we need to keep re-energizing the Upgrade at retail and work to get large corporate account penetration.

As you know we are putting the Upgrade "on sale" from now until March 20th. Lowering our cost to the channel by \$10 allows for a \$49.95 street price. This is an attractive street price that we are supporting through local newspaper advertising in 15 cities (example yesterday in Seattle Times/PI) and by working with resellers. Participation from the channel looks good so far. We need to achieve a 40% increase in sales to have this promotion pay-off. A test in Hawaii did achieve over 40%.

We have almost completed with our negotiations with Stacker. As part of this deal we would announce a strategic relationship with Stacker to integrate their compression in a future version of ms-dos and ensure current users of Stacker could transparently move to this version. A very key component is that we would also provide Stacker to our OEM group (no charge to us) to license with ms-dos 5 to our oems.

We would also offer a major promotion (starting around the launch of win 3.1) where MS-DOS Upgrade buyers would get a great deal on Stacker. Stacker would fund this via a \$35 cash

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rebate that we would offer. The only material advantage of dr dos 6 over ms-dos 5 is a compression technology that is inferior to Stacker.

A very recent idea that I am unsure to what degree you have been briefed is Astro. Astro is an opportunistic version of MS-DOS that we plan to ship late this summer. Bradsl suggested Astro b/c it keeps the Upgrade market fresh and more importantly keeps the heat on competition. If Dick Williams is smart he will do another version of DR DOS this year or early next. Rather than have him put us on a treadmill where we have to be defensive we want to put him on the treadmill instead.

The goal of Astro (I'll also call it ms-dos 6) is to buy/acquire some utilities and use some in house technology to do a new version of ms-dos that has very little development impact. That way we follow Astro a year later (fall 93) with all the cool stuff that DR will have a real hard time copying (Cougar). In addition to the Stacker deal as described above, some current Astro feature ideas include: backup, defragger, Interlnk (file transfer), using the new smartdrv and emm in win 3.1, "clean boot", disk fix, msd, and maybe 1024 cylinder support. To change the rules of the game a bit we plan to include a windows UI as well as the ms-dos one for backup and undelete. We will look for utilities that are already well tested and localized into the key languages (that equals working with Norton and Central Point). A version of Janus with one setup that installs ms-dos 6 or the ms-dos 6 Upgrade and Windows 3.1 is also planned.

Other marketing ideas to try and kick-off with Astro:

- * a direct mail to corporate end users via key corporate accounts resellers to educate them on the product and to better inform them about the attractive pricing we have for larger purchases.
- * "3-pack" sku particularly targeted at mass merchants.

OEMs

As you just had your review with the OEM group, I'll be brief here. DR DOS is a presence in many major accounts. There will continue to be pressure on royalties. In addition to Stacker, we have been working with the OEM group on the following projects to assist:

- Worldwide training of account reps on how to sell against DR DOS
- Material on selling against DR DOS (incl. compatibility problems)
- Joint account calls where product management assistant can help
- Tour of key Taiwanese and Korean OEMs who tend to be more open to the dr dos pitch
- Easy Distribution Program - increasing penetration of ms-dos (and windows for that matter) on pcs that currently get sold "naked"
- Anti-counterfeiting effort

Not all oems will be excited about the work involved for them in moving to ms-dos 6 but Joachim agrees it is a good idea and we will give OEMs about a quarters notice while working closely with the OEM group

PR

To date we have not been successful helping the press understand how sloppy and buggy dr dos 6 is. The plan to take the data from the xxcal test and provide it to those doing reviews didn't work because we didn't find out who was doing the reviews when. The InfoWorld review was the most damaging and while they admit that "our test plan for dos operating systems is in need of an update" they will not re-review or re-score. Ironically we won the product of the year award from their readers.

We completed a press tour in early December to talk about our success. DR DOS came up often and bradsl and I were able to educate all of the major publications on our strengths and their compatibility problems. Both PC Week and ComputerWorld ran articles that talk about DR DOS compatibility problems.

We visited the domestic and far east press again in January to talk about our portable computing initiative. We emphasized this announcement was only the first phase of an ongoing Microsoft commitment. This includes advanced power mgt, windows and ms-dos in rom, our new interlink fast file transfer, support for pcmcia and solid state media etc. Assuming we complete the Stacker deal, we will go out again to use it as phase 2 in March. We will continue to take the offensive on the PR front and reaffirm that we are the leader and are setting the standards for the industry.

Int'l

We are exploring ways to help the subs boost their Upgrade sales. The approved incremental systems marketing headcount will help and the WorldWide challenge has helped create more awareness of subsidiary results. Thru January we have done \$58M on 919K Upgrade units outside of the US (\$92M on 1.74M units in the US). We have set records, but haven't scratched the surface of what is possible.

Overall MS-DOS Business

Overall the business is strong. As per usual the OEM group deserves most the credit though as you can tell from the paragraph above the Upgrade has helped. Net Revenue FYTD for the entire MS-DOS business (thru end of Jan.) is \$280.9M versus a forecast of \$216.6. Gross profit is \$242M versus a forecast of \$196 and burdened operating income is \$190M versus a forecast of \$146.