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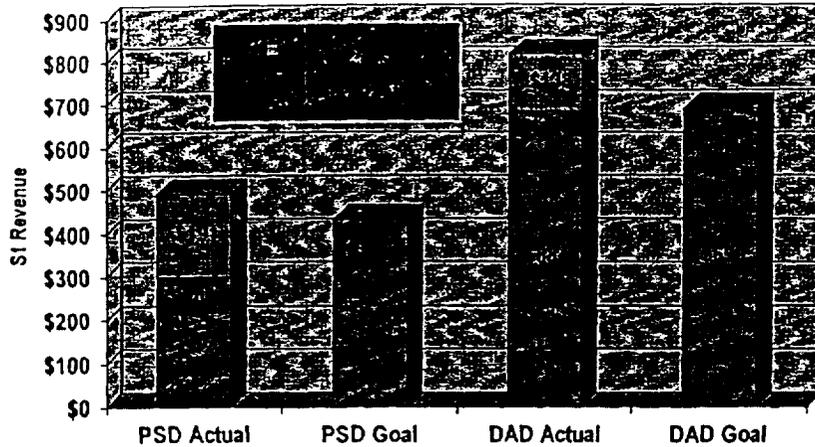
Agenda

MSNA Mid Year Update	9:05 - 9:30
PSD	9:30 - 9:55
DAD	9:55 - 10:20
BSD	10:20 - 10:45
Panel Discussion	10:45 - 11:30

**MSNA Mid Year Update
Quarterly Business Review**

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S1 MSUS Sell-in Plan vs. Sell-thru Actual PSD and DAD



WIN95 vs. WfW

FPP Mix: 90% of FPP \$ sell-thru was Win95, vs. plan of 98%.
Maintenance = 1,122,343 units (T-Account per CaseyFale) (Win95, Win3.x and WfW)
Select = 278,305 licenses (Win95, Win3.x and WfW)

FPP Split:

	Actual Sell-thru (5 mo)			% of Actual			S1 Planned Sell-in			% of Plan		
	WfW	Win95	TOTAL	WfW	Win95	TOTAL	WfW	Win95	TOTAL	16 bit	32 bit	TOTAL
FPP Licenses	270,766	1,784,868	2,055,634	13%	87%	100%	124,122	3,240,235	3,364,357	4%	96%	100%
FPP Revenue \$ in Millions	\$17	\$159	\$176	10%	90%	100%	\$7	\$288	\$294	2%	98%	100%

DESKTOP APPS

FPP Mix: 36% of \$ sell-thru was 32-bit, vs. plan of 69% (Office + Office Pro + Standalone Word & Excel)
Maintenance: = 949,429 units (T-Account per CaseyFale) (Office + Office Pro)
Select: = 640,235 licenses (Office + Office Pro)

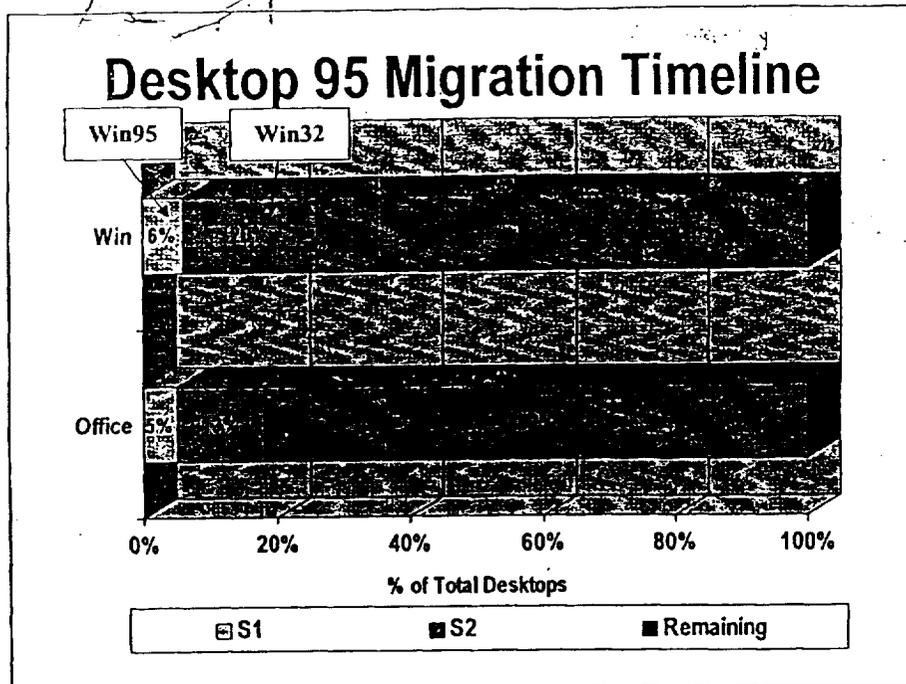
FPP Split:

	Actual Sell-thru (5 mo)			% of Actual			S1 Planned Sell-in			% of Plan		
	16 bit	32 bit	TOTAL	16 bit	32 bit	TOTAL	16 bit	32 bit	TOTAL	16 bit	32 bit	TOTAL
FPP Licenses	590,922	420,101	1,011,023	58%	42%	100%	515,064	1,546,709	2,061,773	25%	75%	100%
FPP Revenue \$ in Millions	\$155	\$89	\$243	64%	36%	100%	\$120	\$269	\$389	31%	69%	100%

P&L Data thru December:

	PSD	DAD
Total Sell-in	\$493	\$817
Less Inventory (32-bit only)	\$191	\$133
"Sell-thru"	\$301	\$684
1st Half Goal	\$433	\$690
% Attainment	70%	99%

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Source: S1 & S2 estimates from Regional Reviews

Source: Total and Remaining from MYR slides (PC_Pops.xls)

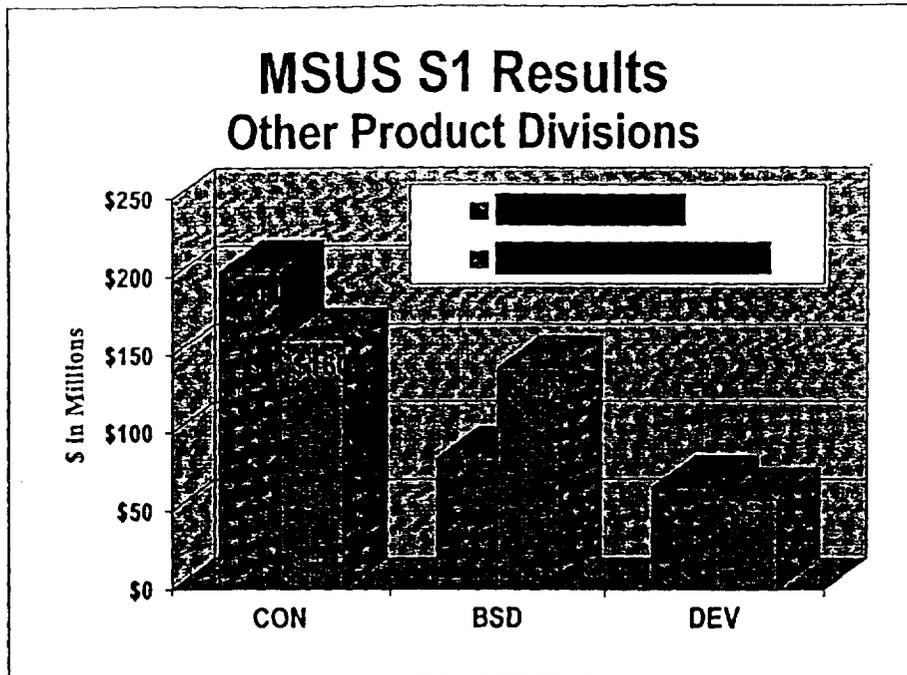
Office95: Shows that by end of FY96, we will have done business in 58% of the accounts, but only have covered only 18% of the desktops.

Win95: By end of FY96, we will have done business in 65% of the accounts, but will have covered only 26% of the desktops.

NOTE: The field probably didn't factor in Maintenance. We could add the 1 million units into FY96, which would bring us up to 30% of the Desktops for Office and 39% for Win95.

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MSUS S1 Results Other Product Divisions



NOTE: S1 Sell thru estimate based on conservatively estimating (by individual product) that the month of December for FY96 would be 2% points less than S1 total in FY95. (i.e. Dec was 18% of S1 in FY95, I assumed 16%)

Consumer: Sell-thru was 78% of sell-in.

Product Slips?

Lower than planned \$/unit thru Retail and DMR resellers:

New Business Lead Titles: 74% unit growth 37% revenue Growth

Encarta \$72/unit in FY95 only \$48/unit in FY96

Established Business:

Works: 71% unit growth 17% revenue growth

Publisher: 61% unit growth 35% revenue growth

BSD sell-thru was \$58M ahead of sell-in plan

WinNT Workstation: \$23M = 322% growth over FY95

WinNT Server-Server: \$24M = 167% growth over FY95

WinNT Server-Users: \$7M = 1,276% growth over FY95.

Client Server new user ratios (based off YTD sell-in):

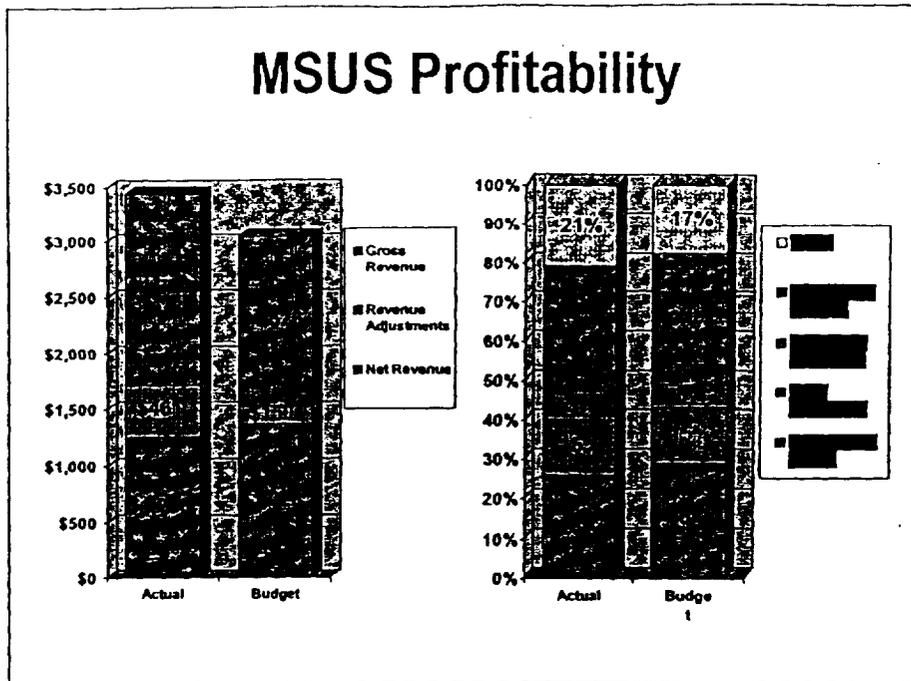
	<u>Actual</u>	<u>Budget</u>	
WinNT Server	9:1	6:1	done off sell-in
SQL Server	8:1	7:1	
Back Office	16:1	12:1	

Developer sell-thru was behind the sell-in plan as strong sell-in of MSDN products haven't yet sold thru the channel (??? Sell-in approximately \$15M, PF shows only 374K thru Nov.)

NovYTD sell-thru of VB was \$19M, 62% growth over FY95

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MSUS Profitability



Gross revenue exceeded plan by \$195M or 12.8%

Highlight Desktop 95 reserve of \$324M (PSD of \$191M and DAD \$133M).

Net revenue \$116M or 8.5% under plan.

COGS exceeded plan as a % of net revenue (20.7% vs plan of 17.3%) due to \$70M charge for returns of DT95 product offset partially by higher than planned mix of CD product which carries a lower COGS than disk product.

Controllable expenses slightly under plan due to under plan spend in marketing and people expenses offset partially by PSS net costs exceeding plan (10.5% of net revenue vs plan of 8.5%).

- (Direct expenses \$20M or 15% under plan due to under plan headcount by 10% or 157 heads and unspent outsourcing budget of \$7M.

- Marketing spend under plan by \$34M or 16% mainly in WPG spend under by \$26.6M (23%), Jeffr controlled spend under by \$6.1M (7%), and Corp Marketing spend under by \$1.3M (30%). Note that on an actual plus committed basis we are 61% of plan and 57% of forecast. PSS EU costs exceed plan due to DT95 ramp up of headcount and related training.

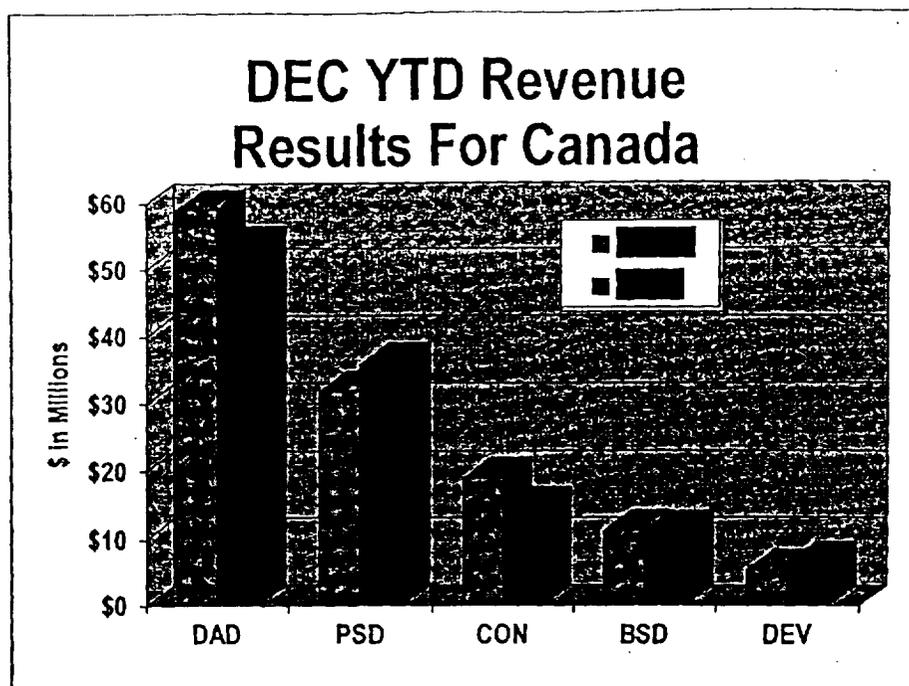
- PSS Org costs less than plan due to under plan headcount in the BSD cluster. EU revenue under plan due to fewer than expected calls as well as fewer than expected fee based incident calls. Org revenue less than plan due to fewer than expected signed agreements).

- MCS performing better than plan due to strong demand with revenue overage coming mainly from subcontractors (\$7.3M) and also higher than planned utilization at 55% vs 54% plan, and higher than expected average billing rates at \$152 vs. plan of \$149.

Contribution Margin came in at 26% vs. plan of 29% , short by \$71M or 17.7%

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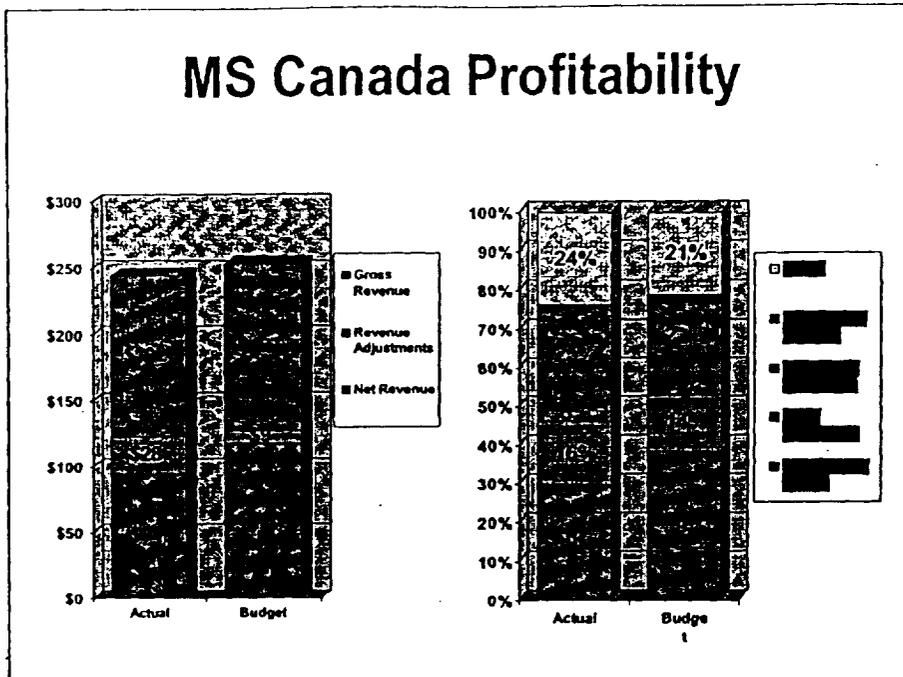
Add DAD & PSD so only 1 slide for Canada



- DAD revenue was \$53M or 91% of plan and the DT95 DAD reserve was \$7.7M.
- Consumer revenue was \$14M or 76% of plan with the Titles software sales at 60% of plan, Established Business at 84% of plan and Hardware at 92% of plan.
- PSD revenue was \$36M or 113% of plan and the DT95 PSD reserve was \$13M. Win3.X and MS Plus1 sales were significantly ahead of plan.
- BSD revenue was \$11M slightly less than plan with better than plan sales of NT Workstation, NT server and mail products nearly offsetting under plan performances of SQL and SNA products.
- Developer revenue was \$6.5M or 123% of plan with all product categories above plan except the Fox products which fell short by \$62K or 6%.

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MS Canada Profitability



Gross revenue fell short of plan by \$4.3M or 3.4%

Highlight Desktop 95 reserve of \$20.7M.

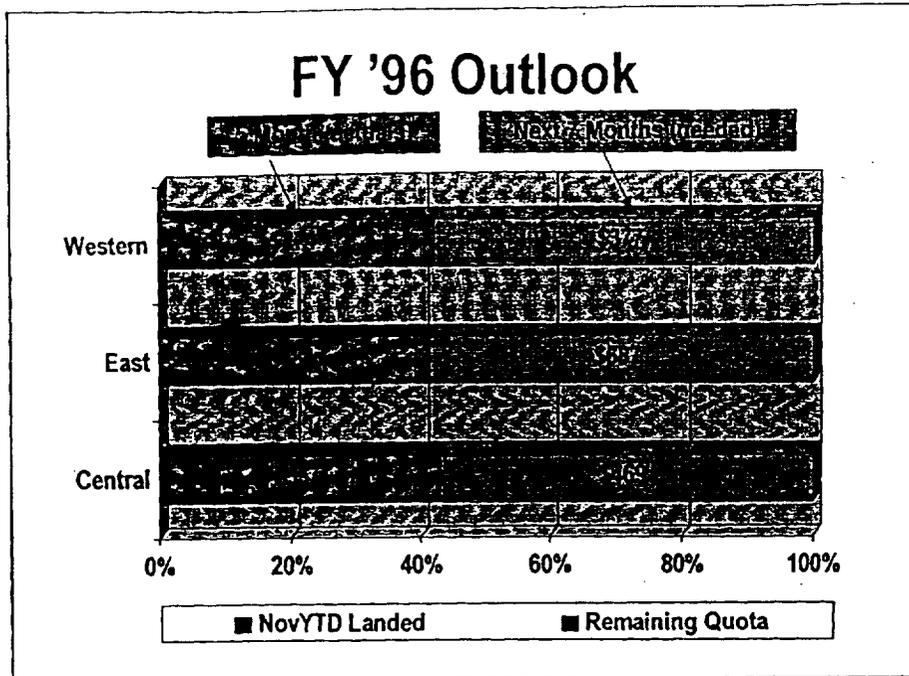
Net revenue \$94.4M or 19.7% under plan.

COGS exceeded plan as a % of net revenue (23.5% vs plan of 20.8%) due to Desktop 95 reserves. Exclusive of the Desktop 95 Channel Revenue and COGS reserves, COGS is 20.4% of net revenue.

Controllable expenses 6% under plan:

- People 5.4% under plan, Infrastructure 18.2% under plan, Other Misc Expenses 11.4% under plan.
- Marketing 3.5% under plan.
- PSS Costs and Revenue at 11.2% and 81.2% under plan, respectively. MCS Costs and Revenue at 2.5% and 7.2% over plan, respectively. G&A Costs 1.8% under plan.

Contribution Margin came in at 30.1% vs. plan of 38.8%, a variance of \$17.2 million, 37.7% under plan.



NOTE: Quota of \$2,648M includes stretch goal, vs. Sell-in plan of \$2,612M

All regions consistent around 42% attainment of full year quota.

If trend continues(5mo/12 mo = 42%), they should make quota exactly.

	YTD Thru Nov.	% of Full Year	Remainder (needed to make quota)	Full Year Quota
Central	\$356,865	43%	\$469,356	\$826,221
East	\$484,490	41%	\$686,673	\$1,171,163
Western	\$274,256	42%	\$376,702	\$650,958
Unassigned	\$887	n/a	(\$887)	\$0
Grand Total	\$1,116,497	42%	\$1,531,845	\$2,648,342

MSNA Report Card

Business Priorities	Grade
Windows 95 Launch	A-
Retail Execution	B+
Desktop 95 Migration	C
Channel Development	A-
BSD deployments	B

Win 95 Launch: Great results in terms of building awareness, in-store presence, RSP training, field marketing seminars, district team building (*integration of MCS and all groups to help with the launch*). I gave ourselves a A- because we did not do as good of a job in planning the operations of the launch. For example, bad forecasting, inadequate inventory management issues, over built products, etc.

Retail Execution: For the launch event, the RMRs in the field did a fabulous job of ensuring that we were ready to go at launch. I would rate us an A- from an end user perspective, thanks to the efforts of the RMRs. I would say that overall, our retail execution has been solid and there are a few areas where we need to improve. Our outlet coverage model allowed us to focus on improving our position in retail. The RMRs did a great job in working at the outlets to improve our shelf space, fix pricing, amnesty program, etc. On the other hand, we still have some work to do to ensure that we get our partners to work with us to improve our "in-store presence".

Desktop 95 Migration: We had mixed results with this goal. Overall, I would say that we as a company underestimated the amount of time required to help an account migrate to DT95. LORG adoption was slower than anticipated. Over 1M units of Win 3.X maintenance, 613K units of Office maintenance. At the end of FY96 we forecast that we will move 1.5M desktops to Win95/Office95. We will cover this in more detail in Brad Chase's presentation

Channel Development: We did a good job during the first half of the year in building the channel. NTS Breadth reseller surged 116% since June to 1,948 resellers (*selling NTS 2/3 months*). NTS reseller depth (*selling 200 NTS/12 months*) has grown 81% since June. We still have our work cut out for us with our depth partners where Novell still maintains a strong hold of platinum resellers. It is interesting to watch Novell respond to Microsoft in the channel. It is very clear that they are now "reacting" to Microsoft with their programs such as PartnerNet, virtual clone of SP 3.0 and they have also increased their focus on MORG accounts. The field's execution on NetResults was excellent. We now need to focus on getting those resellers to purchase the action pack and to get these resellers enrolled in our NTS certification prep class through MOLI. We at headquarters have some work to do to ensure that the infrastructure to support OCU activity is adequate before we execute on programs. I believe that OCU is very focused on operational issues today.

BSD Deployments: Today we have great focus on this goal and we have experienced good sales results during the first half of the year. Deployments continue and NT is now considered the superior application server platform. Nonetheless, I believe we still have some learning to do in this area. We need to ensure that we have solid account plans that help accelerate deployment, we need to ensure that MCS is involved in those opportunities which deliver high gross margin revenue.

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S2 Field Priorities

- ◆ ECU:
 - ◆ Desktop 32 migration
 - ◆ BSD deployments
- ◆ EUCU
 - ◆ Merchandise and promote Value Pack
 - ◆ Execute Consumer Spring initiatives
- ◆ OCU
 - ◆ Channel development
 - ◆ Execute on demand drive activity

ECU:

Desktop 95 migration represents a significant revenue opportunity for us. It is critical that enterprise account reps move their customers to a 32 bit desktop as a first priority. This includes win95 or NTW. Start 32 is a new tool designed to help you migrate your accounts to a 32 bit desktop. I am interested in learning from you how Start32 can help you with your accounts. I encourage you to take the time in this broadcast to ask me questions about Start32 and other programs that you believe can help move our customers to a 32 bit desktop in FY96.

BSD deployments must continue if we are going to be continue to take share away from Novell. More importantly is our focus on establishing NT as the primary internet HTTP server. We must ensure that we are leveraging MCS in our efforts to accelerate BSD deployments and leverage our partners to support the sales of our products.

EUCU:

We have a good program with ValuePack. Please work with your accounts to ensure that ValuePack is well merchandised in your outlets.

Consumer Spring Initiatives #5&6: Objective is to gain assortment of newly shipping products at the outlet level for top 25 resellers, complete the depth stocking levels; Initiative #6: Objective: effectively launch new products and category merchandising.

OCU:

Channel development: Continue to develop breadth and depth segments of our channel. Net Results follow up during the second half of the year with breadth partners, Special Forces activity: Enroll depth accounts into 2nd half demand creation activities, enroll depth partners in technical training, involve MCS in delivering knowledge to top depth accounts.

Demand Drivers: The Small Business Resource (SBR) Program for SORG customers and the Corporate Solutions Programs (CSP) for MORG accounts. We will have four components to each of the programs including communication, offer, channel and seminars. Focus of activity is on 3 flights including Windows Networking, Internet, and Remote/Mobile Computing;

The Desktop95 Tech seminars will also be a key focus for the field. Already we are experiencing a tremendous response to the first roadshows in NYC.

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S2 Redmond Priorities

- ◆ ECU
 - ◆ Simplify Organizational Licensing model
 - ◆ Continue developing ECU selling model
- ◆ OCU
 - ◆ Infrastructure development
 - ◆ Refine OCU selling model
- ◆ EUCU
 - ◆ Critical process re-engineering and complete partnership rethinking

ECU

-Org Licensing Model: IT is imperative that we make it easier and more satisfying for our customers to do business with Microsoft. In addition, we need to make it easier for the field to support the select selling process. I can assure you that the Org Licensing team is very focused on achieving this goal.

-Selling Model: We are working diligently towards defining the Enterprise selling model.

OCU

Infrastructure: Enhanced operations for SP, MCP, ATEC Programs. During the first half of the year, the OCU team experienced many difficulties on the operations side of the business. They are very focused on fixing these problems to ensure that the programs that rollout from corporate are easy for the field to execute on. Examples of infrastructure development include: improving seminar infrastructure; Produce next rev of Business base and launch channel base; Improve OCU field reporting ; Much progress has been made on the OCU selling model in the last 30-60 days. The field OCU teams will be hearing more from the field strategy team to ensure that this model works for you.

EUCU:

The end user team here in Redmond has been working with Anderson Consulting and with many of you in the field to re-engineer their business processes. First, I would like to thank each of you in the field who has participated in this effort. Your feedback and thinking certainly helped the folks here in Redmond to deliver a model that helps us deliver on the results we need in the end user business.

S2 Outlook/Mid Year Insights

- ◆ Revenue focus
- ◆ 32-bit desktop adoption is critical in S2
- ◆ Focus on where we can achieve share gains
- ◆ Selling model definitions
- ◆ Shared goals and shared processes are critical
- ◆ Internet is strategic

Revenue focus: Absolutely essential that we focus on those opportunities that will help us make our FY96 revenue goals. We have an aggressive goal to make and our progress against first half goals was not what everyone expected. MSNA did not make their revenue goals during the first half of the year. Nonetheless, I am very optimistic, based on what I heard during the regional business reviews, that we are on track to make our overall Fyquota.

Focus on where we can achieve share gains : Advance our competitive understanding and focus. We need to focus on where we can achieve share gains. During the first half of FY96, we watched WordPerfect and Lotus desktop business decline. We need to continue to have laser focus on the desktop and increase our focus on the server side of the business. Netscape wasn't a competitor we paid a lot of attention to during the beginning of the fiscal year. Today, that is not the case. We need to understand our weaknesses against our competition and rapidly address our vulnerabilities.

Selling model definitions: As I mentioned earlier in my presentation, each of the customer units are working to define their selling models and the business processes associated with our selling efforts. Well thought out selling models, will help us be more successful and focused on revenue opportunities.

Shared goals & shared processes are critical- we are working to align ourselves closer with WPG as it relates to our goals and more importantly how we work together to execute on our joint goals.

Internet is strategic: imp acts our selling model and business processes. We need to look for leverage points on the internet to drive revenue goals in S2.

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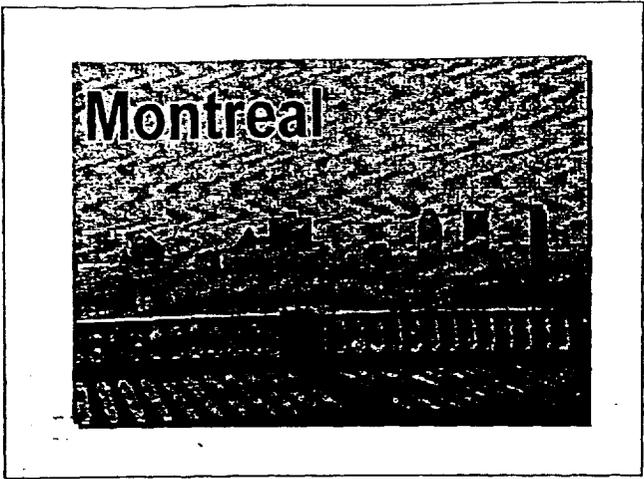
S2 Outlook/Mid Year Insights

- ◆ **Explore electronic communication strategies to increase customer reach and improve sales efficiencies**

We are very focused on utilizing the internet to improve our sales efficiency. There is a lot of work going on here in Redmond within the customer units and in field marketing to identify how we can reach our customers electronically. We are also evaluating today's business processes and re-thinking how we can be more effective in the on-line world in helping our customers evaluate and trial our products, learn about our products, etc.

Seque: The internet is a key. IT is strategic to Microsoft's business today and in the future.

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PSD Product Update

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S1 Progress

- ◆ Retail launch was awesome
- ◆ Corporate migration slow but steady
 - ◆ Surprising number of accounts moving
 - ◆ Service Pak should help the rest
- ◆ Field focus makes a difference
- ◆ Third-party momentum

Jeffr: Brad, we certainly experienced a great deal of awareness and activity on Win95 during the first half of the year. Tell me about our progress.

Brad: Well Jeff, the first half of the year was very exciting. The launch of Win95 was a historical event in the PC industry.

Our Retail launch was awesome. Great in store presence, momentum continues. We average 30 copies a minute since the retail launch. More importantly, the outlet reps in the field did some great things to ensure that Win95 was well-placed in the Internet sections of the stores by stocking the boxes.

Jeffr: Brad, one of the great things I learned during the January business reviews was how the end user group in the field executed on great ideas. For example, Gini Nochera and her team did an outstanding job with Comp USA. Hands on seminars, demo reps., etc.

Field marketing did a great job, as well, in getting fantastic press coverage. (*Highlight Boston Example of turning around Macbigot.*)

Brad: (*Corporate migrations*): Overall corporate migrations are beginning to happen. As a company, I would say that we overestimated just how difficult it was for some of our customers to move to a 32 bit desktop.

•60%+ of orgs with 50+ employees began to evaluate or deploy Win95 in the US by the end of 1995
(*source: OS Tracker/MSI*)

•57% of Performance Framework LORGS (1000 desktops+) are in pilot stage or better

Jeffr: Brad, how does our adoption rate pace with Win95 compared to that of Win 3.x?

Brad: (*Perspective*): Win 3.x took 3+ years to reach the level of usage among IS professionals that Win 95 has reached in 5 months.

•(*Field Focus*): We also learned that we can make good progress when a rep focuses on an account. For examples, FORD, Union Carbide, Dow Chemical, and others have deployed Win95 in their businesses.

•(*3rd Party Momentum*): We have great 3rd party momentum;

• (*Brad to cite statistics to support this point. Mention Walt Mossberg Wall Street Journal article. Show this article to the field.*)

Seque: Jeffr: We have had good progress, but as we all know, there were things that we could have done a better job on

Brad You are right Jeff.

Lessons Learned

- ◆ Migration takes time
 - ◆ Upgrading is hard
- ◆ Large businesses confused about choosing between Windows 95 and Windows NT Workstation
- ◆ Spent too much money

Jeffr: Overall, I would say that we missed the mark on anticipating just how long it would take for our customers to migrate to Win95.

Brad: Absolutely. Upgrading to Win95 is hard work. It is both expensive and difficult. There are many issues that our customers are dealing with that require advance planning, technology infrastructure upgrades, etc.

Jeffr: We are trying to do a better job with this now with account planning being done in the regions. This is certainly a great lesson for us in terms of what we do in the future.

Brad: It is fair to say that we at Microsoft did not understand early enough that our customers were confused about Win95 vs. NTW. We did not clearly articulate why to buy one over the other.

Finally, we all got caught up in the hype of the launch and spent way too much money around the launch event.

Jeffr: We built too much product, forecasted incorrectly, etc.

Sequa:

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Enterprise Key Messages

- ◆ Move to the 32-bit desktop
- ◆ Most companies will have a mix of Windows 95 and Windows NT Workstation
- ◆ Both products are strategic

Jeffr: Yes, we made some mistakes. Our total focus was on Win95 and we've learned that we should have been positioning the 32 bit desktop choice.

Brad: That's right Jeffr...no one should be confused about Win95 or NTW. Both products are strategic and very important to Microsoft's long term success. And it is our responsibility to make sure our customers understand the benefits of when to adopt one over the other.

Key points:

MS goal for the product line is to completely meet a very broad range of customer needs with a very complementary set of operating system products. It is not possible to have a single implementation of an operating system which provides great compatibility and performance for the broad installed base of systems being used for mainstream personal and business applications, while still meeting the most demanding needs of customers who want to exploit the latest advances in system technology.

By providing consistent interfaces for application developers, end-users, and administrators, MS enables customers to use the mix of products that best meets the specific needs of their organization. MS is making great progress towards this goal. With the introduction of Windows 95 and Windows NT Workstation 3.51, it is now possible to run the exact same Win32 application on both platforms. With the next release of NT Workstation, MS will provide a much more intuitive interface across both platforms. Both products now contain the essential infrastructure to do effective desktop management, by providing a system registry which is accessible remotely through the Win32 API. This is a big step forward, though we know there is much more we can do in this area.

Why Make The Move To 32-Bit Platform?

- ◆ Focus of all industry investment
 - ◆ Enhancements with IE 3.0
- ◆ Superior application platform
- ◆ Users get more done, more easily and quickly
- ◆ Reduces support costs
 - ◆ Better systems management

Jeffr: Brad, now tell me again...why should people move to 32 bit? It just seems so expensive and difficult for most customers to make the move. Do we have good, clear selling messages that can convince our customers to migrate?

Brad:

How Enterprises Choose The Right Mix

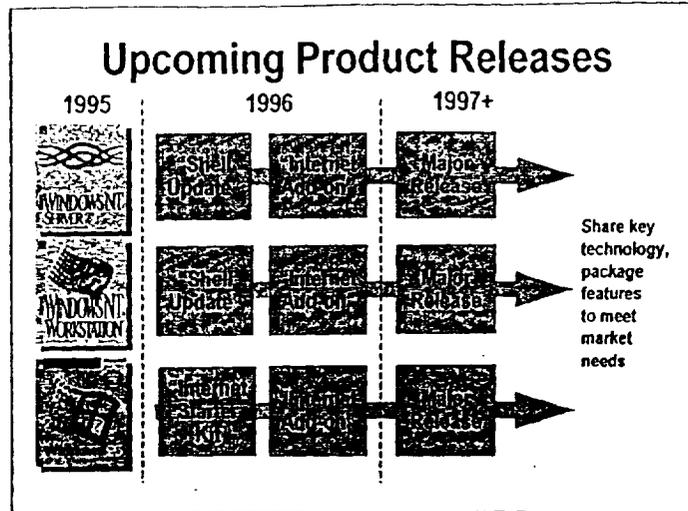
- ◆ Mobile - Windows 95
- ◆ Workstations - Windows NT
Workstation today
- ◆ General business user:
 - ◆ Hardware and software ready -
Windows NT Workstation 4.0
 - ◆ Otherwise Windows 95

Jeffr: Let's be crystal clear about the right mix.

Brad:

Seque:

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Jeffr: We've been hearing a lot about upcoming Internet enhancements. Can you tell us about when we should expect updates to Win95.

Brad: Sure. Microsoft will continue to offer a complete product line with multiple desktop OS offerings to meet a wide range of customer requirements, while providing a consistent interface for application developers, end-users and system administrators. MS will provide a smooth upgrade path from Win95 and NTW just as it does from Win31 to Win95 or NTW. New technologies will be designed to run across the product line, and packaged to best meet customer needs. For example, in 1995 Windows 95 and NT Workstation share the Win32 API, OLE and TCP/IP code, in 1996 they will share UI, System Policies, Internet functionality. Going forward the Windows NT kernel will be the basis for development across the product line.

In 1996, specific releases will include:

- *Service Pack for Windows 95.* In January 1996 MS will release the Service Pack for Windows 95 which provides free and convenient access to updates drivers, components and fixes for Windows 95. It will include the Netware NDS client, 32bit DL Client,
- Windows NT "Shell Update" Release: will bring many of the innovations of Windows 95 to the NT Workstation platform. Specific planned enhancements include Windows 95 User Interface; TAPI/Unimodem; Netware 4 client/login script support; Hardware profile support; Win95 Upgrade; EMF Spooling; Windows Messaging Subsystem (NT-WMS); Kernel-mode User and GDI; Cryptography API; Exchange Universal Inbox; Network OLE; Win95 compatible RAS UI/API; CDFS enhancements.
- Internet Add-on releases: (need details)

In 1997/98, there will be major releases across the product line. Precise packaging details are not yet decided. Technologies which will be delivered include:

- Directory Services
- OLE file system
- Enhanced multimedia capabilities (API's and graphics subsystems)
- New communications features such as conferencing
- Support for new hardware advances like USB, 1394, DVSD, CD changes, etc.

Transition:

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Summary

- ◆ Drive 32-bit desktop decisions and deployments
- ◆ Maintain premium positions at retail
- ◆ Internet Starter Kit - \$20
- ◆ Internet browser share is strategic
 - ◆ Browser market share
 - ◆ Using out Internet APIs

Jeffr: Brad, is there anything you want to make sure the field remembers about this broadcast as it relates to Win95.

Brad: Absolutely!!

The first and most fundamental of all things is that we cannot make the migrations happen without the help of the field. We need your help and expertise to help drive accounts to a 32 bit platform. This will require thoughtful account planning.

Please use the kits we have made available; use the tools, use the ROI model. All of these tools are available to you and can be found on....(need info)

We in WPG realize that we cannot make our revenue goals without your help.

Jeffr: We very much want to work with your group, Brad, to help drive the revenue opportunities. I know that there have been some good examples where your group has worked with the field to help move accounts forward. (Jeffr to cite a few examples.)

Brad: We also want to make sure that we maintain our premium position at retail and promote the Internet Starter Kit. This Internet Starter Kit is strategic for the following reasons: (state reasons)

Jeffr: Brad, we've talked a lot about the Internet opportunity. For a moment we might want to remind ourselves about this opportunity.

Brad: Important! Strategic!but no revenue today. The field should know that the Browser is Free and get our accounts to use IE 3.0. Also, the field should have our accounts understand the opportunity with the Internet.

Ending:

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Desktop Applications

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First-Half Evaluation

- ◆ Strong launch and retail effort
- ◆ Inventory management issues
- ◆ Corporate migration to 32-bits challenging
- ◆ Strong 16-bit results (momentum)

JeffR: Robbie, great to have you hear with us today to talk to the field. We are about on plan for the first half but one of the things that has been different than plan is the split between 16 and 32 bit apps. Can you share your views of our performance? How would you evaluate our joint work over the period...what do you think we learned?

RobbieB: First, I would echo what Brad said about the great work you did at retail and during the launch. At the same time, we clearly share the same issues with corporate migration that Brad mentioned. One difference as you noted is that our good performance relative to plan is largely due to strong 16 bit sales.

Data on performance – over half of our sales

Challenges ahead to get people to 32-bit platform

Importance of DT32

Seque: **JeffR:** between now and when we ship Office 97 we have some key priorities; where do you see us focusing our efforts in the field?

Total Elapsed Time: 1 Minute

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Second-Half Priorities

- ◆ Execute Value Pack retail promotion
- ◆ Drive 32-bit evaluations
- ◆ Deliver Internet/Intranet strategy
- ◆ Learn about Office 97.

JeffR: Between now and when we ship Office 97, what are your priorities for your group and where would you like to see the field focus?

RobbieB:

- Execute Value Pack retail promotion
- Drive 32-bit evaluations -- Morg seminars; Lorg account plans
- Deliver Internet/Intranet strategy
 - Key to company Internet strategy
 - Key to Office 97 upgrades
- Learn about Office 97

JeffR: You mentioned Office 97 -- one question many of us have is why are we coming out with another set of products so soon?

RobbieB:

- Office 95 -- hit Win95 wave and be first competitor on that platform; big win
- Office 97 -- over 2/3 of our resources; drive category to a new level

Seque: JeffR: It sounds like there has been lots of focus on Office 97 -- why do you think this is going to be a compelling upgrade?

Total Elapsed Time: 3 Minutes

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Office 97

- ◆ Focus areas
 - ◆ Ease of use and integration
 - ◆ Intranet/Workgroup
 - ◆ Custom solutions
- ◆ Windows 95, Windows NT Workstation availability: Fall 96
- ◆ Other platforms: Mac, Mips, Alpha, PowerPC
- ◆ Goal: Same system requirements as Office 95

JeffR: It sounds like there has been lots of focus on Office 97 – why do you think this is going to be a compelling upgrade?

RobbieB:

- Ease of use and integration

Office: Drawing, Charting, Office Assistant, IntelliMouse

Apps: Background grammar, AutoSummary, pivot tables; formula auto correct, Custom shows

- Intranet/Workgroup (Links, Lycos, multi-user editing, Ren, Frontpage)

- Custom Solutions (VBA)

- Points about availability, platform and system requirements

JeffR: This sounds great – how should the field advise their customers considering DT32 upgrades on this; what should we be telling them as they start hearing rumors from the press?

RobbieB: Really need to look at it on customer by customer basis

- Competitive switchers -- move to Office 95
- Office 95 users -- fine if on maintenance; possible issue if not on maintenance
- Office 4.x users -- will depend on where in eval process and what going to do

Make sure they get to 32 bit OS

If focused on Intranet or custom solutions, may want to wait

Seque: **JeffR:** Let's drill down some more on the Intranet point you made; can you discuss that?

Total Elapsed Time: 8 Minutes

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Microsoft Office And FrontPage *THE Intranet Solution*



- ◆ Create and manage Web documents
- ◆ Utilize Office docs, HTML, and links
- ◆ Integrated searching and navigation
- ◆ Leverage existing infrastructure
- ◆ Example: HR policy manual
- ◆ Start selling it today
- ◆ Demo

JeffR: I want to drill down on the Intranet point that you made. We've seen a lot about this in the press and we just bought FrontPage to be part of Desktop Apps – can you give us an overview on the basic strategy in this area? And in particular, what should we be telling our customers?

RobbieB:

- Create and manage Web documents
- Utilize Office docs, HTML and links
- Integrated searching and navigation (Lycos for Office webs)
- Leverage existing infrastructure (LAN and documents)
- Example
- Start selling it today

JeffR: So what you are saying is that it will be as easy to create these new web documents. Is it possible to show us briefly how all of this might work?

RobbieB: Sure – let me introduce Kevin Shaugnessey who is building our Intranet demos and sales tools to take us on a whirl wind tour of the basic concepts.

Demo

RobbieB: Thanks Kevin. Before we leave this, I'd like to ask the Morg/Lorg reps whether this type of functionality plus the ease of use and customization capabilities will get customers to consider upgrading

Seque: JeffR: OK...while we are waiting for those responses, we'll review the resources that will help the field position and sell our desktop applications. Also note that if you have questions, please press your call button now

Total Elapsed Time: 14 Minutes

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Deliverables Update

- ◆ Value Pack promo materials
- ◆ Internet/Intranet tools
- ◆ Office of the Future tools
- ◆ New case studies
- ◆ Office 97 Alpha, tech and marketing beta

JeffR: Press your call button now and we'll review the resources that will help you position and sell our desktop applications.

RobbieB:

- Value Pack Promo Materials
- Internet Tools:
 - Technology Fact Sheets (now)
 - Internet White Paper (mid-Feb)
 - Intranet Demo and web site (mid-Feb)
 - Intranet PPT slides (mid-Feb)
- Office of the Futurekits sent to field in Jan
 - PPT with AVIs
 - Demo, Video, Brochure and White Paper
- Case Studies (Late Feb)
 - Lorg Migration (Saturn)
 - Morg Studies
 - Competitive Switcher

RobbieB: let's look at responses to my question...

Q&A

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Business Systems Division

In: 0 sec

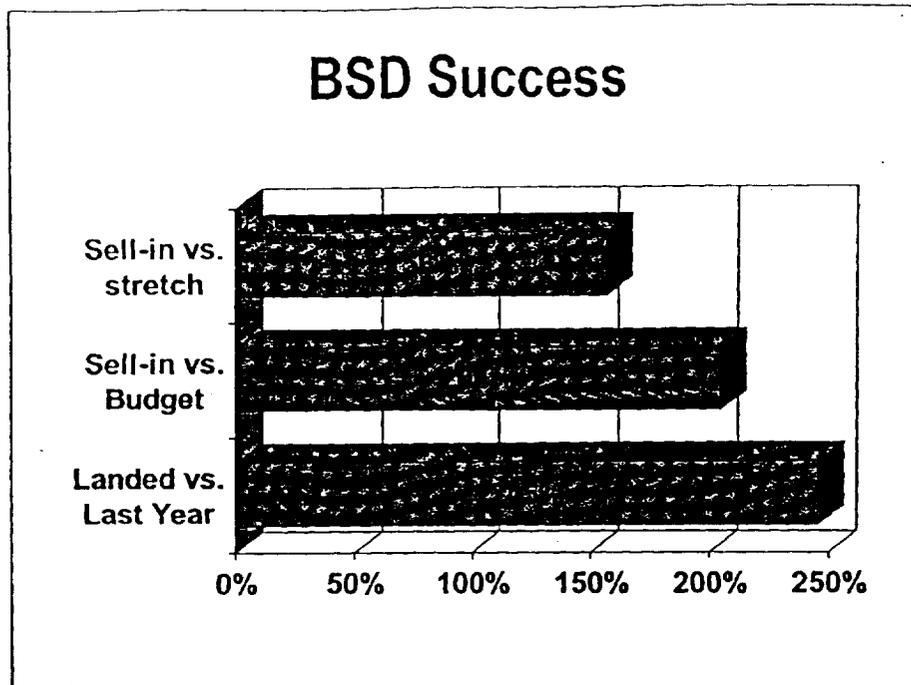
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Jeffr: One of the bright spots this quarter has been BSD performance in North American. I've been really pleased by the way that all the groups have come together to get sales and develop the channel for the product. Rich, why don't you give us a short overview of the business.

Rich: OK, Jeff, the most useful thing would be for us to go over: 1) current business performance, 2) upcoming competitive threats and 3) the priorities that I have to move the BSD business forward.

Jeffr: Right, so, we know performance has been great, let's go over the numbers...

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In: 30 sec

Out: 2:00min

Jeffr: At the beginning of the year, I set a really aggressive goal for BSD sales. Last year, in the US, we sold \$142M for the year and I wanted you to do \$110M as a stretch goal in the first half alone. You did even better than that. You actually sold \$171M in the US or 156% of stretch

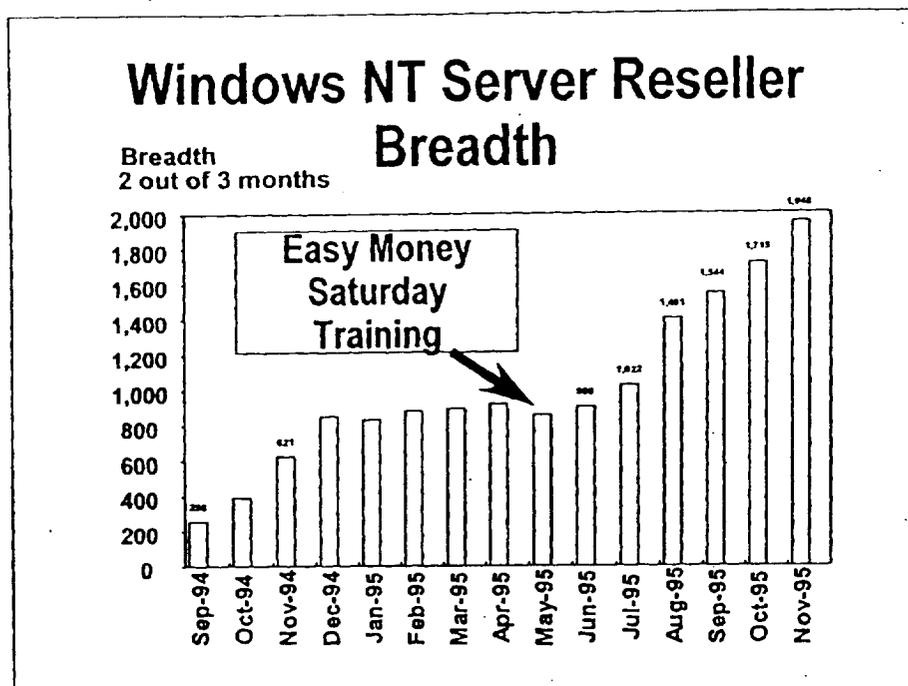
Richt: And, of course Jeff, that means North America is literally blowing away the budget figures. Right now, in US, total sales are 204% of the budget figure. and 192% of NA plan.

Jeffr: Now, the comparison with last year are even more dramatic. Just looking at landed revenue in the US for the first 5 months, we are 245% of the \$44M landed in the US in the first half of last year. That is an incredible amount of selling going on...

Richt: That's right, I've been really astounded by the focus of all of you. For instance, I look at Charles Schwab in the West where we have 6,000 NTW deployed and took the business from Sun. And, at USAA, the largest IBM account in the southwest, that is now buying BSD products. And of course, Alcoa where in partnership with HP, you are in the midst of upgrading their entire infrastructure using BSD product. And, of course, not to forget Canada where we have won a hard fought battle at NorTel.

Jeffr: You're right, but that focus is not just in accounts, it is also in the channel. How are we doing in depth and breadth?

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In: 2:00

Out: 3:30min

Right: You make a great point. From the slide, you can see that from December 94 to June 95; our channel breadth in the US was pretty flat at 600 resellers selling a BSD product 2 out of every 3 months. Those are the bars in the middle of the chart.

Jeffr: So, in the summer, you implement a series of programs, Easy Money, Saturday Training.

Right: Yes, that's right, it was a cooperative thing between BSD, OCU and the field and look at the results. As of November, we had over 1,900 resellers.

Right: Yes, our work with VARs and SPs is really paying off. For instance, Lon Davis a former SVP at Novell and now a Microsoft SP said, "Novell used to have a great program, but now they are in disarray." You know, now he gets over 80% of his business from BackOffice products.

Jeffr: What about depth where resellers sell more than 200 servers per year?

Right: We're just getting started there, but you've already signed up over 100 resellers.

Jeffr: We're making great progress in terms of sales; what our our progress with market share?

Internal Market Share

	TechData	BSD	NetWare
Oct		8%	84%
Nov		16%	74%
Dec		19%	72%
	Merisel		
Oct		47%	43%
Nov		58%	35%
Dec		60%	33%

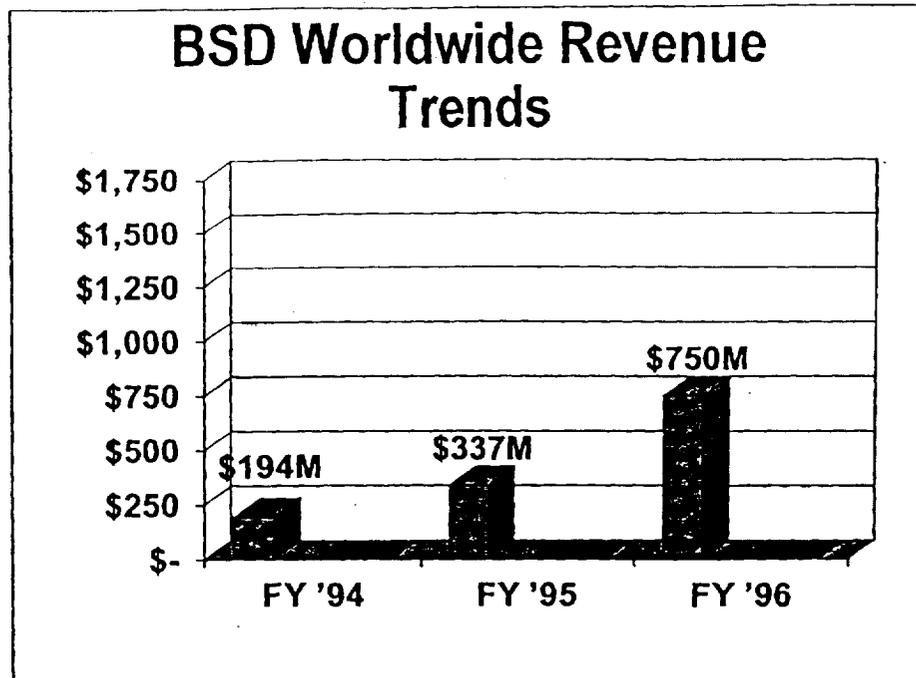
In: 3:30min

Out: 4:30min

Right: We're growing in share all the time. One way to see this is to look at our internal market share at major distributors. For instance, at TechData, our share stood at 8% in October and has more than doubled to 19% exiting December. Similarly at Merisel, NetWare share of network revenue has fallen from 43% to 33%

Jeffr: Yes, at Comdex, every distributor I talked to said that Novell sales were flat to down and BSD sales were up. So, it seems like our business is going really well, how are we doing on a worldwide basis, we must be growing substantially.

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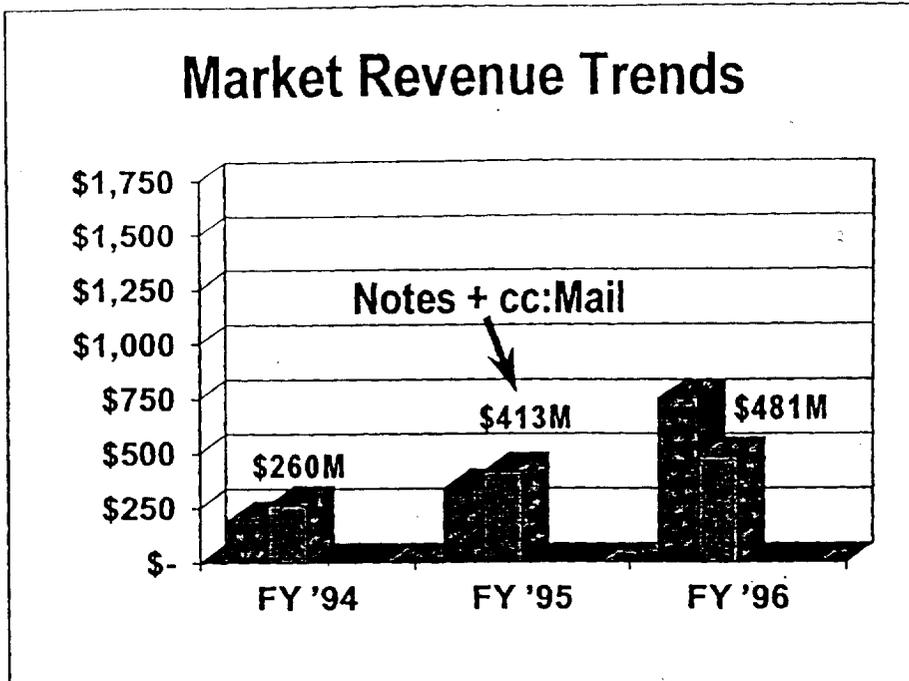
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Out: 5:00min

Right: That is right on this slide, you can see our actual FY94, 95 and a worldwide estimate of our revenues. It shows us growing from \$194M in 94 to \$337 in 95 and nearly doubling again in 96.

Jeffr: In fact, with just this month, BSD worldwide revenues exceeded \$114M for the quarter. That's a \$1B plus run rate. But, I'm curious, how are we doing against Lotus, Novell and the rest...

Market Revenue Trends



In: 5:00min

Out: 5:30min

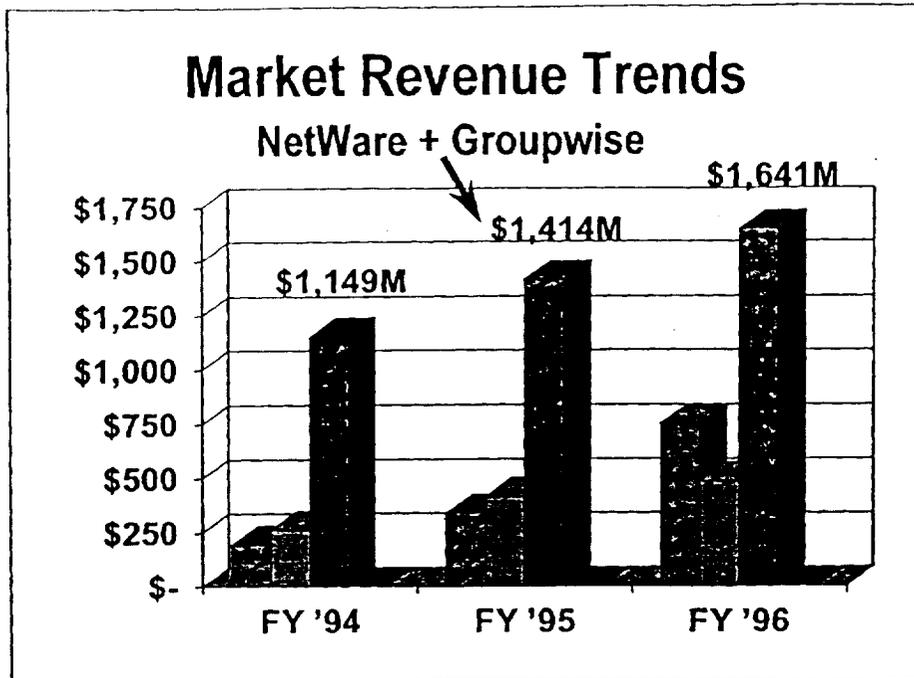
Right: Good question, Jeff. It's been a wild competitive ride in the last six months. Let's first look at Notes+cc:Mail. They shipped Notes v4 and announced dramatic price reductions. From the charts, the BSD estimate of their worldwide revenue is that they were growing at roughly the same rate as us from \$260M to \$413 in FY95.

Jeffr: I know their sales are rising. From 2M nodes worldwide to 3.1M. But, it looks like their price reductions are hurting them which is why their revenue are only up to \$481M.

Right: That's right, despite this revenue trend, we expect IBM to pour more than \$200M in marketing against Notes v4 so we'd better be ready on top of the billions they've already paid. Notes in summary is far from dead.

Jeffr: Enough on Notes, I'm very interested to see how much damage we've done to Novell in this period.

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In: 5:30min

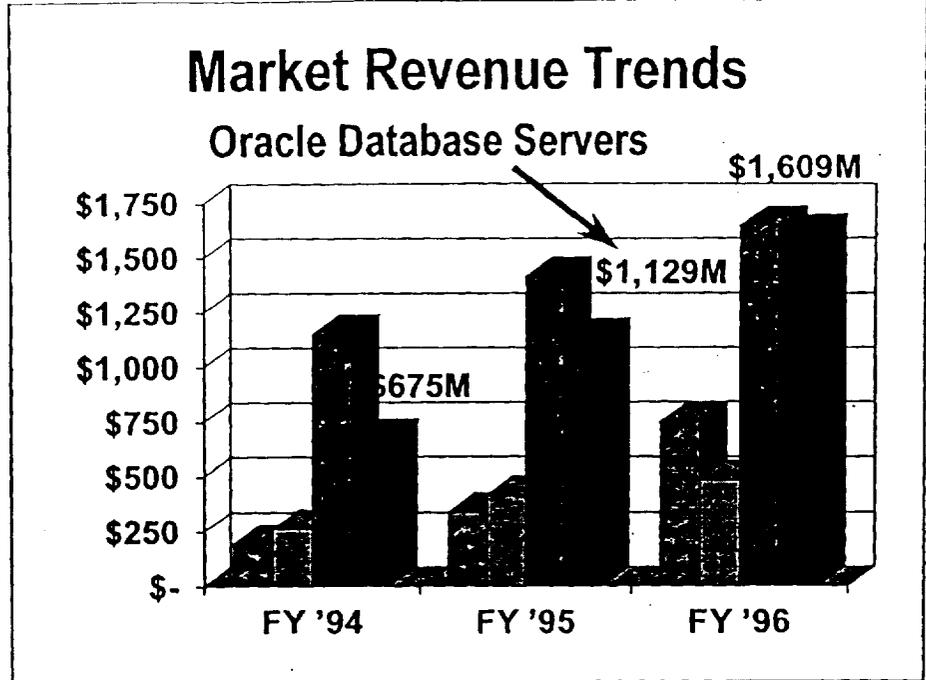
Out: 6:00min

Right: Well, the answer is that we're taking share from them, but not enough to keep them from growing. Last year, they grew about 16% which is well behind the market growth rate, but still they are growing. Up to \$1.6B we estimate worldwide for their NetWare, Groupwise business.

Jeffr: Yes, and with the sale of WordPerfect to Corel, we can expect them to get more focused as a competitor.

Right: That's right, we've heard a rumor that they will reorganize within the next week or so with specific marketing efforts targeted at SOGRs, LOGRs and the Internet. In many ways, they think that they should be the company to own the Intranet since they have so many file server deployed. We also expect their Web server to be our biggest performance competition.

Jeffr: Now, I think you've let the biggest surprise for last, what have our friend in Oracle been up to...



In: 6:00min
 Out: 6:30min

Right: That's right, as you can see Oracle database servers started at \$675M in FY94 and grew an incredible 67% and then 43% last year. Today, we estimate they just slight smaller than Netware in sales.

Jeffr: What is it that is causing this growth?

Right: Their primary engine of growth has been their Unix servers. We estimate they get over \$10K/server and they of course have a large consulting business behind it.

Jeffr: They also have a full product line of database servers too and use it like we use Win32 family against OS/2.

Right: That's right, they have a complete family from Personal to Workgroup to Enterprise Oracle. Also, they are very aggressive on the Internet area and have a Web Server browser and connector introduced. We're fighting back with a new SQL server license that make it inexpensive to build use SQL Server for the Web. For \$2995, you get unlimited connections from any Web browser. That's half the price of Oracles equivalent license.

Jeffr: So although we are growing, BSD is only 14% of the FY96 revenue pie shown above. And, one company you don't have on the slide is Netscape. Where are they?

Right: They're pretty small right now. About \$43M in servers, but that's up from \$3M in FY95. Today 1/3 of their revenue is from servers.

Jeffr: So, although we've done well so far, it seems like we have quite a lot of revenue left to get. What do you see as our key challenges...

Key Challenges

- ◆ Netscape APIs vs. Microsoft APIs
- ◆ Notes vs. Exchange vs. Internet
- ◆ Novell NDS vs. NTDS
- ◆ Oracle sales model
- ◆ Value Proposition/Channel to SORGs

In: 6:30min

Out: 9:00min

Richt: There are quite a few of them. These are some of the top issues we want to make sure to get word out about in the next six months. For example, some of you may wonder why we care about Netscape since all our Internet products are free. Well, it's about who controls the next generation of APIs. Check out www.netscape.com and make sure you see the applications.

Jeffr: So, it is about who creates the next generation of applications.

Richt: That's right. We've got an important competitive weapon with Internet Information Server. It has our programming interface ISAPI. We have 50+ ISVS already and they are finding ISAPI is 5x faster than Netscape super flexible.

Jeffr: Now, another key challenge is to get Exchange out there and make sure it gets positioned correctly particularly with the Internet. For instance, Netscape recently acquired Collabra and they are going to do a mail/groupware system.

Richt: That's right, a key challenge is positioning correctly Exchange vs. Notes. We have two key things to rely on. The primary thing is reliability.

Jeffr: The one feature the Novell folks keep talking about is NDS. Where are we with that?

Richt: It's becoming their only issue and we've been working on the right presentation. We now have a summarized NDS vs. NTDS presentation done that we'll have out shortly.

Jeffr: Oracle sales model Now that's a tough problem.

Richt: No great insights here, it is something we are working.

Jeffr: Finally, while I think we are doing OK with IT types, we need to drive down to that next level of small reseller.

Richt: No question about that.

Jeffr: So, how are we going to meet these challenges. What do you think BSD priorities should be?

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Key Priorities

- ◆ Turn enterprise commitments to sales
- ◆ Continue great work channel
 - ◆ Drive more breadth
 - ◆ Get more depth
- ◆ Coordinated selling efforts...

In: 9:00min

Out: 10:00min

Right: First thing is to make sure we turn all those enterprise commitments to sales. To make that happen, I know you need materials on NTDS and on scalability and clustering strategies. We have the materials ready for you.

Jeffr: That's great from an IT point of view. But, channel-wise, I want to emphasize that we have made good initial progress on breadth but we need to continue that push. On depth, we've just begun and I see this as a major priority.

Right: I agree, but to make that happen, it's gotten much clearer to me, that we need a much more integrated approach to sales. We have quite a few efforts underway and I've been working with johnni, bobmc and the field directors to coordinate our sales efforts into a few key initiatives.

Jeffr: These are the so called "flights" I've heard about then?

Coordinated Selling...Flights

- ◆ **Flight 1: Windows Networking**
 - ◆ Update ongoing seminar materials
- ◆ **Flight 2: Internet**
 - ◆ March 2, Channel, field-driven seminars
- ◆ **Flight 3: Exchange/Internet Roadshow**
 - ◆ April 2, SQL included

In: 10:00min
Out: 11:30min.

Richt: That's right, a flight is an effort by OCU/ECU/BSD and the field to integrate our efforts in four areas: a) advertising/pr/direct mail run out of BSD, b) channel training/recruitment, c) customer sales and lastly d) the enthusiasts.

Jeffr: I see, so you mean to have three specific areas of focus.

Richt: That's right, the first flight is a continuation of the NTS seminars run in the fall. You will get updated materials that include our latest NTDS and other materials starting in early March.

Jeffr: Now, I see you also have something with an Internet focus.

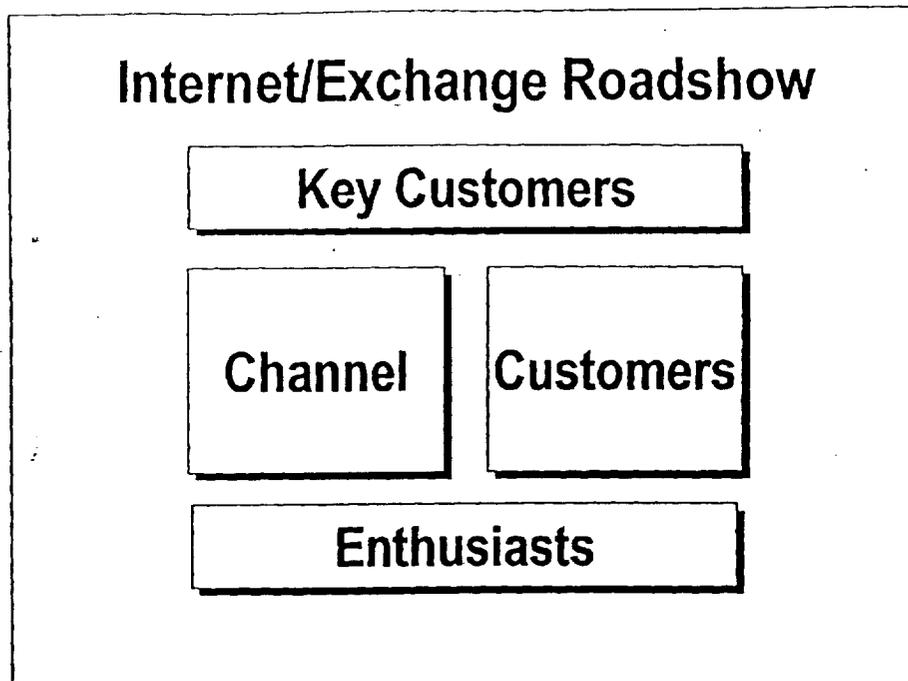
Richt: That's right, initially, these are mainly field driven seminars using existing materials on our current Internet products. We want to get the Internet information for all Microsoft products out ASAP.

Jeffr: So, it includes Frontpage, Internet Explorer, etc then. Now, what about the Roadshow.

Richt: This will be a 16-city tour starting April 2. It's designed to put together our whole Exchange/Internet/SQL story...

Jeffr: How does it work exactly...

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In: 11:30min
Out: 12:00min

Right: Well, for example, here is a schematic for a day in a particular city. We'd start with a morning session of say 100 or so key individuals. Mainly LORG IT professionals in most cases, but districts will decide the invite.

Jeffr: So, you'll talk with them about major longer term issues like directory, integrating Internet into all our products, SQL scalability then.

Right: Right, then, we have two large track through midmorning into the afternoon. One breakout will be for 500 or so channel folks to learn product details and selling strategies on individual products. The goal is to get them ready to sell and also to get them a jump start on doing their own seminars.

Jeffr: Then, the other is about a product presentation to 500 or so customers. probably MORG and LORG mix depending on the city.

Right: That's right and in the evening, we want to make sure all the enthusiasts know about our products. So, we'll have my favorite event, the geekfest for as many as we can cram into a ballroom.

Jeffr: Well, it sounds like a well integrated program. The FMMs will be the contact point. I hope you all take advantage of it. I'm asking you to continue to exceed budget and to beat our targets. I know we can do it.

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Panel Discussion With WPG And Customer Units

- ◆ **Internet/Exchange Roadshow**
- ◆ **Cross-divisional strategy**

Questions and Answers