NON-RESPONSIVE
MATERIAL REDACTED

From: Brad Chase
To: mackm; bradsi
Cc: billp; tonya
Subject: Ideas - cougar and ibm
Date: Thu, Mar 12, 1992 10:20AM

The purpose of this email is to explore some ideas and understand
what we legally must give ibm for our future ms-dos products after
astro but b4 the contract ends in 9/17/93. obviously, we would
prefer not to give ibm any of cougar (enhanced mode ms-dos 7), but
keep in mind that even if we do not ship cougar by the end of the
current ibm contract we still have to give them a "dump" of all
current ms-dos code as of 9/17/93.

however the agreement does provide that we only have to give ibm the
"standard retail dos". **Privilege Material**
Redacted

the ideas below are some of my initial thoughts. thanks to tony and
brad for letting bounce ideas off them. Email feedback is welcome -
i will call a meeting to discuss sometime after win 3.1 launch. as
cougar is not until the fall of 93 we do have time but if we work out
a strategy now we can also avoid any contractural obligations to
provide cougar code during its development.

Brad

Idea 1 - Offer two flavors of MS-DOS to OEMs and resellers (via the Upgrade)

Structure it so the base ms-dos product for ms-dos 7 becomes the
real mode component (jaguar). We charge oems a base price for that
and the protect mode enhancements would be a extra charge. if this
worked IBM would get the compressed file system and some good
utilities (anything else good mack?) but not Cougar. to reinforce
that Jaguar is the base we could sell two Upgrades: 1)MS-DOS 7
Upgrade (Jaguar); 2) MS-DOS 7 Upgrade Plus for 386 or better systems
(Cougar). The latter would of course cost more and one might argue
that having two products would be a mrketing advantage b/c it would
gives us a family of products and make it clear that 386 users and -
above should buy one and users on 286 or below the other.

Since all OEMs will be shipping 386 or better systems except maybe
for a few palmtops I expect 99% would opt for Cougar. **Privilege Material**
Redacted

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Idea 2 - Jaguar is MS-DOS
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Tony and I brainstormed about the implications if we could call
Jaguar MS-DOS 7 and only offer Cougar as part of Windows. Depending
on what you believe will be the success/innovations of DR and Windows
this could leave more of a opening for DR. but at least under this
scenario IBM, while getting the code, still has to pay us a royalty.
However, since IBM will be paying us a royalty for Windows anyway
this scenario is not very interesting.   About the only benefit is
that ibm could not sell Cougar separately without paying us a
royalty. But, of course we would not be selling it without Windows ourselves.

From: Russell Stockdale
To: Brad Chase; Eric Straub
Subject: FW: MS-DOS Update
Date: Fri, Mar 13, 1992 10:15AM

> From   bradc Mon Feb 24 17:20:42 1992
To: dosmktg jeffl richardf ronhag
Subject: FW: MS-DOS Update

X-MSMail-MailClass: IPM.Microsoft Mail.Note
X-MSMail-Priority: 0002
X-MSMail-Message-ID: DFA89A59
X-MSMail-Conversation-ID: 1036E5A6
X-MSMail-Parent-message-ID: 1036E5A6
Date: Mon Feb 24 1992 17:15:20

key data including summary of astro is below. for your eyes only for
now - pls do not forward
_____

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
Date: Mon, Feb 24, 1992 4:28PM

A summary of the current status on upcoming key MS-DOS 5 and MS-DOS 5
Upgrade ideas and programs as well as un 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
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The MS-DOS 5 Upgrade has leveled off around 80K units sold thru per

month (US) 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. Bradsi 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 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. Bradsi 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
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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 bradsi 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 emphsized 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.

Intl

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 if $216.6. Gross pofit

is $242M verus a forecast of $196 and burdened operating income is $190M versus a forecast of $146.

From: Brad Chase
To: Brad Silverberg
Cc: Brad Chase; DOS Marketing; Joachim Kempin; Mack Mccauley
Subject: what think?