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Joachim Kempin

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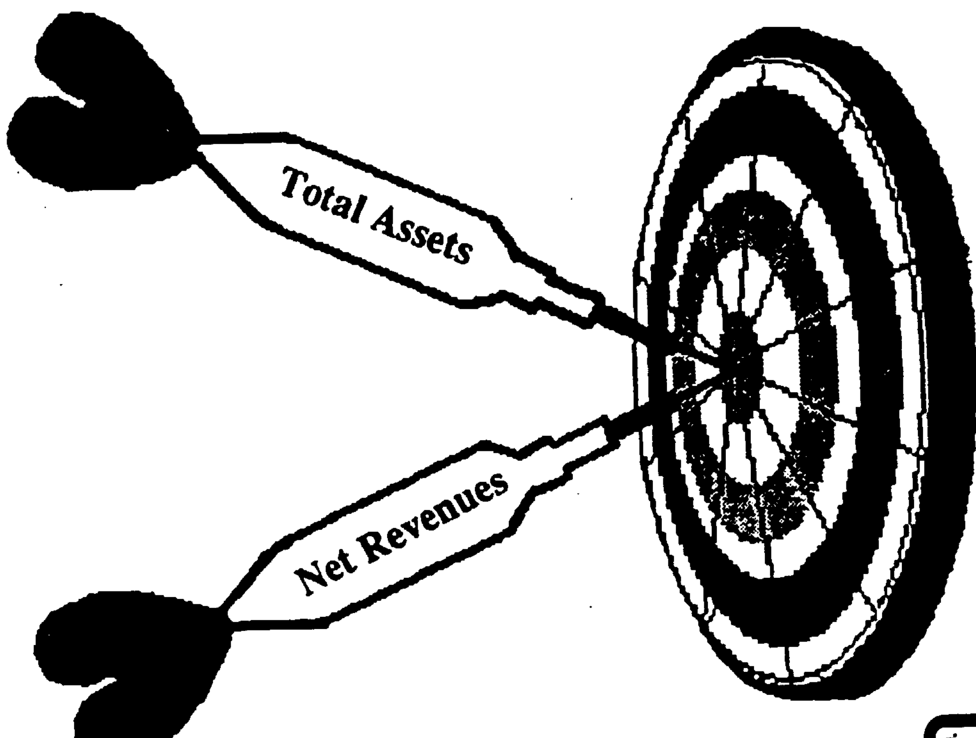
Microsoft®

Finance and Administration Report
For Quarter Ended March 31, 1990
May 5, 1990



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NOTE: Throughout this report share amounts have been adjusted to reflect a two-for-one stock split effective April 1990.

FINANCE

RESULTS OF OPERATIONS

RESULTS OF OPERATIONS COMPARED WITH PRIOR YEAR

Consolidated statements of income compared with prior year are presented below. The first set is for the three months ended March 31, 1990 and 1989. The second set is for the nine months ended March 31, 1990 and 1989. Amounts are in thousands, except net income per share.

	Q90-3		Q89-3		Change %
Net revenues	$310,882	100.0%	$197,024	100.0%	58
Cost of revenues	66,096	21.3	48,891	24.8	35
Gross profit	244,786	78.7	148,133	75.2	65
Operating expenses:					
Research and development	47,126	15.2	29,128	14.8	62
Sales and marketing	82,093	26.4	55,211	28.0	49
General and administrative	9,187	2.9	6,693	3.4	37
Total operating expenses	138,406	44.5	91,032	46.2	51
Operating income	106,380	34.2	57,101	29.0	86
Non-operating income	5,666	1.9	5,403	2.7	5
Stock option program expense	(1,500)	(0.5)	(2,037)	(1.0)	(26)
Income before income taxes	110,546	35.6	60,467	30.7	83
Provision for income taxes	35,377	11.4	19,348	9.8	83
NET INCOME	$75,169	24.2%	$41,119	20.9%	83
Average shares outstanding	121,069		112,868		7
NET INCOME PER SHARE	$ 0.62		$ 0.36		72

	FY90 YTD		FY89 YTD		Change %
Net revenues	$846,474	100.0%	$583,299	100.0%	45
Cost of revenues	182,673	21.6	149,543	25.6	22
Gross profit	663,801	78.4	433,756	74.4	53
Operating expenses:					
Research and development	128,100	15.1	77,243	13.3	66
Sales and marketing	225,403	26.6	157,521	27.0	43
General and administrative	27,548	3.3	20,280	3.5	36
Total operating expenses	381,051	45.0	255,044	43.8	49
Operating income	282,750	33.4	178,712	30.6	58
Non-operating income	14,744	1.7	11,391	2.0	29
Stock option program expense	(4,500)	(0.5)	(6,000)	(1.0)	(25)
Income before income taxes	292,994	34.6	184,103	31.6	59
Provision for income taxes	93,761	11.1	58,917	10.1	59
NET INCOME	$199,233	23.5%	$125,186	21.5%	59
Average shares outstanding	118,047		112,270		5
NET INCOME PER SHARE	$ 1.69		$ 1.12		51

Net revenues for the third quarter of fiscal year 1990 (Q90-3) increased 58% to $310.9 million from $197.0 million for the corresponding period of the prior year (Q89-3). The following is a breakdown of net revenues by Channel of Distribution and Product Group. At 45.8% of total Company revenues, International Retail established a highwater mark, surpassing the 41.0% of Q90-2.

	Q90-3		Q89-3		Growth Percentage
Channel of Distribution					
USSMD	$ 78,332	25.2%	$ 43,845	22.3%	79
International Retail	142,471	45.8	79,603	40.4	79
Worldwide Retail	220,803	71.0	123,448	62.7	79
Domestic OEM	45,047	14.5	32,380	16.4	39
International OEM	38,357	12.3	35,975	18.3	7
Worldwide OEM	83,404	26.8	68,355	34.7	22
Other	6,675	2.2	5,221	2.6	28
Total	$310,882	100.0%	$197,024	100.0%	58
Product Group					
Applications	$158,145	50.9%	$ 77,283	39.2%	105
Systems	87,386	28.1	73,576	37.4	19
SPAG	33,236	10.7	22,011	11.2	51
Languages	11,454	3.7	10,090	5.1	14
Network	11,222	3.6	3,550	1.8	216
Other	9,439	3.0	10,514	5.3	(10)
Total	$310,882	100.0%	$197,024	100.0%	58

From a product standpoint, Word sales are particularly noteworthy. For the quarter, total Word sales (PC, Win and Mac) were over 265,000 units and $64 million in revenue, accounting for approximately 21% of total Company net revenues. These full product results do not include approximately 100,000 units and $12 million from Word upgrades and updates. The Company's leading products for the quarter (compared with prior year) were as follows:

			Q90-3		Q89-3		Revenue
Q90-3	Q89-3		Units	Revenue	Units	Revenue	Growth %
1	1	DOS/GW Basic	3,944,309	$ 54,757	2,930,781	$ 47,252	16
2	2	PC Word	139,679	37,286	84,297	18,068	106
3	4	Microsoft Mouse	383,080	33,182	316,073	21,862	52
4	-	Win Excel	79,822	22,809	55,405	12,581	81
5	3	Mac Word	74,874	14,501	16,692	3,574	306
6	12	Win Word	51,098	12,503	-	-	-
7	6	Mac Excel	53,657	12,322	42,658	9,411	31
8	5	Windows	601,758	11,804	659,069	12,214	(3)
9	8	PC Works	250,666	11,339	120,288	6,062	87
10	9	Pro C	25,455	4,917	25,917	4,376	12
11	7	PC Multiplan	62,865	4,681	107,071	6,380	(27)
12	10	Mac Works	28,295	3,901	28,028	4,126	(5)
13	-	Pro Basic	12,188	3,271	-	-	-
14	-	Mac Office	7,037	3,051	-	-	-
15	11	Xenix	50,539	2,506	38,404	4,014	(38)
				$232,830		$149,920	
Percent of net revenues				75%		76%	

Q89-3: #13 - PC QuickBasic ($2,734); #14 - PC Chart ($2,588); #15 - MS Net ($2,235)

Cost of revenues for Q90-3 was 21.3% of net revenues compared with 24.8% for Q89-3. Product costs as a percentage of net revenues were 15.7% for Q90-3 compared with 16.6% for Q89-3. The analysis on page 4 contains the Q90-3 and Q89-3 product cost percentage for each channel of distribution and each product group. Regarding the reduction in the composite product cost percentage, the shift to a greater contribution from worldwide retail was more than offset by a combination of the shift to a greater contribution from higher margin Applications products and product cost reductions within several product groups (most notable, Applications and SPAG).

As a percentage of net revenues, non-product costs included in cost of revenues were 5.6% for Q90-3 compared with 8.3% for Q89-3. This 2.7% margin improvement resulted from gains in manufacturing variances (0.8%), inventory adjustments (0.4%), freight, shipping and other (0.7%) and royalties (0.7%). In general, these improvements resulted from economies of scale in manufacturing and distribution, as well as better inventory management. The decline in royalties costs results primarily from the purchase of technology rights from PSI, reducing royalty rates on Mac Works from 20% to 3.2%, and from reduced revenues from Flight Simulator.

Operating expenses grew 51% from period-to-period (from $91.0 million to $138.4 million). The growth in operating expenses was less than the growth in net revenues (58%) and, as such, operating expenses as a percentage of net revenues decreased from 46.2% to 44.5%. Categorized in SEC format and expressed as a percentage of net revenues, research and development increased from 14.8% to 15.2%, sales and marketing decreased from 28.0% to 26.4%, and general and administrative decreased from 3.4% to 2.9%. Payroll (up $16.2 million to $47.6 million) and Marketing (up $10.9 million to $25.3 million) accounted for 57% of the period-to-period growth in operating expenses. Q90-3 marketing includes an accrual of $2.5 million.

Non-operating income for Q90-3 was $5.7 million compared with $5.4 million for Q89-3. Non-operating income for the current quarter consists of investment income of $7.5 million (net of a provision for non-performing investments of $1.0 million), SCO amortization of $500,000, foreign currency transaction losses of $600,000 and miscellaneous expense of $700,000. Non-operating income for Q89-3 consists of investment income of $5.2 million, foreign currency transaction gain of $600,000 and miscellaneous expense of $400,000.

Stock option program expense is the result of the Company's program regarding incentive stock options under which employees, if they elect to participate, receive a cash payment in exchange for taking certain actions that result in a tax benefit to the Company. Under current accounting rules, the Company reports the gross benefit under the program as a contribution to capital, whereas the expense net of directly related taxes is charged against income. Accounting rules require that this expense be recognized ratably over the vesting period of the related options as opposed to being recognized when paid.

As of December 31, 1989, our accrual for stock option program expense was $8.0 million. Charges against the accrual for exercised options of $3.3 million during the quarter exceeded the book provision of $1.5 million by $1.8 million, reducing the accrual to $6.2 million as of March 31, 1990. The increase in charges against the accrual resulted from the unanticipated run-up in stock price during the quarter and will likely necessitate additional provisions in the first and perhaps second quarter of FY'91. See page 5 for further detail.

The effective tax rate for Q90-3 was 32.0%, the same as Q89-3.

Net income for Q90-3 was $75.2 million compared with $41.1 million for Q89-3. Net income as a percentage of net revenues increased from 20.9% to 24.2%.

Microsoft Corporation
Consolidated Cost of Goods Sold
Q90-3 Compared With Q89-3

Channel	Q90-3 Sales Mix	Q90-3 Cost %	Q90-3 Weighted Cost %	Q89-3 Sales Mix	Q89-3 Cost %	Q89-3 Weighted Cost %
USSMD	25.8%	19.2%	4.9%	24.0%	24.1%	5.8%
Intl Retail	45.6%	21.4%	9.8%	40.9%	24.7%	10.1%
US OEM	13.9%	3.2%	0.5%	16.1%	2.4%	0.4%
Intl OEM	12.4%	0.0%	0.0%	16.3%	0.0%	0.0%
Other	2.3%	10.9%	0.3%	2.7%	13.8%	0.4%
Product cost - gross	100.0%		15.4%	100.0%		16.7%
Effect of revenue adjustments		x	102.1%		x	99.5%
Product cost - net			15.7%			16.6%
Manufacturing variances			0.1%			0.9%
Inventory adjustments			1.4%			1.8%
Freight, shipping and other			2.9%			3.6%
Royalties			1.1%			1.9%
Non-product costs			5.5%			8.2%
Total			21.3%			24.8%

Product Group	Q90-3 Sales Mix	Q90-3 Cost %	Q90-3 Weighted Cost %	Q89-3 Sales Mix	Q89-3 Cost %	Q89-3 Weighted Cost %
Applications	51.1%	15.3%	7.8%	40.7%	18.4%	7.5%
Systems	24.3%	9.9%	2.4%	32.8%	7.2%	2.4%
SPAG	10.8%	37.5%	4.0%	11.6%	42.6%	4.9%
Languages	3.7%	22.0%	0.8%	5.4%	25.2%	1.4%
Non-specific	5.6%	0.6%	0.0%	2.4%	1.3%	0.0%
Other	4.4%	6.4%	0.3%	7.1%	6.8%	0.5%
Product cost - gross	100.0%		15.4%	100.0%		16.7%

Net revenues for the first three quarters of fiscal year 1990 (FY90 YTD) increased 45% to $846.5 million from $583.3 million for the corresponding period of the prior year (FY89 YTD). The following is a breakdown of net revenues by Channel of Distribution and Product Group.

	FY90 YTD		FY89 YTD		Growth Percentage
Channel of Distribution					
USSMD	$255,308	30.2%	$166,166	28.5%	54
International Retail	345,727	40.8	219,519	37.6	57
Worldwide Retail	601,035	71.0	385,685	66.1	56
Domestic OEM	112,088	13.3	82,527	14.1	36
International OEM	115,455	13.6	100,867	17.3	14
Worldwide OEM	227,543	26.9	183,394	31.4	24
Other	17,896	2.1	14,220	2.5	26
Total	$846,474	100.0%	$583,299	100.0%	45
Product Group					
Applications	$417,764	49.4%	$235,585	40.4%	77
Systems	241,954	28.6	203,399	34.9	19
SPAG	94,239	11.1	72,544	12.4	30
Languages	37,518	4.4	39,776	6.8	(6)
Network	28,882	3.4	6,224	1.1	364
Other	26,117	3.1	25,771	4.4	1
Total	$846,474	100.0%	$583,299	100.0%	45

The Company's leading products for FY90 YTD (compared with prior year) were as follows:

FY90 YTD	FY89 YTD		FY90 YTD Units	FY90 YTD Revenue	FY89 YTD Units	FY89 YTD Revenue	Revenue Growth %
1	1	DOS/GW Basic	10,428,870	$155,490	7,513,926	$123,643	26
2	3	PC Word	439,470	100,692	256,717	53,098	90
3	2	Microsoft Mouse	1,115,191	94,034	972,318	71,043	32
4	5	Win Excel	247,722	61,492	134,973	32,831	87
5	4	Windows	1,866,677	45,152	1,682,392	33,538	35
6	7	Mac Word	233,770	42,217	122,357	20,493	106
7	9	PC Works	762,756	37,729	269,313	16,082	135
8	6	Mac Excel	170,663	35,590	139,797	29,451	21
9	-	Win Word	64,886	16,200	-	-	-
10	10	PC Multiplan	171,895	15,799	206,708	15,984	(1)
11	8	Pro C	90,161	15,162	97,757	16,750	(9)
12	11	Mac Works	88,994	12,116	78,798	10,794	12
13	-	Mac Office	21,982	9,765	-	-	-
14	12	Xenix	138,130	7,448	104,106	8,837	(16)
15	-	PC QuickBasic	108,974	6,602	113,899	6,586	0
				$655,488		$439,130	
Percent of net revenues				77%		75%	

FY89 YTD: #13 - PC Chart ($7,588); #14 - PC Flight Simulator ($6,932); #15 - Mac PowerPoint ($6,867)

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Cost of revenues for FY90 YTD was 21.6% of net revenues compared with 25.6% for FY89 YTD. Product costs as a percentage of net revenues were 16.3% for FY90 YTD compared with 17.5% for FY89 YTD. The analysis on page 7 contains the FY90 YTD and FY89 YTD product cost percentage for each channel of distribution and each product group. Regarding the reduction in the composite product cost percentage, the shift to a greater contribution from Worldwide Retail was more than offset by a combination of the shift to a greater contribution from higher margin Applications products and product cost reductions within several product groups (most notable, Applications and SPAG).

As a percentage of net revenues, non-product costs included in cost of revenues were 5.3% for FY90 YTD compared with 8.0% for FY89 YTD. This 2.7% margin improvement resulted from gains in manufacturing variances (0.8%), inventory adjustments (0.9%), freight, shipping and other (0.6%) and royalties (0.4%). In general, these improvements resulted from economies of scale in manufacturing and distribution, as well as better inventory management.

Operating expenses grew 49% from period-to-period (from $255.0 million to $381.1 million). The growth in operating expenses exceeded the growth in net revenues (45%) and, as such, operating expenses as a percentage of net revenues increased from 43.8% to 45.0%. Categorized in SEC format and expressed as a percentage of net revenues, research and development increased from 13.3% to 15.1%, sales and marketing decreased from 27.0% to 26.6%, and general and administrative decreased from 3.5% to 3.3%. Payroll (up $43.7 million to $129.2 million) and marketing (up $28.2 million to $68.6 million) accounted for 57% of the period-to-period growth in operating expenses. FY90 YTD results include a marketing accrual of $14.4 million.

Non-operating income for FY90 YTD was $14.7 million compared with $11.4 million for FY89 YTD. Non-operating income for the current period consists of investment income of $22.2 million less provisions for non-performing investments of $3.0 million, SCO amortization of $1.5 million, foreign currency transaction losses of $1.1 million (see page 36) and miscellaneous expense of $1.9 million (including $666,000 minority interest in our Korean subsidiary, $623,000 in charitable contributions, and $635,000 primarily in non-investment interest which includes CI--LID assessment interest and other miscellaneous interest charges). Non-operating income for FY89 YTD consists of investment income of $12.9 million, loss on equity investment in EIKON of $800,000 and miscellaneous expense of $700,000.

Stock option program expense -- see discussion on page 3.

The effective tax rate for FY90 YTD was 32.0%, the same as FY89 YTD.

Net income for FY90 YTD was $199.2 million compared with $125.2 million for FY89 YTD. Net income as a percentage of net revenues increased from 21.5% to 23.5%.

Microsoft Corporation
Consolidated Cost of Goods Sold
FY90 YTD Compared With FY89 YTD

	FY90 YTD			FY89 YTD		
Channel	Sales Mix	Cost %	Weighted Cost %	Sales Mix	Cost %	Weighted Cost %
USSMD	31.1%	19.9%	6.2%	29.9%	24.2%	7.2%
Intl Retail	40.3%	22.1%	8.9%	37.3%	25.1%	9.4%
US OEM	12.7%	3.6%	0.5%	13.8%	2.5%	0.3%
Intl OEM	13.9%	0.0%	0.0%	16.6%	0.0%	0.0%
Other	2.0%	12.6%	0.3%	2.4%	14.6%	0.4%
Product cost - gross	100.0%		15.8%	100.0%		17.3%
Effect of revenue adjustments		x	102.8%		x	101.7%
Product cost - net			16.3%			17.6%
Manufacturing variances			-0.3%			0.5%
Inventory adjustments			1.4%			2.3%
Freight, shipping and other			2.8%			3.4%
Royalties			1.4%			1.8%
Non-product costs			5.3%			8.1%
Total			21.6%			25.6%

	FY90 YTD			FY89 YTD		
Product Group	Sales Mix	Cost %	Weighted Cost %	Sales Mix	Cost %	Weighted Cost %
Applications	49.6%	16.0%	7.9%	41.0%	18.5%	7.6%
Systems	24.7%	9.3%	2.3%	29.0%	7.7%	2.2%
SPAG	11.1%	38.2%	4.3%	12.6%	42.9%	5.4%
Languages	4.5%	20.9%	0.9%	7.0%	23.3%	1.6%
Non-specific	5.8%	0.5%	0.0%	4.9%	0.3%	0.0%
Other	4.2%	8.2%	0.3%	5.5%	7.8%	0.4%
Product cost - gross	100.0%		15.8%	100.0%		17.3%

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RESULTS OF OPERATIONS COMPARED WITH COMPETITION

Consolidated statements of income for Microsoft, Lotus, and Oracle are presented below. The first set is the most recent quarter; the second set is trailing twelve months' results. Amounts are in thousands, except net income per share.

	Microsoft		Lotus		Oracle	
Net revenues	$310,882	100.0%	$165,500	100.0%	$236,400	100.0%
Cost of revenues	66,096	21.3	28,900	17.5	41,563	17.6
Gross profit	244,786	78.7	136,600	82.5	194,837	82.4
Operating expenses						
Research and development	47,126	15.2	25,900	15.6	21,685	9.2
Sales and marketing	82,093	26.4	63,200	38.2	115,754	49.0
General and administrative	9,187	2.9	16,000	9.7	16,348	6.9
Total operating expenses	138,406	44.5	105,100	63.5	153,787	65.1
Operating income	106,380	34.2	31,500	19.0	41,050	17.3
Non-operating income	5,666	1.9	100	0.1	(5,342)	(2.2)
Stock option program expense	(1,500)	(0.5)	-	-	-	-
Income before income taxes	110,546	35.6	31,600	19.1	35,708	15.1
Provision for income taxes	35,377	11.4	8,800	5.3	11,426	4.8
NET INCOME	$75,169	24.2%	$22,800	13.8%	$24,282	10.3%
Average shares outstanding	121,069		43,285		137,140	
NET INCOME PER SHARE	$ 0.62		$ 0.53		$ 0.18	

	Microsoft		Lotus		Oracle	
Net revenues	$1,066,705	100.0%	$601,563	100.0%	$852,381	100.0%
Cost of revenues	237,315	22.2	109,064	18.1	137,105	16.1
Gross profit	829,390	77.8	492,499	81.9	715,276	83.9
Operating expenses:						
Research and development	161,077	15.1	99,678	16.6	82,913	9.7
Sales and marketing	286,879	26.9	231,737	38.5	424,080	49.8
General and administrative	35,166	3.3	61,758	10.3	51,986	6.1
Total operating expenses	483,122	45.3	393,173	65.4	558,979	65.6
Operating income	346,268	32.5	99,326	16.5	156,297	18.3
Non-operating income	19,919	1.8	9,967	1.7	(12,178)	(1.4)
Stock option program expense	(6,500)	(0.6)	-	-	-	-
Income before income taxes	359,687	33.7	109,293	18.2	144,119	16.9
Provision for income taxes	115,102	10.8	23,830	4.0	46,121	5.4
NET INCOME	$244,585	22.9%	$85,463	14.2%	$97,998	11.5%
Average shares outstanding	116,823		42,543		136,528	
NET INCOME PER SHARE	$ 2.09		$ 2.01		$ 0.72	

Consolidated statements of income for Microsoft for each of the four quarters ended March 31, 1990 are presented below. Amounts are in thousands, except net income per share.

	June 30, 1989	Sep. 30, 1989	Dec. 31, 1989	Mar. 31, 1990	Trailing 12 months
Net revenues	$220,231	$235,161	$300,431	$310,882	$1,066,705
Cost of revenues	54,642	50,759	65,818	66,096	237,315
Gross profit	165,589	184,402	234,613	244,786	829,390
Operating expenses:					
Research and development	32,977	39,690	41,284	47,126	161,077
Sales and marketing	61,476	66,974	76,336	82,093	286,879
General and administrative	7,618	8,349	10,012	9,187	35,166
Total operating expenses	102,071	115,013	127,632	138,406	483,122
Operating income	63,518	69,389	106,981	106,380	346,268
Non-operating income	5,175	5,037	4,041	5,666	19,919
Stock option program expense	(2,000)	(1,500)	(1,500)	(1,500)	(6,500)
Income before income taxes	66,693	72,926	109,522	110,546	359,687
Provision for income taxes	21,341	23,338	35,046	35,377	115,102
NET INCOME	$45,352	$ 49,588	$ 74,476	$ 75,169	$244,585
Average shares outstanding	113,150	114,360	118,713	121,069	116,823
NET INCOME PER SHARE	$ 0.40	$ 0.43	$ 0.63	$ 0.62	$ 2.09

Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	24.8	21.6	21.9	21.3	22.2
Gross profit	75.2	78.4	78.1	78.7	77.8
Operating expenses:					
Research and development	15.0	16.9	13.8	15.2	15.1
Sales and marketing	27.9	28.5	25.4	26.4	26.9
General and administrative	3.5	3.5	3.3	2.9	3.3
Total operating expenses	46.4	48.9	42.5	44.5	45.3
Operating income	28.8	29.5	35.6	34.2	32.5
Non-operating income	2.4	2.1	1.3	1.9	1.8
Stock option program expense	(0.9)	(0.6)	(0.5)	(0.5)	(0.6)
Income before income taxes	30.3	31.0	36.5	35.6	33.7
Provision for income taxes	9.7	9.9	11.7	11.4	10.8
NET INCOME	20.6%	21.1%	24.8%	24.2%	22.9%

Consolidated statements of income for Lotus for each of the four quarters ended March 31, 1990 are presented below. Amounts are in thousands, except net income per share.

	Jul. 1, 1989	Sept. 30, 1989	Dec. 31, 1989	Mar. 31, 1990	Trailing 12 months
Net revenues	$132,199	$153,906	$149,958	$165,500	$601,563
Cost of revenues	27,905	27,843	24,416	28,900	109,064
Gross profit	104,294	126,063	125,542	136,600	492,499
Operating expense:					
Research and development	22,181	26,222	25,375	25,900	99,678
Sales and marketing	54,695	55,341	58,501	63,200	231,737
General and administrative	14,998	14,998	15,762	16,000	61,758
Total operating expenses	91,874	96,561	99,638	105,100	393,173
Operating income	12,420	29,502	25,904	31,500	99,326
Non-operating income	1,651	565	7,651	100	9,967
Stock option program expense	--	--	--	--	--
Income before income taxes	14,071	30,067	33,555	31,600	109,293
Provision for income taxes	3,799	7,090	4,141	8,800	23,830
NET INCOME	$ 10,272	$ 22,977	$ 29,414	$ 22,800	$ 85,463
Average shares outstanding	41,816	42,262	42,808	43,285	42,543
NET INCOME PER SHARE	$ 0.25	$ 0.54	$ 0.69	$ 0.53	$ 2.01

Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	21.1	18.1	16.3	17.5	18.1
Gross profit	78.9	81.9	83.7	82.5	81.9
Operating expense:					
Research and development	16.8	17.0	16.9	15.6	16.6
Sales and marketing	41.4	36.0	39.0	38.2	38.5
General and administrative	11.3	9.7	10.5	9.7	10.3
Total operating expenses	69.5	62.7	66.4	63.5	65.4
Operating income	9.4	19.2	17.3	19.0	16.5
Non-operating income	1.3	0.3	5.1	0.1	1.7
Stock option program expense	--	--	--	--	--
Income before income taxes	10.7	19.5	22.4	19.1	18.2
Provision for income taxes	2.9	4.6	2.8	5.3	4.0
NET INCOME	7.8%	14.9%	19.6%	13.8%	14.2%

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Consolidated statements of income for Oracle for each of the four quarters ended February 28, 1990 are presented below. Amounts are in thousands, except net income per share.

	May 31, 1989	Aug. 31, 1989	Nov. 30, 1989	Feb. 28, 1990	Trailing 12 months
Net revenues	$215,935	$175,490	$224,556	$236,400	$852,381
Cost of revenues	31,201	28,630	35,711	41,563	137,105
Gross profit	184,734	146,860	188,845	194,837	715,276
Operating expense:					
Research and development	20,020	19,666	21,542	21,685	82,913
Sales and marketing	104,327	95,278	108,721	115,754	424,080
General and administrative	9,353	12,777	13,508	16,348	51,986
Total operating expenses	133,700	127,721	143,771	153,787	558,979
Operating income	51,034	19,139	45,074	41,050	156,297
Non-operating income	(1,700)	(1,956)	(3,180)	(5,342)	(12,178)
Stock option program expense	--	--	--	--	--
Income before income taxes	49,334	17,183	41,894	35,708	144,119
Provision for income taxes	15,788	5,504	13,403	11,426	46,121
NET INCOME	$33,546	$11,679	$28,491	$24,282	$ 97,998
Average shares outstanding	136,116	136,125	136,729	137,140	136,528
NET INCOME PER SHARE	$ 0.25	$ 0.09	$ 0.21	$ 0.18	$ 0.72

Net revenues	100.0%	100.0%	100.0%	100.0S	100.0%
Cost of revenues	14.5	16.3	15.9	17.6	16.1
Gross profit	85.5	83.7	84.1	82.4	83.9
Operating expense:					
Research and development	9.3	11.2	9.6	9.2	9.7
Sales and marketing	48.3	54.3	48.4	49.0	49.8
General and administrative	4.3	7.3	6.0	6.9	6.1
Total operating expenses	61.9	72.8	64.0	65.1	65.6
Operating income	23.6	10.9	20.1	17.3	18.3
Non-operating income	(0.8)	(1.1)	(1.4)	(2.2)	(1.4)
Stock option program expense	--	--	--	--	--
Income before income taxes	22.8	9.8	18.7	15.1	16.9
Provision for income taxes	7.3	3.1	6.0	4.8	5.4
NET INCOME	15.5%	6.7%	12.7%	10.3%	11.5%

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Consolidated statements of financial position for Microsoft, Lotus, and Oracle are presented below. Amounts are in thousands.

	Microsoft March 31, 1990		Lotus March 31, 1990		Oracle February 28, 1990	
ASSETS						
Current assets:						
Cash and short-term investments	$ 446,618	44%	$287,100	45%	$ 56,231	8%
Accounts receivable - net	151,316	15	103,000	16	384,454	57
Inventories	50,029	5	19,400	3	-	-
Other	31,516	3	24,500	4	44,987	7
Total current assets	679,479	67	434,000	68	485,672	72
Property, plant and equipment - net	281,812	28	133,800	21	152,855	22
Other assets	54,023	5	68,800	11	38,278	6
TOTAL	$1,015,314	100%	$636,600	100%	$676,805	100%
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities	$ 189,112	19%	$107,100	17%	$240,063	35%
Long-term liabilities	-	-	219,600	34	118,542	18
Stockholders' equity	826,202	81	309,900	49	318,200	47
TOTAL	$1,015,314	100%	$636,600	100%	$676,805	100%

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Selected market statistics for Microsoft, Lotus, and Oracle are presented below. Statistics are based on financial statements as of March 31, 1990 and 1989 for Microsoft and Lotus and February 28, 1990 and 1989 for Oracle.

	Microsoft		Lotus		Oracle	
	1990	1989	1990	1989	1990	1989
Closing Stock Price (Mar. 31)	$55.38	$24.94	$35.25	$20.13	$18.88	$12.06
Common Shares Outstanding (in millions)	112.3	108.8	41.6	41.7	128.0	126.0
Market Value (in millions)	$6,219	$2,713	$1,466	$839	$2,417	$1,520
Trailing Twelve Months Revenues (in millions)	$1,067	$754	$602	$471	$852	$472
Price/Revenues Ratio	5.8x	3.6x	2.4x	1.8x	2.8x	3.2x
Trailing Twelve Months EPS	$2.09	$1.39	$2.01	$1.03	$0.72	$0.50
Price/Earnings Ratio	26.5x	18.0x	17.5x	19.5x	26.2x	24.1x
Cash (in millions)	$447	$277	$287	$173	$56	$40
Cash per Share	$3.98	$2.55	$6.90	$4.15	$0.44	$0.32
Price/Cash Ratio	13.9x	9.8x	5.1x	4.8x	43.2x	38.0x
Book Value (in millions)	$826	$510	$310	$201	$318	$193
Book Value per Share	$7.36	$4.69	$7.45	$4.82	$2.48	$1.53
Price/Book Value Ratio	7.5x	5.3x	4.7x	4.2x	7.6x	7.9x

Consolidated statements of income for Microsoft and Lotus/Novell are presented below. The first set is the most recent quarter; the second set is trailing twelve months' results. Amounts are in thousands, except net income per share.

	Microsoft		Lotus	Novell	Lotus/Novell	
Net revenues	$310,882	100.0%	$165,500	$105,890	$271,390	100.0%
Cost of revenues	66,096	21.3	28,900	33,880	62,780	23.1
Gross profit	244,786	78.7	136,600	72,010	208,610	76.9
Operating expenses						
Research and development	47,126	15.2	25,900	12,610	38,510	14.2
Sales and marketing	82,093	26.4	63,200	31,138	94,338	34.8
General and administrative	9,187	2.9	16,000	6,370	22,370	8.2
Total operating expenses	138,406	44.5	105,100	50,118	155,218	57.2
Operating income	106,380	34.2	31,500	21,892	53,392	19.7
Non-operating income	5,666	1.9	100	1,642	1,742	0.6
Stock option program expense	(1,500)	(0.5)	--	--	--	--
Income before income taxes	110,546	35.6	31,600	23,534	55,134	20.3
Provision for income taxes	35,377	11.4	8,800	8,472	17,272	6.3
NET INCOME	$ 75,169	24.2%	$ 22,800	$ 15,062	$ 37,862	14.0%

	Microsoft		Lotus	Novell	Lotus/Novell	
Net revenues	$1,066,705	100.0%	$601,563	$429,144	$1,030,707	100.0%
Cost of revenues	237,315	22.2	109,064	142,369	251,433	24.4
Gross profit	829,390	77.8	492,499	286,775	779,274	75.6
Operating expenses:						
Research and development	161,077	15.1	99,678	46,535	146,213	14.2
Sales and marketing	286,879	26.9	231,737	130,417	362,154	35.1
General and administrative	35,166	3.3	61,758	32,924	94,682	9.2
Total operating expenses	483,122	45.3	393,173	209,876	603,049	58.5
Operating income	346,268	32.5	99,326	76,899	176,225	17.1
Non-operating income	19,919	1.8	9,967	6,574	16,541	1.6
Stock option program expense	(6,500)	(0.6)	--	--	--	--
Income before income taxes	359,687	33.7	109,293	83,473	192,766	18.7
Provision for income taxes	115,102	10.8	23,830	30,839	54,669	5.3
NET INCOME	$ 244,585	22.9%	$ 85,463	$ 52,634	$ 138,097	13.4%

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RESULTS OF OPERATIONS COMPARED WITH PLAN

Consolidated statements of income compared with plan for the three months ended March 31, 1990, are presented below. Amounts are in thousands, except net income per share.

	Actual Q90-3		Plan Q90-3		Variance Percentage
Net revenues	$310,882	100.0%	$271,660	100.0%	14
Cost of revenues	66,096	21.3	64,196	23.6	3
Gross profit	244,786	78.7	207,464	76.4	18
Operating expense:					
Research and development	47,126	15.2	48,737	17.9	(3)
Sales and marketing	82,093	26.4	81,913	30.2	-
General and administrative	9,187	2.9	9,171	3.4	-
Total operating expenses	138,406	44.5	139,821	51.5	(1)
Operating income	106,380	34.2	67,643	24.9	57
Non-operating income	5,666	1.9	6,758	2.5	(16)
Stock option program expense	(1,500)	(0.5)	(1,500)	(0.6)	-
Income before income taxes	110,546	35.6	72,901	26.8	52
Provision for income taxes	35,377	11.4	21,870	8.1	62
NET INCOME	$ 75,169	24.2%	$ 51,031	18.8%	47
Average shares outstanding	121,069		115,000		5
NET INCOME PER SHARE	$ 0.62		$ 0.44		41

	Actual FY90 YTD		Plan FY90 YTD		Variance Percentage
Net revenues	$846,474	100.0%	$749,592	100.0%	13
Cost of revenues	182,673	21.6	178,262	23.8	2
Gross profit	663,801	78.4	571,330	76.2	16
Operating expense:					
Research and development	128,100	15.1	142,323	19.0	(10)
Sales and marketing	225,403	26.6	235,092	31.4	(4)
General and administrative	27,548	3.3	27,170	3.6	1
Total operating expenses	381,051	45.0	404,585	54.0	(6)
Operating income	282,750	33.4	166,745	22.2	70
Non-operating income	14,744	1.7	18,358	2.4	(20)
Stock option program expense	(4,500)	(0.5)	(4,500)	(0.6)	-
Income before income taxes	292,994	34.6	180,603	24.1	62
Provision for income taxes	93,761	11.1	54,180	7.2	73
NET INCOME	$199,233	23.5%	$126,422	16.9%	58
Average shares outstanding	118,047		114,500		3
NET INCOME PER SHARE	$ 1.69		$ 1.10		54

Net revenues for the third quarter of fiscal year 1990 at $310.9 million were 14% above plan of $271.7 million. The following is a breakdown of net revenues by Channel of Distribution and Product Group.

	Actual Q90-3		Plan Q90-3		Variance Percentage
Channel of Distribution					
USSMD	$ 78,332	25.2%	$ 83,212	30.6%	(6)
International Retail	142,471	45.8	112,831	41.6	26
Worldwide Retail	220,803	71.0	196,043	72.2	12
Domestic OEM	45,047	14.5	33,955	12.5	33
International OEM	38,357	12.3	33,110	12.2	16
Worldwide OEM	83,404	26.8	67,065	24.7	24
Other	6,675	2.2	8,552	3.1	(22)
Total	$310,882	100.0%	$271,660	100.0%	14
Product Group					
Applications	$ 158,145	50.9%	$129,128	47.5%	22
Systems	87,386	28.1	81,520	30.0	7
SPAG	33,236	10.7	28,615	10.5	16
Languages	11,454	3.7	15,278	5.6	(25)
Network	11,222	3.6	5,634	2.1	99
Other	9,439	3.0	11,485	4.3	(18)
Total	$310,882	100.0%	$271,660	100.0%	14

The Company's leading products for the quarter (compared with plan) were as follows:

			Actual Q90-3		Plan Q90-3		Revenue
Actual	Plan		Units	Revenue	Units	Revenue	Variance %
1	1	DOS/GW Basic	3,944,309	$ 54,757	3,723,019	$ 51,986	5
2	3	PC Word	139,679	37,286	99,790	24,795	50
3	2	Microsoft Mouse	383,080	33,182	346,631	29,280	13
4	4	Win Excel	79,822	22,809	88,480	24,145	(6)
5	6	Mac Word	74,874	14,501	69,056	13,706	6
6	8	Win Word	51,098	12,503	42,979	9,432	33
7	7	Mac Excel	53,657	12,322	57,836	12,759	(3)
8	5	Windows	601,758	11,804	771,199	18,667	(37)
9	9	PC Works	250,666	11,339	139,440	9,378	21
10	10	Pro C	25,455	4,917	22,551	5,393	(9)
11	13	PC Multiplan	62,865	4,681	27,466	3,798	23
12	12	Mac Works	28,295	3,901	31,922	4,971	(22)
13	-	Pro Basic	12,188	3,271	7,419	1,944	68
14	-	Mac Office	7,037	3,037	-	-	-
15	-	Xenix	50,539	2,506	29,700	2,121	18
				$232,830		$212,374	
Percent of net revenues				75%		78%	

Plan: #11 - OS/2 ($5,363); #14 - Mac PowerPoint ($3,590); #15 - Win PowerPoint ($3,471)

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Actual cost of revenues for Q90-3 was 21.3% of net revenues compared with a plan of 23.6%. Product costs as a percentage of net revenues were 15.7% compared with a plan of 16.9%. The analysis on page 18 contains the actual and plan product cost percentage for each channel of distribution and each product group. The favorable variance in the composite product cost percentage is attributed to product cost savings in Applications products (actual product cost of 15.3% compared with plan of 16.7%) and SPAG products (actual product cost of 37.5% compared with plan of 39.2%).

As a percentage of net revenues, non-product costs included in cost of revenues were 5.6% compared with plan of 6.7%. This 1.1% margin improvement resulted from gains in inventory adjustments (0.3%), freight, shipping and other (0.4%), and royalties (0.6%), partially offset by unfavorable manufacturing variances (0.1%). The favorable variances in inventory adjustments and in freight and shipping result from better inventory management, as well as an element of conservatism in the plan. The favorable variance in royalties costs results primarily from the purchase of technology rights from PSI, reducing royalty rates on Mac Works from 20% to 3.2%, and from revenue shortfalls from Press, Comm Server, Flight Simulator and OS/2.

Operating expenses for the quarter at $138.4 million were 1% under plan of $139.8 million, and as a percentage of net revenues were 44.5% compared with plan of 51.5%. Categorized in SEC format, research and development was under plan by 3% ($47.1 million versus $48.7 million), while sales and marketing ($82.1 million) and general and administrative ($9.2 million) were right in line with plan. The analysis on page 19 shows Q90-3 product marketing expense, actual to budget, by responsible group. This favorable variance in product marketing of $2.1 million was offset by a marketing accrual of $2.5 million.

Non-operating income for the quarter was $5.7 million compared with a plan of $6.8 million. Actual non-operating income consists of investment income of $8.5 million less provision for non-performing investments of $1.0 million, an unplanned SCO amortization of $500,000, foreign currency transaction losses of $600,000 and miscellaneous expense of $700,000, whereas plan non-operating income consists of investment income of $7.3 million less miscellaneous expense of $500,000. See page 7 for further characterization of miscellaneous expense.

Stock option program expense - see discussion on page 3.

The effective tax rate for the quarter was 32.0% compared with a plan of 30.0%.

Net income for the quarter was $75.2 million compared with a plan of $51.0 million. Relative to plan, all elements of the Company's financial profit model were favorable, except non-operating income. Specifically, net revenues exceeded plan by $39.2 million, cost of revenues as a percentage of net revenues was 21.3% compared with plan of 23.6% and operating expenses were under plan by $1.4 million. As a result, net income as a percentage of net revenues was 24.2% compared with a plan of 18.8%.

Microsoft Corporation
Consolidated Cost of Goods Sold
Q90-3 Compared With Plan

	Actual Q90-3			Plan Q90-3		
Channel	Sales Mix	Cost %	Weighted Cost %	Sales Mix	Cost %	Weighted Cost %
USSMD	25.8%	19.2%	4.9%	31.7%	20.2%	6.4%
Intl Retail	45.6%	21.4%	9.8%	41.1%	22.4%	9.2%
US OEM	13.9%	3.2%	0.5%	12.2%	2.8%	0.3%
Intl OEM	12.4%	0.0%	0.0%	11.9%	0.0%	0.0%
Other	2.3%	10.9%	0.3%	3.1%	18.2%	0.6%
Product cost - gross	100.0%		15.4%	100.0%		16.5%
Effect of revenue adjustments			x 102.1%			x 102.5%
Product cost - net			15.7%			16.9%
Manufacturing variances			0.1%			0.0%
Inventory adjustments			1.4%			1.7%
Freight, shipping and other			2.9%			3.3%
Royalties			1.1%			1.7%
Non-product costs			5.5%			6.7%
Total			21.3%			23.6%

	Actual Q90-3			Plan Q90-3		
Product Group	Sales Mix	Cost %	Weighted Cost %	Sales Mix	Cost %	Weighted Cost %
Applications	51.1%	15.3%	7.8%	48.0%	16.7%	8.0%
Systems	24.3%	9.9%	2.4%	29.2%	9.5%	2.8%
SPAG	10.8%	37.5%	4.0%	10.6%	39.2%	4.2%
Languages	3.7%	22.0%	0.8%	5.7%	17.6%	1.0%
Non-specific	5.6%	0.6%	0.0%	0.5%	0.0%	0.0%
Other	4.4%	6.4%	0.3%	6.0%	9.9%	0.6%
Product cost - gross	100.0%		15.4%	100.0%		16.5%

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Microsoft Corporation

Consolidated Marketing Expense

Q90-3 Compared With Plan (In Thousands)

Actual	USSMD	US OEM	Other	Subs	Total
Multimedia PM	182	0	0	0	182
SPAG PM	154	0	0	0	154
Languages PM	562	0	0	0	562
Network PM	0	621	0	0	621
Windows PM	871	0	0	0	871
DOS PM	0	101	0	0	101
OS/2 PM	0	474	0	0	474
Analysis PM	1,914	0	0	0	1,914
Data Access PM	476	0	0	0	476
Entry PM	1,311	0	0	0	1,311
Graphics PM	387	0	0	0	387
Office PM	2,500	0	0	0	2,500
Channel Marketing	1,275	0	0	0	1,275
Domestic Non-Pool Marketing	382	14	808	0	1,204
Subsidiary Marketing	0	0	0	10,403	10,403
	10,014	1,210	808	10,403	22,435

Plan	USSMD	US OEM	Other	Subs	Total
Multimedia PM	256	0	0	0	256
SPAG PM	516	0	0	0	516
Languages PM	855	0	0	0	855
Network PM	0	392	0	0	392
Windows PM	698	0	0	0	698
DOS PM	0	317	0	0	317
OS/2 PM	0	465	0	0	465
Analysis PM	2,215	0	0	0	2,215
Data Access PM	1,115	0	0	0	1,115
Entry PM	974	0	0	0	974
Graphics PM	616	0	0	0	616
Office PM	2,580	0	0	0	2,580
Channel Marketing	2,647	0	0	0	2,647
Domestic Non-Pool Marketing	144	57	997	0	1,198
Subsidiary Marketing	0	0	0	9,738	9,738
	12,616	1,231	997	9,738	24,582

Variance Fav(Unfav)	USSMD	US OEM	Other	Subs	Total
Multimedia PM	74	0	0	0	74
SPAG PM	362	0	0	0	362
Languages PM	293	0	0	0	293
Network PM	0	(229)	0	0	(229)
Windows PM	(173)	0	0	0	(173)
DOS PM	0	216	0	0	216
OS/2 PM	0	(9)	0	0	(9)
Analysis PM	301	0	0	0	301
Data Access PM	639	0	0	0	639
Entry PM	(337)	0	0	0	(337)
Graphics PM	229	0	0	0	229
Office PM	80	0	0	0	80
Channel Marketing	1,372	0	0	0	1,372
Domestic Non-Pool Marketing	(238)	43	189	0	(6)
Subsidiary Marketing	0	0	0	(665)	(665)
	2,602	21	189	(665)	2,147

Net revenues for the first three quarters of fiscal year 1990 (FY90 YTD) at $846.5 million were 13% above plan of $749.6 million. The following is a breakdown of net revenues by Channel of Distribution and Product Group.

	Actual FY90 YTD		Plan FY90 YTD		Variance Percentage
Channel of Distribution					
USSMD	$255,308	30.2%	$238,728	31.9%	7
International Retail	345,727	40.8	299,943	40.0	15
Worldwide Retail	601,035	71.0	538,671	71.9	12
Domestic OEM	112,088	13.3	89,429	11.9	25
International OEM	115,455	13.6	100,383	13.4	15
Worldwide OEM	227,543	26.9	189,812	25.3	20
Other	17,896	2.1	21,109	2.8	(15)
Total	$846,474	100.0%	$749,592	100.0%	13
Product Group					
Applications	$417,764	49.4%	$356,992	47.6%	17
Systems	241,954	28.6	218,507	29.2	11
SPAG	94,239	11.1	83,302	11.1	13
Languages	37,518	4.4	43,871	5.9	(14)
Network	28,882	3.4	18,220	2.4	59
Other	26,117	3.1	28,700	3.8	(9)
Total	$846,474	100.0%	$749,592	100.0%	13

The Company's leading products for FY90 YTD (compared with prior year) were as follows:

			Actual FY90 YTD		Plan FY90 YTD		Revenue
Actual	Plan		Units	Revenue	Units	Revenue	Variance %
1	1	DOS/GW Basic	10,428,870	$155,490	7,513,926	$123,643	26
2	3	PC Word	439,470	100,692	311,481	72,765	38
3	2	Microsoft Mouse	1,115,191	94,034	985,233	83,822	12
4	4	Win Excel	247,722	61,492	256,248	67,873	(9)
5	5	Windows	1,866,677	45,152	2,163,565	47,375	(5)
6	6	Mac Word	233,770	42,217	176,620	34,491	22
7	8	PC Works	762,756	37,729	424,432	26,366	43
8	7	Mac Excel	170,663	35,590	147,028	32,282	10
9	9	Win Word	64,886	16,200	75,166	16,608	(2)
10	14	PC Multiplan	171,895	15,799	79,135	10,550	50
11	10	Pro PC	90,161	15,162	66,396	15,988	(5)
12	11	Mac Works	88,994	12,116	96,022	14,356	(16)
13	13	Mac Office	21,982	9,765	27,208	12,012	(19)
14	-	Xenix	138,130	7,448	104,106	8,837	(16)
15	-	PC QuickBasic	108,974	6,602	113,899	6,586	0
				$655,488		$573,554	
		Percent of net revenues.		77%		77%	

Plan: #12 - OS/2 ($12,832); #15 - Mac PowerPoint ($9,322)

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Actual cost of revenues for FY90 YTD was 21.6% of net revenues compared with a plan of 23.8%. Product costs as a percentage of net revenues were 16.3% compared with a plan of 17.1%. The analysis on page 22 contains the actual and plan product cost percentage for each channel of distribution and each product group. The favorable variance in the composite product cost percentage is attributed to product cost savings in Applications products (actual product cost of 16.0% compared with plan of 17.0%).

As a percentage of net revenues, non-product costs included in cost of revenues were 5.3% compared with plan of 6.7%. This 1.4% margin improvement resulted from gains in manufacturing variances (0.3%), inventory adjustments (0.4%), freight, shipping and other (0.5%), and royalties (0.2%). The favorable manufacturing variance results from greater than planned through-put at both Campus North and Ireland, combined with a lower than planned cost of operation for both facilities. The favorable variances in inventory adjustments and in freight and shipping result from better inventory management, as well as an element of conservatism in the plan.

Operating expenses for the period at $381.1 million were 6% under plan of $404.6 million, and as a percentage of net revenues were 45.0% compared with plan of 54.0%. Categorized in SEC format, research and development was under plan by 10% ($128.1 million versus $142.3 million), sales and marketing was under plan by 4% ($225.4 million versus $235.1 million) and general and administrative was over plan by 1% ($27.5 million versus $27.2 million). The overrun in general and administrative results from the Q90-2 settlement of the Grossman lawsuit ($1.5 million).

Primary areas of underspending are payroll ($129.2 million actual versus $140.1 million plan), third-party product development ($21.2 million actual versus $27.2 million plan), and marketing funds and incentive programs ($7.1 million actual versus $11.8 million plan). The analysis on page 23 shows FY90 YTD product marketing expense, actual to budget, by responsible group. This favorable variance in product marketing of $14.5 million was offset by a marketing accrual of $14.4 million.

Non-operating income for FY90 YTD was $14.7 million compared with a plan of $18.4 million. Actual non-operating income consists of investment income of $22.2 million less provisions for non-performing investments of $3.0 million, an unplanned SCO amortization of $1.5 million, foreign currency transaction losses of $1.1 million and miscellaneous expense of $1.9 million, whereas plan non-operating income consists of investment income of $19.8 million less miscellaneous expense of $1.4 million. See page 7 for further characterization of miscellaneous expense.

Stock option program expense - see discussion on page 3.

The effective tax rate for FY90 YTD was 32.0% compared with a plan of 30.0%.

Net income for FY90 YTD was $199.2 million compared with a plan of $126.4 million. Relative to plan, all elements of the Company's financial profit model were favorable, except non-operating income. Specifically, net revenues exceeded plan by $96.9 million, cost of revenues as a percentage of net revenues was 21.6% compared with plan of 23.8% and operating expenses were under plan by $23.5 million. As a result, net income as a percentage of net revenues was 23.5% compared with a plan of only 16.9%.

Microsoft Corporation
Consolidated Cost of Goods Sold
FY90 YTD Compared With Plan

Channel	Actual FY90 YTD Sales Mix	Actual FY90 YTD Cost %	Actual FY90 YTD Weighted Cost %	Plan FY90 YTD Sales Mix	Plan FY90 YTD Cost %	Plan FY90 YTD Weighted Cost %
USSMD	31.1%	19.9%	6.2%	33.1%	20.9%	6.9%
Intl Retail	40.3%	22.1%	8.9%	39.5%	22.4%	8.9%
US OEM	12.7%	3.6%	0.5%	11.6%	2.9%	0.3%
Intl OEM	13.9%	0.0%	0.0%	13.0%	0.0%	0.0%
Other	2.0%	14.3%	0.3%	2.7%	18.4%	0.5%
Product cost - gross	100.0%		15.9%	100.0%		16.6%
Effect of revenue adjustments			x 102.8%			x 102.7%
Product cost - net			16.3%			17.1%
Manufacturing variances			-0.3%			0.0%
Inventory adjustments			1.4%			1.8%
Freight, shipping and other			2.8%			3.3%
Royalties			1.4%			1.6%
Non-product costs			5.3%			6.7%
Total			21.6%			23.8%

Product Group	Actual FY90 YTD Sales Mix	Actual FY90 YTD Cost %	Actual FY90 YTD Weighted Cost %	Plan FY90 YTD Sales Mix	Plan FY90 YTD Cost %	Plan FY90 YTD Weighted Cost %
Applications	49.6%	16.0%	7.9%	48.2%	17.0%	8.2%
Systems	24.7%	9.3%	2.3%	27.6%	8.9%	2.5%
SPAG	11.1%	38.2%	4.3%	11.2%	39.0%	4.3%
Languages	4.5%	22.3%	1.0%	5.9%	18.2%	1.1%
Non-specific	5.8%	0.5%	0.0%	1.7%	0.0%	0.0%
Other	4.2%	8.2%	0.3%	5.5%	9.8%	0.5%
Product cost - gross	100.0%		15.9%	100.0%		16.6%

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Microsoft Corporation

Consolidated Marketing Expense

FY90 YTD Compared With Plan (in Thousands)

Actual	USSMD	US OEM	Other	Subs	Total
Multimedia PM	303	0	0	0	303
SPAG PM	941	0	0	0	941
Languages PM	1,580	0	0	0	1,580
Network PM	0	924	0	0	924
Windows PM	1,676	0	0	0	1,676
DOS PM	0	217	0	0	217
OS/2 PM	0	915	0	0	915
Analysis PM	5,741	0	0	0	5,741
Data Access PM	968	0	0	0	968
Entry PM	3,355	0	0	0	3,355
Graphics PM	675	0	0	0	675
Office PM	5,671	0	0	0	5,671
Channel Marketing	2,727	0	0	0	2,727
Domestic Non-Pool Marketing	599	36	2,037	0	2,672
Subsidiary Marketing	0	0	0	25,857	25,857
	24,236	2,092	2,037	25,857	54,222

Plan	USSMD	US OEM	Other	Subs	Total
Multimedia PM	446	0	0	0	446
SPAG PM	1,814	0	0	0	1,814
Languages PM	2,259	0	0	0	2,259
Network PM	0	1,179	0	0	1,179
Windows PM	2,147	0	0	0	2,147
DOS PM	0	968	0	0	968
OS/2 PM	0	1,396	0	0	1,396
Analysis PM	8,367	0	0	0	8,367
Data Access PM	2,213	0	0	0	2,213
Entry PM	3,345	0	0	0	3,345
Graphics PM	1,426	0	0	0	1,426
Office PM	7,178	0	0	0	7,178
Channel Marketing	5,215	0	0	0	5,215
Domestic Non-Pool Marketing	563	172	3,021	0	3,756
Subsidiary Marketing	0	0	0	27,002	27,002
	34,973	3,715	3,021	27,002	68,711

Variance Fav(Unfav)	USSMD	US OEM	Other	Subs	Total
Multimedia PM	143	0	0	0	143
SPAG PM	873	0	0	0	873
Languages PM	679	0	0	0	679
Network PM	0	255	0	0	255
Windows PM	471	0	0	0	471
DOS PM	0	751	0	0	751
OS/2 PM	0	481	0	0	481
Analysis PM	2,626	0	0	0	2,626
Data Access PM	1,245	0	0	0	1,245
Entry PM	(10)	0	0	0	(10)
Graphics PM	751	0	0	0	751
Office PM	1,507	0	0	0	1,507
Channel Marketing	2,488	0	0	0	2,488
Domestic Non-Pool Marketing	(36)	136	984	0	1,084
Subsidiary Marketing	0	0	0	1,145	1,145
	10,737	1,623	984	1,145	14,489

FINANCIAL CONDITION

FINANCIAL CONDITION

Consolidated balance sheets as of March 31, 1990 and December 31, 1989 and consolidated statements of cash flows for Q90-3 and Q89-3 are presented below (in thousands).

	Mar. 31 1990	Dec. 31 1989	Quarter Change	Quarter % Change
Current assets:				
Cash and short-term investments	$ 446,618	$380,082	$66,536	18
Accounts receivables - net	151,316	165,559	(14,243)	(9)
Inventories	50,029	41,053	8,976	22
Other	31,516	26,132	5,384	21
Total current assets	679,479	612,826	66,653	11
Property, plant and equipment - net	281,812	257,221	24,591	10
Other assets	54,023	51,738	2,285	4
TOTAL ASSETS	$1,015,314	$921,785	$93,529	10
Current liabilities:				
Accounts payable	$ 65,784	$ 59,188	$ 6,596	11
Customer deposits and deferred revenue	11,499	22,619	(11,120)	(49)
Accrued compensation	22,497	21,684	813	4
Notes payable	6,625	9,506	(2,881)	(30)
Income taxes payable	50,521	51,304	(783)	(2)
Other	32,186	25,735	6,451	25
Total current liabilities	189,112	190,036	(924)	-
Stockholders' equity:				
Common stock	112	112	-	-
Paid-in capital	182,825	153,498	29,327	19
Retained earnings	638,783	579,616	59,167	10
Translation adjustment	4,482	(1,477)	5,959	-
Total stockholders' equity	826,202	731,749	94,453	13
TOTAL LIABILITIES & EQUITY	$1,015,314	$921,785	$93,529	10

	Q90-3	Q89-3
Cash flows from operations		
Net income	$75,169	$41,119
Depreciation and amortization	12,148	6,210
Current liabilities, excluding notes payable	1,957	7,035
Accounts receivable	14,243	9,419
Inventories	(8,976)	8,776
Other current assets	(5,384)	(2,062)
Translation adjustment	5,959	(2,492)
Net cash from operations	95,116	68,005
Cash flows from financing		
Notes payable	(2,881)	(13,512)
Common stock issued	18,758	1,114
Common stock buy-back	(16,341)	-
Income tax benefits related to stock options	10,691	4,734
Net cash from financing	10,227	(7,664)
Cash flows used for investments		
Additions to property, plant and equipment	(33,507)	(16,988)
Acquisition of intellectual property rights	(5,076)	(1,376)
Other	(224)	(1,724)
Net cash used for investments	(38,807)	(20,088)
Net change in cash and short-term investments	66,536	40,253
Cash and short-term investments at beginning of period	380,082	236,265
Cash and short-term investments at end of period	$446,618	$276,518

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Consolidated balance sheets as of March 31, 1990 and June 30, 1989 and consolidated statements of cash flows for the nine months ended March 31, 1990 and 1989 are presented below (in thousands).

	Mar. 31 1990	June 30 1989	YTD Change	YTD % Change
Current assets:				
Cash and short-term investments	$446,618	$300,791	$145,827	48
Accounts receivables - net	151,316	111,180	40,136	36
Inventories	50,029	37,755	12,274	33
Other	31,516	19,223	12,293	64
Total current assets	679,479	468,949	210,530	45
Property, plant and equipment - net	281,812	198,825	82,987	42
Other assets	54,023	52,824	1,199	2
TOTAL ASSETS	$1,015,314	$720,598	$294,716	41
Current liabilities:				
Accounts payable	$ 65,784	$ 41,953	$ 23,831	57
Customer deposits and deferred revenue	11,499	10,043	1,456	14
Accrued compensation	22,497	25,718	(3,221)	(13)
Notes payable	6,625	25,419	(18,794)	(74)
Income taxes payable	50,521	30,269	20,252	67
Other	32,186	25,416	6,770	27
Total current liabilities	189,112	158,818	30,294	19
Stockholders' equity:				
Common stock	112	109	3	3
Paid-in capital	182,825	110,371	72,454	66
Retained earnings	638,783	455,552	183,231	40
Translation adjustment	4,482	(4,252)	8,734	-
Total stockholders' equity	826,202	561,780	264,422	47
TOTAL LIABILITIES & EQUITY	$1,015,314	$720,598	$294,716	41

	FY90 YTD	FY89 YTD
Cash flows from operations		
Net income	$199,233	$125,186
Depreciation and amortization	32,492	17,552
Current liabilities, excluding notes payable	49,088	14,883
Accounts receivable	(40,136)	(11,380)
Inventories	(12,274)	9,015
Other current assets	(12,293)	(1,541)
Translation adjustment	8,734	(3,932)
Net cash from operations	224,844	149,783
Cash flows from financing		
Notes payable	(18,794)	724
Common stock issued	50,379	1,661
Common stock buy-back	(16,341)	-
Income tax benefits related to stock options	22,199	11,394
Net cash from financing	37,443	13,779
Cash flows used for investments		
Additions to property, plant and equipment	(107,264)	(64,825)
Acquisition of intellectual property rights	(6,404)	(3,947)
Other	(2,792)	(1,497)
Net cash used for investments	(116,460)	(70,269)
Net change in cash and short-term investments	145,827	93,293
Cash and short-term investments at beginning of period	300,791	183,225
Cash and short-term investments at end of period	$446,618	$276,518

Microsoft's financial strength continued to increase during the third quarter as documented by the measures of financial strength, listed in the table below, which registered gains ranging from 2.3% to 33.8%. Cash flow from operations increased to $95.1 million, or by 33.8% from the prior quarter, reflecting primarily the quarter's excellent earnings plus $12.1 million of depreciation and $5.9 million of translation adjustment. A decrease in receivables was offset nearly dollar for dollar by increases in inventories and other assets. The accompanying statement of cash flows illustrates the effect of operations on cash flow, and provides insight into the management of the Company's balance sheet. While operations, as cited above, generated $95.1 million and financing contributed $10.2 million, the Company continued to invest heavily in property, plant and equipment (PP&E) to the tune of $33.5 million and in intellectual property, especially in Productivity Software Inc. (PSI). The net effect of these cash flows resulted in a quarterly increase of $66.5 million, or 17.5%, in cash and short term investments for a total of $446.6 million. It should be noted further that $16.3 million spent in repurchasing company stock was approximately offset by $18.8 million realized from the issuance of new stock.

Working capital increased $67.6 million to a new record high of $490.4 million, and because current liabilities remained virtually unchanged during the period, both the current and quick ratios improved significantly to 3.6 and 3.2, from second quarter levels of 3.2 and 2.9, respectively.

Further reflecting the Company's overall growth, total assets crossed the One Billion mark for the first time, and stockholders' equity increased $94.5 million to $826.2 million.

MEASURES OF FINANCIAL STRENGTH
(dollars in millions)

	Q90-3	Q90-2	Change	% Change
Cash flow from operations	$95.1	$71.1	$24.0	33.8%
Income statement cash flow	87.3	85.3	2.0	2.3
Cash and short-term investments	446.6	380.1	66.5	17.5
Working capital	490.4	422.8	67.6	16.0
Total assets	1,015.3	921.8	93.5	10.1
Stockholders' equity	826.2	731.8	94.5	12.9

Although the critical growth indicators for Q3 in the table below are all slightly below the previous quarter, they nevertheless attest to the impressive strength of Microsoft. Rates of return are based on the average equity and assets employed during the respective periods.

GROWTH INDICATORS
(annualized)

Return On:	Q90-3	Q90-2	Q90-1	Q89-4	Q89-3
Equity	38.6%	43.9%	33.4%	33.9%	33.7%
Assets	31.0%	34.4%	25.9%	26.6%	26.4%
Non-cash equity	82.2%	93.1%	72.3%	73.4%	71.1%
Non-cash assets	54.2%	58.7%	44.4%	46.1%	44.8%
Net revenues	24.2%	24.8%	21.1%	20.6%	20.9

On a post split basis, book value during the first quarter increased 12.0% (annualized rate of 48.0%) to $7.36 per share, while shares outstanding increased 0.8% to 112.3 million shares

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Cash and Short-Term Investments

As previously noted, cash and short-term investments (at cost) increased $66.5 million in Q90-3 to $446.6 million. These liquid assets comprise 65.7% of current assets and 44.0% of total assets. As of quarter-end, the portfolio consisted of the security types and amounts listed below (also, see the accompanying pie chart and detailed listing of securities on the following pages):

	$ in Millions			
Security	Domestic	International	Total	Percent
Cash and Money Market Funds	$ (7.8)	$ 41.9	$ 34.1	7.6%
Loan Participations	28.1	8.0	36.1	8.1
Floating Rate Notes	5.0	-	5.0	1.1
Auction Preferred Stock	10.0	41.0	51.0	11.4
Increasing Rate Notes	-	5.6	5.6	.3
Corporate Bonds	11.3	-	11.3	2.5
Money Market Preferreds	129.5	-	129.5	29.0
Fixed Adjustable Rate Preferreds	31.9	-	31.9	7.2
Tax Exempt Municipals	142.1	-	142.1	31.8
	$350.1	$96.5	$446.6	100.0%

As can been seen from the table above, there was $41.9 million of cash at quarter-end distributed among the subs, and eight subs had more than one million, however, of this group, only MS GmbH, MS AG and MS CH had cash in excess of their current payables.

As of March 31, the investment portfolio was in compliance with the guidelines set forth in the company investment policy. Nevertheless, increasing rate notes (IRNs) are noteworthy as outlined below:

> Heileman Brewing's cash flow problems do not appear to be improving. It appears likely that their various brewing facilities will be sold off and a distribution of proceeds negotiated between the banks and increasing rate note holders. These securities were reclassified to Other Assets (non-performing) in Q90-1. We are fully reserved for them.
>
> Easco Corporation, an aluminum extruder and fabricator, also is suffering cash flow problems. The banks and IRN holders have negotiated a restructuring whereby the IRN note holders will exchange their notes for $0.57 on the dollar of nine year subordinated notes plus 70% of the equity of Easco. The interest rate on these new notes will be fixed at 13% rather than increase quarterly as was prescribed by the IRNs. These securities were moved to Other Assets this quarter and our present reserve is half of our $2 million investment in Easco.
>
> Black Box is current in its debt service. Black Box is proposing to exchange its IRNs for a like amount of debentures convertible into common stock and carrying a fixed interest rate of approximately 7.5% as opposed to the quarterly increasing rate which is presently more than 16%. Concurrently, Black Box intends to do an IPO through Alex Brown and DLJ in order to raise sufficient capital to relieve their debt burden. Since the IPO market is uncertain, we will continue to monitor this situation closely.
>
> Uniroyal Plastics is current in its debt service with no talk of restructuring.
>
> Hickory Furniture is scheduled to redeem its IRNs as of May 1st, via an asset secured financing.

In an attempt to quantify the value added to investment income by the treasury department during Q90-3, two series of financial data have been compiled (see tables I & II below) which compare the actual investment income realized from the portfolio with alternative investment strategies. Table I summarizes the incremental dollars earned on the respective principal amounts invested in each category versus the alternative investments of 90-day Libor, 90-day T-bills or overnight repos. For comparative purposes, the dollar amounts listed in Table I in the money market preferred, auction preferred stock and municipal security categories have been grossed up to reflect their pretax equivalents. From table II below, it can be seen that our actual investment results were 40% better than investing only in overnight repurchase agreements at First Interstate; 39% better than investing only in 90-day treasury bills; and 29% better than investing only at 90-day libor rates.

TABLE 1
Comparative Investment Incomes from 4 Investment Strategies
for Q90-3 (Results Reflect Pre-tax Equivalents)
(dollars in thousands)

	90-Day Libor	90-Day T-Bill	Overnight Repo	Actual
Overnight Repurchase Agreements	$ 23	$ 21	$ 21	$ 22
Commercial Paper & Bank Loan Participations	1,060	1,009	971	1,115
Auction Preferred Stock & Floating Rate Notes	1,032	978	942	1,282
Fixed Adjustable Rate Preferred	194	176	170	232
Increasing Rate Notes	207	193	192	357
Money Market Preferreds	3,101	2,918	2,843	4,249
Municipal Securities	3,112	2,785	2,861	3,964
TOTAL	$8,729	$8,080	$8,000	$11,221

TABLE 2
Comparative Percentages by which Actual Investment Income Over or (Under)
Performed 3 Alternative Investment Strategies for Q90-3

	90-Day Libor	90-Day T-Bill	Overnight Repo
Overnight Repurchase Agreements	(7)%	3%	1%
Commercial Paper & Bank Loan Participations	5	10	15
Auction Preferred Stock & Floating Rate Notes	24	31	36
Fixed Adjustable Rate Preferred	19	32	37
Increasing Rate Notes	73	86	86
Money Market Preferreds	37	46	49
Municipal Securities	27	42	39
TOTAL	29	39	40

In summary, during Q90-3 (before reserving $1 million for Easco), the portfolio generated the equivalent of $11 million pre-tax for a pre-tax annualized yield of 11.4%. The reserve reduces this pre-tax yield to 10.3%. On an after-tax equivalent basis, the annualized yield was 7.5% before the reserve and 6.5% after the reserve. All of the above yields are based on the average assets invested during the period.

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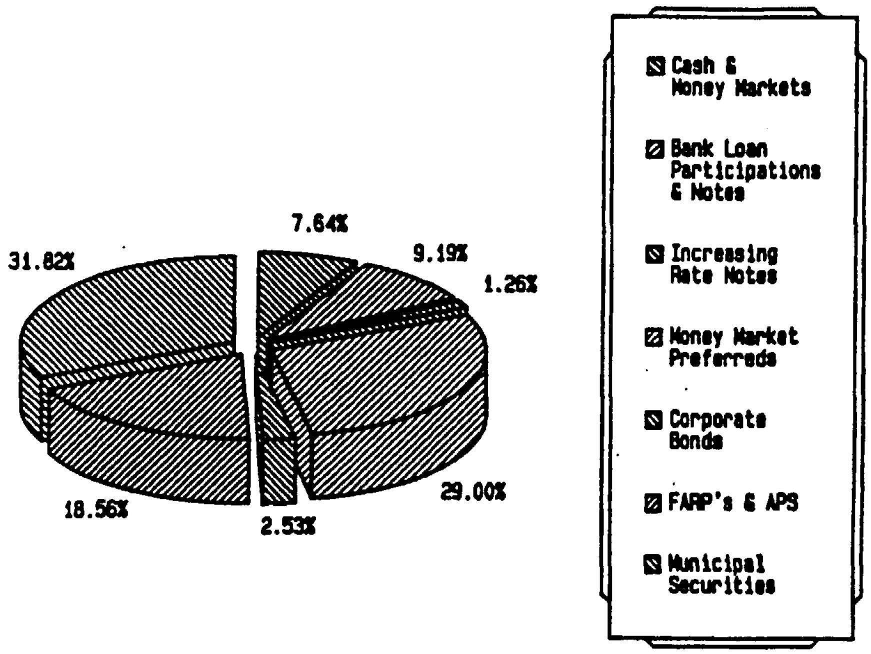
Investment Portfolio
March 31, 1990



Total Investments
(in Millions)

Domestic	$350.1	78.38 %
International	96.5	21.62
	-----	------
	$446.6	100.00 %

MICROSOFT CORPORATION
DOMESTIC INVESTMENT PORTFOLIO
AS OF MARCH 31, 1989

	ISSUER	MATURITY DATE	EFFECTIVE RATE	PRINCIPAL	PERCENT OF PORTFOLIO	RATING MOODY/S&P
CASH		N/A	N/A	(7,760,744)	-1.74%	N/A
LOAN PARTICIPATIONS						
1	AMERICAN STORES	4/6/1990	8.80%	5,050,000	1.13%	A3
2	COCA COLA BOTTLING	4/4/1990	8.50%	8,000,000	1.79%	A3
3	CONTEL CAPITAL	4/2/1990	8.60%	10,000,000	2.24%	A2/P3
4	NERCO	4/2/1990	8.50%	5,000,000	1.12%	A2/P2
				28,050,000	6.28%	
FLOATING RATE NOTES						
1	NAT'L MEDICAL ENTERPRISES	4/4/1990	9.38%	5,000,000	1.12%	BAA/BBB
				5,000,000	1.12%	
AUCTION PREFERRED STOCK						
1	RANK ORGANIZATION - B	4/4/1990	7.30%	2,000,000	0.45%	A3/A-
2	RATNERS GROUP - B	4/10/1990	7.95%	5,000,000	1.12%	A3/BBB
3	REDLANDS-A	4/1/1990	6.90%	2,000,000	0.45%	A2/A
4	REDLAND PLC - C	4/13/1990	7.49%	1,000,000	0.22%	A2/A
				10,000,000	2.24%	
CORPORATE BONDS						
1	COMMONWEALTH ED 11.75%	9/1/2015	9.00%	1,101,500	0.25%	BAA1/BBB
2	COMMONWEALTH ED 11.75%	9/1/2015	10.00%	2,189,620	0.49%	BAA1/BBB
3	COMMONWEALTH ED 11.75%	9/1/2015	9.67%	1,100,000	0.25%	BAA1/BBB
4	PHILADELPHIA ELECTRIC	11/15/2014	10.00%	2,195,460	0.49%	BBB
5	PHILADELPHIA ELECTRIC	11/15/1990	10.52%	568,100	0.13%	BBB
6	SOUTH CENTRAL BELL	12/30/1990	9.38%	1,087,500	0.24%	AAA/AAA
7	TEXAS UTILITIES ELEC. CO	12/1/1990	10.25%	2,159,400	0.48%	BAA1/BBB+
8	U.S. GYPSUM 7.375% 91	12/15/1991	12.43%	896,430	0.20%	BA3/BB-
				11,298,010	2.53%	
FIXED ADJUSTABLE RATE PREFERREDS - 70% TAX FREE						
1	ALCOA (STRAP)	5/15/1993	8.63%	1,040,000	0.23%	BAA1/A-
2	ALCOA 8% (23K SHS)	4/15/1990	8.20%	2,304,312	0.52%	BAA1/A-
3	CITICORP (GRCPS)	8/15/1992	8.50%	1,500,000	0.34%	A2/A+
4	CITICORP (GRCPS)	8/15/1994	8.75%	2,000,000	0.45%	A2/A+
5	FIB - C (70K SHS)	2/29/1992	10.56%	6,545,000	1.47%	A2/BBB+
6	FIB - C (20k SHS)	2/29/1992	9.88%	2,763,750	0.62%	BAA1/BBB+
7	FIB - C (55K SHS)	3/1/1992	9.64%	5,632,000	1.26%	A2/BBB+
8	MELLON FRAP - G (40K SHS)	11/15/1991	9.50%	4,111,250	0.92%	BAA2/BBB
9	MELLON FRAP - G (21.5K SHS)	11/15/1991	8.89%	2,195,687	0.49%	BAA2/BBB
10	TALMAN FIN - H (10K SHS)	10/31/1990	7.70%	1,001,250	0.22%	AAA/AAA
11	TALMAN FIN - G (8K SHS)	9/30/1990	8.45%	795,000	0.18%	AAA/AAA
12	TALMAN FIN - H (3K SHS)	10/31/1990	7.83%	303,000	0.07%	AAA/AAA
13	TEXAS UTIL (17K SHS) SER - A	6/29/1993	9.72%	1,698,300	0.38%	BAA3/BBB-
				31,889,549	7.14%	

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	ISSUER	MATURITY DATE	EFFECTIVE RATE	PRINCIPAL	PERCENT OF PORTFOLIO	RATING MOODY/S&P
	MONEY MARKET PREFERRED - 70% TAX FREE					
1	BLUE CROSS/BLUE SHIELD MD. - B	5/16/1990	7.34%	1,000,000	0.22%	AAA
2	BLUE CROSS/BLUE SHIELD MD. - B	5/16/1990	7.20%	1,000,000	0.22%	AAA
3	CENTRAL PWR & LT - A	4/17/1990	7.09%	200,000	0.04%	A2/BBB+
4	CENTRAL PWR & LT IIB	5/1/1990	7.64%	1,200,000	0.27%	A3/BBB+
5	CITICORP - 6B	4/16/1990	6.78%	1,000,000	0.22%	A2/A+
6	CONNECTICUT LT & PWR	4/10/1990	6.85%	3,000,000	0.67%	BAA1/BBB
7	CSX C-1	5/2/1990	8.99%	11,000,000	2.46%	BAA1/BBB
8	CSX C-2	5/9/1990	9.25%	5,000,002	1.12%	BAA1/BBB
9	DUFF & PHELPS - A	5/15/1990	7.14%	3,000,000	0.67%	AAA/AAA
10	FORD HOLDINGS - D	4/18/1990	7.19%	2,000,000	0.45%	A2/A+
11	FORD HOLDINGS - H	4/1/1990	6.62%	2,000,000	0.45%	A2/A+
12	FORD HOLDINGS - J	4/13/1990	6.90%	2,000,000	0.45%	A2/A+
13	HELLER FINANCE - B	4/20/1990	7.55%	2,000,000	0.45%	A3/A-
14	HELLER FINANCE - B	4/20/1990	7.71%	2,000,000	0.45%	A3/A-
15	HELLER FINANCE - C	5/14/1990	7.73%	1,000,000	0.22%	A3/A-
16	HELLER FINANCE - C	5/15/1990	7.56%	1,000,000	0.22%	A3/A-
17	HOUSEHOLD GLOBAL - A	5/15/1990	7.49%	1,000,000	0.22%	A3/A-
18	HOUSEHOLD GLOBAL - B	4/3/1990	6.85%	4,000,000	0.90%	A3/A-
19	HOUSEHOLD GLOBAL - B	4/4/1990	7.00%	500,000	0.11%	A3/A-
20	INT'L LEASE - B	4/23/1990	7.17%	4,000,000	0.90%	A3/A-
21	INT'L LEASE - B	4/23/1990	7.48%	2,000,000	0.45%	A3/A-
22	INT'L LEASE - B	4/23/1990	7.63%	1,000,000	0.22%	A3/A-
23	KONICA	4/30/1990	7.10%	2,000,002	0.45%	AAA
24	LASALLE NAT'L BANK	4/20/1990	7.30%	2,000,000	0.45%	AA2
25	LASALLE NAT'L BANK	5/14/1990	7.46%	1,000,000	0.22%	
26	MARINE MIDLAND - A	5/7/1990	8.63%	2,000,000	0.45%	BAA1/BBB+
27	MARINE MIDLAND - A	5/7/1990	8.81%	1,000,000	0.22%	BAA1/BBB+
28	MELLON BANK	4/10/1990	8.05%	9,000,000	2.02%	BAA2/BBB
29	MICHELIN FINANCE	4/30/1990	7.25%	1,000,000	0.22%	AAA/AAA
30	MORGAN STANLEY - A	5/16/1990	7.76%	3,500,000	0.78%	A1/A-
31	MORGAN STANLEY - D	4/17/1990	7.00%	1,000,000	0.22%	A1/A-
32	OAG	5/21/1990	8.50%	4,000,000	0.90%	BBB+
33	PACIFIC ENTERPRISES - A	4/10/1990	6.96%	4,000,000	0.90%	A3/BBB
34	PACIFIC ENTERPRISES - B	4/17/1990	7.05%	3,000,000	0.67%	A3/BBB
35	PACIFIC ENTERPRISES - G	4/3/1990	6.68%	2,800,000	0.63%	A3/BBB
36	PACIFICORP - A	4/27/1990	7.55%	2,000,000	0.45%	BAA1/BBB+
37	PUGET SOUND - B	4/13/1990	6.93%	1,900,000	0.43%	BAA1/BBB+
38	RYDER SYSTEM - A	4/30/1990	9.25%	8,000,000	1.79%	A2/BBB+
39	RYDER SYSTEM - B	5/7/1990	9.30%	2,000,000	0.45%	A2/BBB+
40	SERVICE CORP. INT'L - B	5/8/1990	8.45%	8,000,000	1.79%	BAA1/A-
41	TEXAS INSTRUMENTS C-1	4/18/1990	7.10%	1,000,000	0.22%	A2/A+
42	TUCSON ELECTRIC - A	4/12/1990	12.46%	10,400,000	2.33%	BA3/B+
43	ULTRAMAR - EQUITIES	5/4/1990	7.15%	2,000,000	0.45%	AAA/AAA
44	UNION BANCORP - 1	4/16/1990	6.94%	2,000,000	0.45%	A1/A+
45	WESTERN MASS ELEC	5/7/1990	8.15%	3,000,000	0.67%	BAA1/BBB-
46	WESTERN MASS ELEC	5/7/1990	8.68%	2,000,000	0.45%	BAA1/BBB
				129,500,004	29.00%	

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	ISSUER	MATURITY DATE	EFFECTIVE RATE	PRINCIPAL	PERCENT OF PORTFOLIO	RATING MOODY/S&P
47	EAST ST. LOUIS, ILL. MFHSG	12/15/1990	7.60%	1,577,600	0.44%	SP1+
48	EAST ST. LOUIS, ILL. PORT FAC	12/15/1990	7.90%	1,513,019	0.34%	SP1+
49	EAST ST. LOUIS, ILL. PORT FAC	12/15/1990	7.88%	4,930,950	1.10%	SP1+
50	EAST ST. LOUIS, ILL. RES RECOVERY	12/15/1990	7.90%	1,416,515	0.32%	A1+
51	EAST ST. LOUIS, ILL. RES RECOVERY	12/15/1990	7.75%	1,762,493	0.39%	A1+
52	INDEPENDENCE CNTY. ARK	1/1/1991	8.00%	1,200,308	0.27%	BA3/B
53	INDEPENDENCE CNTY. ARK	1/1/1991	9.50%	2,000,000	0.45%	BA3/B
54	LAPEER, MICH	2/1/1991	6.80%	410,000	0.09%	BBB
55	LOUISIANA STATE	2/1/1991	7.00%	242,563	0.05%	BAA1/BBB+
56	CHICAGO PEOPLES GAS	3/1/1991	6.50%	1,484,806	0.33%	AA3/AA-
57	JACKSONVILLE, FLA.	4/1/1991	6.60%	1,075,459	0.24%	AAA
58	LUBBOCK, TX. - LT & PWR	4/15/1991	6.66%	293,784	0.07%	A1/A+
59	TARRANT, CNTY. TX	5/1/1991	6.67%	145,206	0.03%	AA/AA
60	OHIO ST. - GO	5/15/1991	7.50%	936,470	0.21%	AA/AA
61	LOUISIANA STATE - 81 SER B	6/15/1991	6.60%	465,017	0.10%	BAA1/BBB+
62	N. SLOPE, ALASKA	6/30/1991	7.00%	1,533,840	0.34%	BAA1/BBB+
63	MARICOPA CNTY. AZ - GO	7/1/1991	7.80%	696,858	0.16%	AA/AA
64	NEW JERSEY ST. HEALTH	7/1/1991	6.65%	399,700	0.09%	BAA/BBB+
65	TACOMA, WA. PUB UTIL	7/1/1991	7.68%	244,990	0.05%	ESC - TSY
66	WAKE CNTY. , N.C. - PCR	7/1/1991	8.07%	1,516,937	0.34%	A2/A
67	WPPSS #1	7/1/1991	6.90%	1,942,922	0.44%	A/AA-
68	WPPSS #2 5.10%	7/1/1991	6.75%	205,819	0.05%	A/AA-
69	GALVESTON CNTY., TX.	7/10/1991	6.92%	278,682	0.06%	BAA
70	CHESTER, PA	8/1/1991	8.50%	3,797,238	0.85%	SP1+
71	CHESTER, PA	8/1/1991	7.80%	1,952,360	0.44%	SP1+
72	CHESTER, PA	8/1/1991	7.85%	1,948,620	0.44%	SP1+
73	DOUGLAS CNTY. CO. GONDOLIER	9/1/1991	7.95%	1,000,000	0.22%	N/R
74	LOUISIANA STATE GO	9/1/1991	6.60%	1,955,182	0.44%	AA1/BBB
75	WASHINGTON - GO	9/1/1991	7.68%	482,738	0.11%	A/AA
76	WASHINGTON GO (PRE-RE'S)	9/1/1991	6.50%	1,117,100	0.25%	AAA/AAA
77	LEOMINSTER, MASS - PCR	11/1/1991	6.60%	1,249,871	0.28%	N/R
78	PENSACOLA, FLA. - HLTH FAC	1/1/1992	6.72%	3,208,560	0.72%	AA
79	CYPRESS-FAIRBANKS, TX.	2/1/1992	6.86%	438,580	0.10%	A
80	DEER PARK, TX.	2/1/1992	6.76%	339,392	0.08%	AA
81	LAPEER, MICH	2/1/1992	7.00%	435,000	0.10%	BBB
82	LOUISIANA STATE	2/1/1992	7.46%	225,396	0.05%	BAA1/BBB+
83	PEARLAND, TX. - GO	2/1/1992	6.76%	362,790	0.08%	A/A-
84	PLAINVIEW, TX. - GO	2/15/1992	6.86%	600,013	0.13%	A/A
85	STEVENS CNTY. WA.	3/1/1992	7.38%	1,000,000	0.22%	U:A
86	ALVIN, TX. - GO	5/1/1992	6.75%	191,780	0.04%	A/A
87	EAST CENTRAL, TX. - GO	5/1/1992	6.75%	264,699	0.06%	A
88	PORT ARTHUR, TX. - GO	5/1/1992	6.75%	96,310	0.02%	A/A+
89	OREGON ST 5.0%	7/1/1992	6.70%	882,765	0.20%	A1/AA-
90	OREGON ST 5.0%	7/1/1992	6.60%	966,720	0.22%	A1/AA-
91	PHOENIX AIRPORT - REV.	7/1/1992	6.90%	232,252	0.05%	A/A+
92	PHOENIX AZ 9.5%	7/1/1992	6.65%	1,058,520	0.24%	AA1/AA+
93	RHODE ISLAND - IDR	7/1/1992	6.75%	766,044	0.17%	A2
94	WPPSS #1 SER B	7/1/1992	7.00%	1,550,895	0.35%	A/AA-

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	ISSUER	MATURITY DATE	EFFECTIVE RATE	PRINCIPAL	PERCENT OF PORTFOLIO	RATING MOODY/S&P
	MUNICIPAL SECURITIES - 100% TAX FREE					
1	LANCASTER, CA - WILLOWS	5/1/1990	6.00%	1,650,000	0.37%	AA-/A
2	LOUISIANA STATE - SER A	5/1/1990	6.50%	3,816,836	0.85%	BAA1/BBB+
3	LOUISIANA STATE - SER B	5/1/1990	6.50%	3,829,698	0.86%	BAA1/BBB+
4	N.Y. STATE HFA	5/1/1990	7.83%	706,867	0.16%	A/BBB+
5	SEATTLE, WA - SOLID WASTE	5/1/1990	6.63%	384,742	0.09%	AAA
6	TOPEKA, KS. - MFHR	5/1/1990	7.00%	1,343,176	0.30%	N/R
7	RUMFORD ME TANS	5/25/1990	6.40%	3,204,000	0.72%	N/R
8	ALABAMA STATE 4.5S 6/1/90	6/1/1990	6.91%	676,627	0.15%	AA/AA
9	BEAUFORT, N.CAROLINA	6/1/1990	6.28%	1,000,000	0.22%	AAA
10	BERCKS CNTY, PA - RILSAN	6/1/1990	6.40%	1,000,000	0.22%	AAA
11	SALINA, KANSAS	6/1/1990	6.65%	2,495,000	0.56%	BAA1/BBB
12	TULSA, OK - HILLCREST PARTNERS	6/1/1990	6.28%	1,000,000	0.22%	AA2
13	MASSACHUSETTS GO BANS	6/15/1990	6.50%	1,143,597	0.26%	MIG1/SP2
14	BROCKTON, MASS - GO	6/29/1990	8.00%	4,766,685	1.07%	BAA/A
15	PARK CITY, UTAH	6/29/1990	6.64%	2,000,000	0.45%	U:BAA
16	PARK CITY, UTAH	6/29/1990	6.65%	1,000,000	0.22%	U:BAA
17	REVERE, MASS. - RANS	6/29/1990	7.00%	1,052,646	0.24%	BAA
18	S. SUMMIT SCH. UTAH	6/29/1990	6.60%	1,002,760	0.22%	U:BAA1
19	N. SLOPE BORO, ALASKA - GO	6/30/1990	6.70%	1,019,030	0.23%	AAA/AAA
20	WARREN CNTY., OH. (KROGER)	7/1/1990	6.75%	1,697,435	0.38%	B+
21	LYNN, MASS. RANS	7/6/1990	6.65%	2,004,580	0.45%	U:BAA1
22	OLD ORCHARD BEACH ME	7/16/1990	7.05%	761,672	0.17%	N/R
23	SHELBY CNTY. TENNESEE	8/1/1990	6.05%	2,000,000	0.45%	AAA
24	E. GUERNSEY, OHIO	8/3/1990	6.50%	1,005,630	0.23%	N/R
25	E. GUERNSEY, OHIO	8/3/1990	6.60%	241,090	0.05%	N/R
26	FLORIDA STATE COPS	8/15/1990	6.80%	887,534	0.20%	MIG1
27	MISSOURI HIGHER ED.	8/15/1990	7.39%	568,487	0.13%	VMIG1
28	REVERE, MA - RANS	8/30/1990	6.75%	1,002,062	0.22%	U:BAA1
29	BREVARD CNTY. FLA	9/1/1990	6.75%	2,000,002	0.45%	AAA
30	OLIVER CNTY. N.D.	9/1/1990	6.45%	1,000,000	0.22%	A3/A
31	WICHITA, KS - RAMADA INN	9/1/1990	7.25%	4,033,970	0.90%	N/R
32	KIRBYVILLE, TEXAS	9/20/1990	6.80%	700,000	0.16%	SP1+
33	OKLAHOMA CITY, OKLA	10/1/1990	6.55%	489,937	0.11%	AA/AA
34	WILLIAMSPORT, PA	10/1/1990	6.60%	3,000,000	0.67%	U:BAA1/A
35	LORAIN, OHIO	10/5/1990	6.75%	1,001,860	0.22%	BAA
36	NORTH ANDOVER, MASS.	10/5/1990	6.75%	1,077,010	0.24%	A
37	METHEUN, MASS.	10/19/1990	6.50%	1,002,310	0.22%	A1
38	CHICAGO, ILL - GO	10/31/1990	7.50%	565,065	0.13%	AAA
39	N. HAMPSHIRE IDA-TIMCO	11/1/1990	6.65%	1,000,000	0.22%	BAA1/BBB
40	REDMOND, WA LID 88-ST-52	11/1/1990	6.42%	997,460	0.22%	N/R
41	HOLYOKE, MA GO BANS	11/2/1990	6.60%	2,268,352	0.51%	BAA
42	HOLYOKE, MA GO BANS	11/2/1990	6.68%	3,002,400	0.67%	BAA
43	NEW YORK ST. GO	12/1/1990	6.60%	819,810	0.18%	A1/AA-
44	OCEAN HWY & PORT, NASSAU, FLA	12/1/1990	6.85%	2,457,669	0.55%	N/R
45	OCEAN HWY & PORT, NASSAU, FLA	12/1/1990	7.12%	4,005,000	0.90%	AAA
46	RICHMOND CNTY. GA	12/1/1990	8.50%	1,017,950	0.23%	BAA

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	ISSUER	MATURITY DATE	EFFECTIVE RATE	PRINCIPAL	PERCENT OF PORTFOLIO	RATING MOODY/S&P
95	WPPSS #2	7/1/1992	7.10%	293,308	0.07%	A/AA-
96	WPPSS #2	7/1/1992	7.00%	1,315,835	0.29%	A/AA-
97	WPPSS #2 13.875%	7/1/1992	7.10%	584,520	0.13%	A/AA-
98	WPPSS #2 14.75%	7/1/1992	7.10%	593,800	0.13%	A/AA-
99	WPPSS #2 SER - A	7/1/1992	7.00%	1,853,465	0.42%	A/AA-
100	WPPSS #3 9.5%	7/1/1992	6.80%	263,878	0.06%	A/AA-
101	LOUISIANA STATE GO	8/1/1992	6.80%	923,338	0.21%	AAA
102	YONKERS, N.Y.	8/1/1992	6.60%	500,000	0.11%	BAA/BBB+
103	LAPEER, MICH	2/1/1993	7.10%	365,000	0.08%	BBB
104	LOUISIANA STATE GO	2/1/1993	7.27%	416,311	0.09%	BAA1/BBB+
105	MASS BAY TRANS AUTH	3/1/1993	6.70%	527,525	0.12%	BAA1/BBB
106	GALVESTON, TX.	5/1/1993	6.97%	1,157,881	0.26%	BAA/BBB+
107	N. SLOPE BORO, ALASKA - GO	6/30/1993	7.10%	3,252,570	0.73%	BAA1/BBB+
108	N. SLOPE BORO, ALASKA - GO	6/30/1993	7.15%	2,165,160	0.48%	BAA1/BBB+
109	TEXAS WATER DEV	8/1/1993	6.73%	312,900	0.07%	AAA/AAA
110	YONKERS N.Y.	8/1/1993	7.00%	546,678	0.12%	BAA/BBB
111	KENTUCKY HSG. CORP	7/1/2013	12.17%	533,280	0.12%	AA
				142,103,181	31.82%	
		TOTAL DOMESTIC INVESTMENTS		350,080,000	78.36%	

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MICROSOFT CORPORATION
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	ISSUER	MATURITY DATE	EFFECTIVE RATE	PRINCIPAL	PERCENT OF PORTFOLIO	RATING MOODY/S&P
CASH		N/A	N/A	41,896,423	9.38%	N/A
LOAN PARTICIPATIONS						
1	AMERICAN STORES	4/6/1990	8.80%	830,000	0.19%	A3
2	BELL ATLANTIC FINANCE	4/5/1990	8.35%	7,180,000	1.61%	A1P1
				8,010,000	1.79%	
AUCTION PREFERRED STOCK						
1	BET PLC - B	4/24/1990	7.60%	6,000,000	1.34%	A2/A
2	BET PLC - C	4/3/1990	7.21%	5,000,000	1.12%	A2/A-
3	ENGLISH CHINA CLAY - A	4/10/1990	7.41%	2,000,000	0.45%	A3/A
4	ENGLISH CHINA CLAY - C	4/24/1990	7.68%	7,000,000	1.57%	A3/A
5	ENGLISH CHINA CLAY - D	4/3/1990	7.23%	3,000,000	0.67%	
6	RANK ORGANIZATION - A	4/25/1990	7.78%	3,000,000	0.67%	A3/A-
7	RANK ORGANIZATION - B	4/4/1990	8.51%	2,000,000	0.45%	A3/A-
8	RANK ORGANIZATION - B	4/4/1990	7.30%	2,000,000	0.45%	A3/A-
9	RANK ORGANIZATION - C	4/11/1990	7.49%	5,000,000	1.12%	A3/A-
10	REDLAND PLC - C	4/13/1990	7.49%	3,000,000	0.67%	A2/A
11	REDLAND PLC - C	4/27/1990	7.70%	3,000,000	0.67%	A2/A
				41,000,000	9.18%	
INCREASING RATE NOTES						
1	BLACK BOX, INC. (MICON)	9/15/1996	16.50%	2,000,000	0.45%	N/R
2	HICKORY FURNITURE	5/1/1990	18.00%	1,996,250	0.45%	N/R
3	UNIROYAL PLASTICS	11/1/1993	14.70%	1,635,327	0.37%	N/R
				5,631,577	1.26%	
	TOTAL INTERNATIONAL INVESTMENTS			96,538,000	21.62%	
	TOTAL DOMESTIC & INTERNATIONAL INVESTMENTS			446,618,000	100.00%	

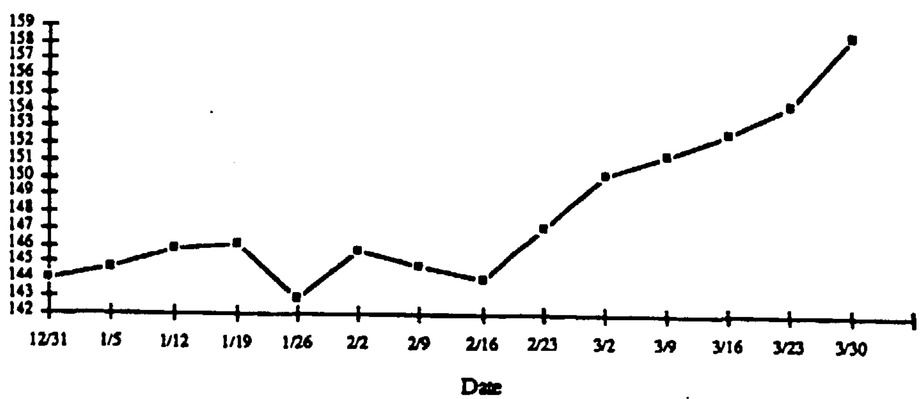
Foreign Exchange Hedging Program

Currency markets were somewhat more volatile during this quarter than in the prior quarter. As a result, during Q90-3 we executed forward hedge contracts valued at over $66.7 million compared to $41.4 million in Q90-2.

During the quarter the Dollar weakened 1.3% against the ECU (European Currency Unit, which is representative of a basket of European currencies). This resulted in a weaker Dollar against European currencies than forecasted in our original FY90 plan, leading to a Q90-3 positive exchange rate variance from plan of $3 million on $109.5 million of European retail sales (see page 52).

In the Far East, while Korean and Taiwanese currencies were relatively stable, the Yen weakened against the Dollar by 10% during the quarter. The financial disadvantage of this to us is offset to some extent by the local manufacturing and relatively significant development costs we incur in Yen. In comparison to our FY90 plan, the Yen continued weaker against the Dollar than originally anticipated, resulting in a negative exchange rate variance of $1.4 million on $7.3 million of Japanese retail sales (see page 52).

3rd Quarter Movement of U.S. Dollar Against the Yen



We recorded a consolidated foreign currency translation loss of $612,000 for Q90-3. Of this amount, $319,000 is attributable to volatility of the Cruzado in our Brazilian subsidiary and is largely offset by $268,000 in interest income on cash balances held in Brazil at the unusually high interest rates (110% per month) that attend their hyper-inflationary economy. A new government in Brazil has slowed inflation in recent weeks and may stabilize Cruzado exchange rates as well, making it easier to manage our cash position there. The remainder of the consolidated foreign currency translation loss for the quarter results from unhedged intercompany balances exacerbated by interest costs from exchange contract "rollover" situations that occur when our subsidiaries do not pay in accordance with intercompany trade terms. We are in the process of establishing lines of credit for our subsidiaries to enable them to pay intercompany obligations in a timely manner and avoid unnecessary hedging costs.

New policies and procedures for hedging and hedge accounting were developed during the quarter and implemented in March. Virtually all of the foreign currency translation loss incurred during Q90-3 ($293,000 excluding Brazil) was incurred in January and February. Based on March improvements, we anticipate these new procedures will help to reduce reported foreign exchange losses in Q90-4 and subsequent quarters.

Accounts Receivable

Accounts receivable (net) decreased 9% or $14.2 million from $165.6 million at the end of Q90-2 to $151.3 million at the end of Q90-3. Consolidated days sales outstanding (DSO), shown below for the past five quarters, decreased from 55.9 days at the end of Q90-2 to 52.9 days at the end of Q90-3.

FY Quarter	DSO
Q90-3	52.9
Q90-2	55.9
Q90-1	56.0
Q89-4	48.9
Q89-3	49.5

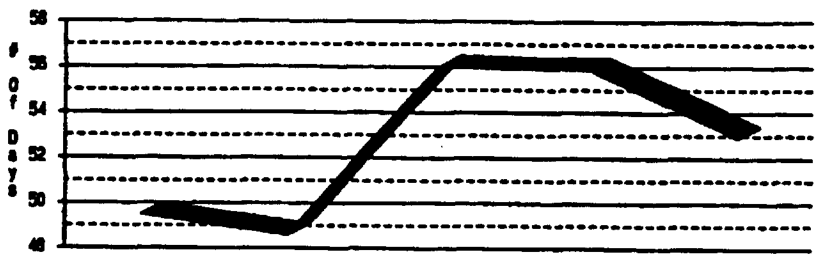
An analysis of the receivable aging shows that accounts over 60 days comprise 19% of collectible receivables, up from 14% in Q90-2. The 5% increase is primarily due to slower payment by international customers together with the increased significance of this aspect of our business. International accounts receivable increased from 72% of collectible receivables in Q89-3 and 66% in Q90-2 to 75% in Q90-3. The $24.4 million allowance for doubtful accounts represents 69% of all accounts over 60 days, compared with 89% at the end of the preceding quarter. The allowance for doubtful accounts is equal to 13% of total collectible receivables, up from 12% in Q90-2. Despite the increase in accounts over 60 days, we feel comfortable with the overall status of the receivables and the adequacy of the allowance.

		Aging Summary			
	Total	Current	31-60	61-90	Over 90
Retail					
USSMD	$ 31,500	$ 21,363	$ 8,738	$ 556	$ 843
International	98,483	60,670	23,805	7,602	6,406
Worldwide Retail	129,983	82,033	32,543	8,158	7,249
OEM					
Domestic	8,321	2,040	4,652	83	1,546
International	38,969	21,949	1,147	1,932	13,941
Worldwide OEM	47,290	23,989	5,799	2,015	15,487
Press	4,480	1,201	1,252	363	1,664
Other	905	327	192	191	195
Accounts Receivables-Collectible	182,658	$107,550	$39,786	$10,727	$24,595
Aging Percentages		59%	22%	6%	13%
OEM GAAP Adjustment	16,300				
Sales Returns Reserve	(23,200)				
Allowance	(24,442)				
Accounts Receivables-Net	$151,316				
Total Quarterly Net Revenues	$310,882				
Days Sales Outstanding(1)	52.9				

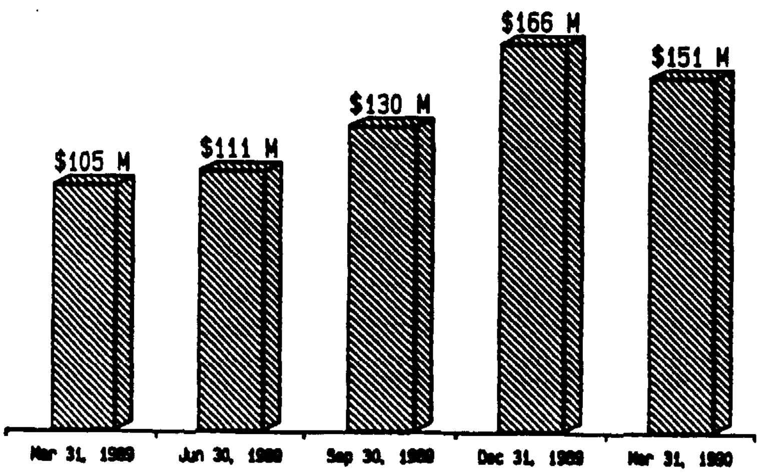
(1) Calculation uses "Accounts Receivable - Collectible" divided by "Total Quarterly Net Revenues" times 90.

Days' Sales Outstanding

(Based on Revenues for the Quarter)



Accounts Receivable - Net



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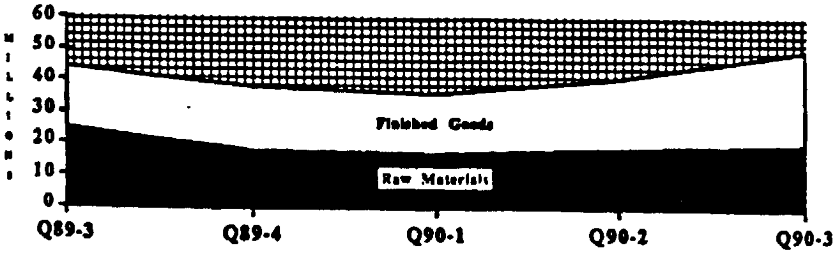
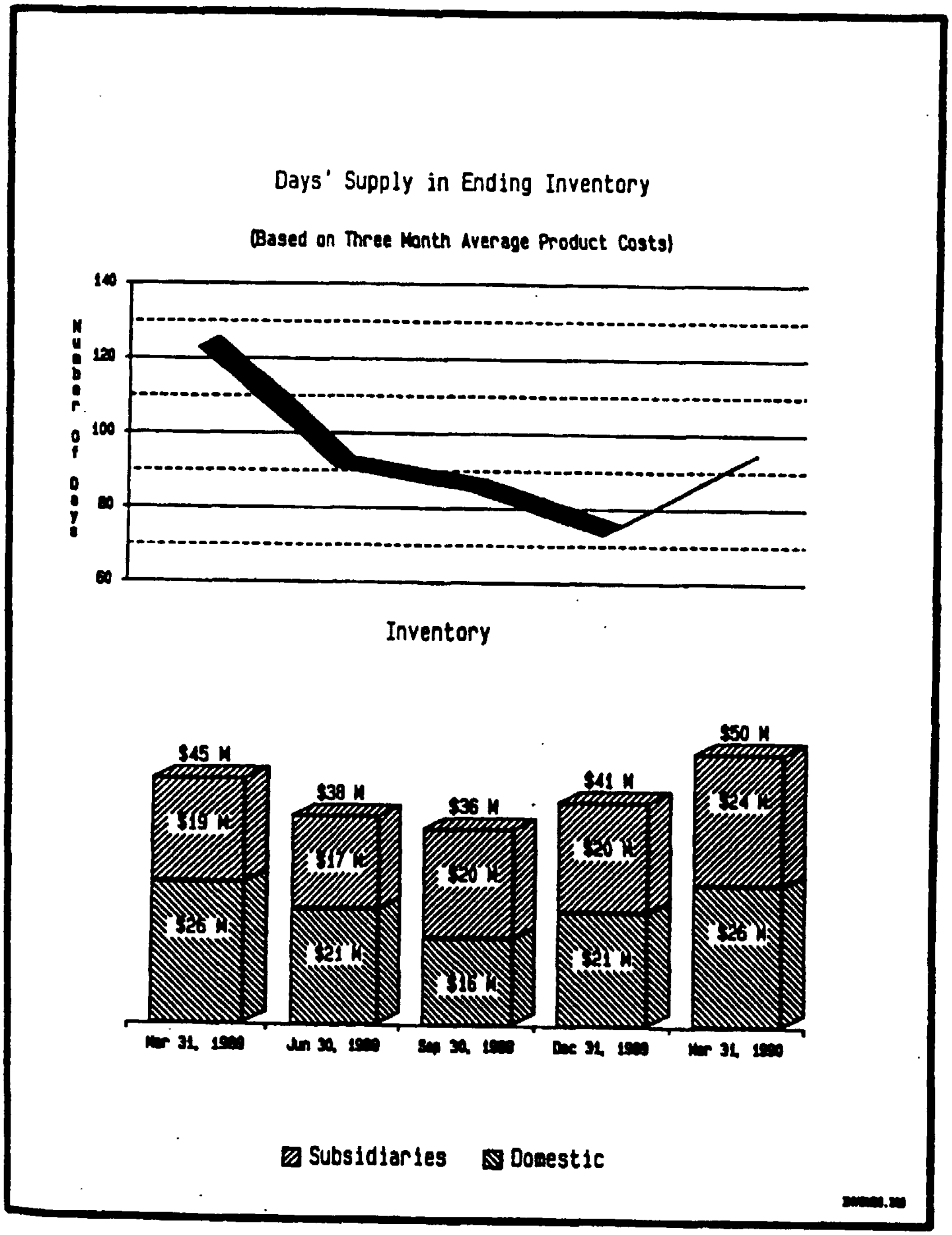
Inventories

Total inventories at the end of Q90-3 were $50.0 million. This represents a 22% increase from Q90-2. The change consisted of a $5.1 million increase in domestic inventory and a $3.9 million increase in international inventories. At quarter-end, our inventory by location was Campus North ($25.6 million), Puerto Rico ($295,000), subsidiary warehouses ($20.4 million) and Ireland ($3.7 million). Consolidated days inventory on hand (calculated based on past three months product costs) increased to 92 days from 73 days at the end of Q90-2. The change represents not only an inventory increase of 22%, but product cost decreases totalling 4%.

Gross domestic inventory increased by $4.6 million. Domestic raw material inventories increased $237,000 (1%) and finished goods increased $4.4 million (34%). The increase in both domestic raw material and finished good inventories is primarily due to the fact that USSMD's March revenues were $12.0 million below plan, resulting in production in excess of demand. Of note were increased inventory levels of Win Word, Mouse and domestically-produced, international products. These international products are included in domestic finished good inventories until shipped to the subsidiaries. International raw material increased $183,000 (3%), and finished goods increased $4.8 million (28%). These increases are the result of several factors, including a considerable weakening of the dollar since the end of Q90-2. Further, in Q90-3, MS-Inc (Canada) received over $6 million in backordered inventory. As a whole, consolidated inventory allowances increased 4% ($588,000). Domestic reserves, however, decreased due to the disposition of $2.0 million in obsolete inventory. Of the $2.0 million, $638,000 was donated. Microsoft enjoys a tax benefit of up to two times the cost of inventory donated. The remaining $1.4 million was not suitable for donation and was scrapped. Currently, the reserve appears sufficient to cover all identified and potentially obsolete inventory.

	March 31	December 31	Change
Raw materials	$19,010	$18,773	$ 237
Finished goods	17,252	12,894	4,358
Allowances	(10,306)	(10,766)	460
Domestic Inventory	25,956	20,901	5,055
Raw materials	6,623	6,440	183
Finished goods	21,703	16,917	4,786
Allowances	(4,253)	(3,205)	(1,048)
International Inventory	24,073	20,152	3,921
Raw materials	25,633	25,213	420
Finished goods	38,955	29,811	9,144
Allowances	(14,559)	(13,971)	(588)
Consolidated Inventory	$50,029	$41,053	$8,976





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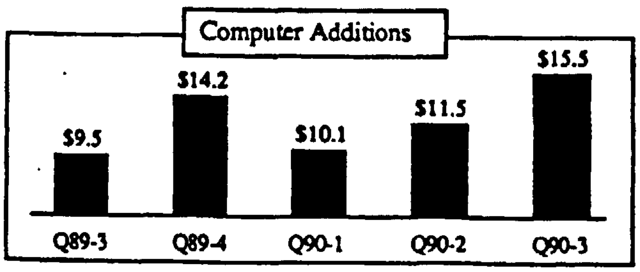
Property, Plant and Equipment

Net property, plant and equipment increased $24.6 million in Q90-3 to $281.8 million from $257.2 million at December 31, 1989. The increase can be primarily attributed to an increase in computer equipment and expansion of land and buildings to accommodate growth in headcount. Property, plant and equipment at March 31, 1990 and December 31, 1989 consists of the following (in thousands):

	Mar. 31	Dec. 31	Change
Land	$ 62,396	$ 56,526	$ 5,870
Buildings	104,177	93,875	10,302
Leasehold improvements	14,352	15,053	(701)
Furniture and equipment	37,477	34,904	2,573
Computer equipment	126,717	111,254	15,463
	345,119	311,612	33,507
Accumulated depreciation	(63,307)	(54,391)	(8,916)
Net	$281,812	$257,221	$24,591

The increase in land was primarily due to expansion at Corporate Campus, Phase 7 ($6.2 million), less the reimbursement of a local improvement district assessment from Phase 3 ($400,000). The increase in buildings primarily consists of construction in progress on building 10 ($7.4 million), building 12 ($495,000), building 16 ($660,000), building 17 ($611,000) and subsidiaries ($869,000), of which $400,000 is the new IPG facility in Ireland. The decrease in leasehold improvements consists of reimbursements from lessor ($1.7 million), which were offset by normal operations. The increase in furniture and equipment is due to new furniture for general expansion ($321,000), tradeshow booths ($247,000), telecommunications equipment ($607,000), manufacturing equipment for Puerto Rico ($400,000) and additions to the subsidiaries ($1.0 million). Computer equipment experienced the biggest quarterly increase ever. The following table and chart summarize the gross and net additions during Q90-3 (total costs are in thousands):

	Quantity Purchased	Cost
Compaq 386 computers	506	$ 4,494
VAX equipment	63	2,619
Subsidiaries	-	2,095
Software	22	1,784
Apple computers	180	1,135
IBM system 2 computers	91	885
Networking equipment	62	638
IBM portables	70	636
Disk drives	110	286
Printers	88	220
Wyse computers	36	190
Additional memory	75	169
NCR 386 computers	27	162
Net A/P accrual	-	(432)
Other insignificant items	190	582
Net additions		$15,463



Other Assets

During Q90-3, other assets increased $2.3 million to $54.0 million from $50.3 million as of the close of the prior quarter. Other assets at March 31, 1990 and December 31, 1989 consists of the following (in thousands):

	Mar. 31	Dec. 31	Change
Intellectual property rights - net	$13,691	$11,847	$1,844
Long-term investments	25,991	25,343	648
Miscellaneous	14,341	14,548	(207)
	$54,023	$51,738	$2,285

The $1.8 million increase in intellectual property rights resulted from additions for Mac Works from PSI ($5.2 million), Slingshot ($150,000) and Thunder ($33,000), less amortization ($3.2 million) and a reclassification ($342,000). The $648,000 increase in long-term investments is due to a further reclassification, from short-term investments of non-performing investments of $1.2 million (EASCO at $2.2 million, less a valuation allowance of $1.0 million), less an additional $500,000 amortization of the Company's investment in SCO. Miscellaneous long-term assets decreased due to a reduction in subsidiaries' prepaids of $527,000, less net increases for trademarks and copyrights ($102,000) and Company D&O and VEBA trust fund growth ($216,000).

Current Liabilities

During Q90-3, current liabilities deceased $924,000 to $189.1 million from $190.0 million at December 31, 1989. The largest decrease occurred in customer deposits ($11.1 million) which was comprised of an $8.1 million reduction in receipts from customers prior to acceptance of product and $3.0 million in reseller rebates owed to distributors, large volume dealers, franchises and major chains. Notes payable also decreased ($2.9 million) due to additional reductions in lines of credit ($2.2 million) and hedging activity ($642,000). Income taxes payable decreased by $783,000 because additional tax provisions were more than offset by estimated payments and tax benefits from the spread on exercise of non-qualified stock options. Offsetting the above decreases, accounts payable grew by $6.6 million due to general growth, primarily at the subsidiaries. Another significant increase occurred in other current liabilities ($6.5 million) which consisted of growth in business taxes payable ($3.4 million), additional reserves ($1.9 million) and capital leases payable ($1.8 million), and a decrease in marketing programs ($573,000). Obligations for accrued compensation also increased by $813,000 due to ESPP funding and accrued wages at the subsidiaries.

Stockholders' Equity

Stockholder's equity increased $94.5 million during Q90-3 to $826.2 million from $731.7 million at December 31, 1989. Retained earnings increased $59.2 million, the net result of Company earnings for the quarter of $75.2 million, less $16.0 million pertaining to the buy back of 336,000 shares of Company stock. Paid in capital increased $29.3 million, the result of stock issued in connection with Company stock option and ESPP programs ($18.7 million) and the Company's estimated tax benefit relating to NQSO transactions ($10.7 million). Additionally, there was a $6.0 million favorable foreign currency translation adjustment resulting from the dollar weakening during the quarter against the permanent investments in our subsidiaries.

SANTA CRUZ OPERATION

RESULTS OF OPERATIONS

Consolidated statements of income (unaudited) compared with the prior year for the quarter ended December 31, 1989 and 1988 are presented below (in thousands).

	1989		1988		Change %
Net revenues	$22,000	100.0%	$15,000	100.0%	47
Cost of revenues	8,200	37.3	6,500	43.3	26
Gross Profit	13,800	62.7	8,500	56.7	62
Operating expenses	15,100	68.6	11,700	78.0	29
NET LOSS	$ (1,300)	(5.9)%	$ (3,200)	(21.3)%	59

FINANCIAL CONDITION

Consolidated balance sheets (unaudited) as of December 31, 1989 and 1988 and a consolidated statement of cash flow for the quarter ended December 31, 1989 are presented below (in thousands).

	Dec. 31 1989	Dec. 31 1988	Year Change	Year% Change
Current Assets	$29,000	$14,900	$14,100	95
Fixed Assets	9,100	13,300	(4,200)	(32)
TOTAL ASSETS	38,100	28,200	9,900	35
Current Liabilities	20,400	19,700	700	4
Long Term Liabilities	4,000	3,500	500	14
Stockholders' Equity	13,700	5,000	8,700	174
TOTAL LIABILITIES & EQUITY	$38,100	$28,200	$ 9,900	35

	12/89 Quarter
Cash from operations	$(2,700)
Cash from financing-net (includes our investment)	700
Cash used for investments	(500)
Net change in cash and short term investments	(2,500)
Cash and short-term investments at beginning of period	9,100
Cash and short-term investments at end of period	$6,600

For the quarter, SCO shipped 19,229 units of Xenix and 9,248 units of Unix. This is an increase of 1,565 units over the previous quarter for both products combined.

Preliminary data for SCO's most recent quarter ended 3/31/90 suggests an improving financial picture. Revenues increased $4.1 million to $26.3 million quarter over quarter. Margins were up slightly to approximately 64% of sales from 62.7%. The Company expects a loss of approximately $700,000 for the most recent quarter, down from the $1.3 million reflected above for the December quarter.

We are amortizing our investment in SCO at $500,000 per quarter. At March 31, 1990 our unamortized investment in SCO was $18.4 million.

CHANNEL REPORTING

Channel Reporting

The contribution to net revenues and operating income for Q90-3 on a channel of distribution basis was as follows (amounts in thousands):

Net Revenues	Actual		Plan		Variance Percentage
USSMD	$ 78,332	25.2%	$ 83,212	30.6%	(6)
International Retail	142,471	45.8	112,831	41.6	26
Worldwide Retail	220,803	71.0	196,043	72.2	13
Domestic OEM	45,047	14.5	33,955	12.5	33
International OEM	38,357	12.3	33,110	12.2	16
Worldwide OEM	83,404	26.8	67,065	24.7	24
Other	6,675	2.2	8,552	3.1	(22)
Total	$310,882	100.0%	$271,660	100.0%	14

Operating Income (Loss)	Actual			Plan			
	Income (Loss)	Percentage Total	Percentage Revenue	Income (Loss)	Percentage Total	Percentage Revenue	Variance
USSMD	$ 5,368	5.0	6.9	$ 7,373	10.9	8.9	$(2,005)
International Retail	52,346	49.2	36.7	25,314	37.4	22.4	27,032
Worldwide Retail	57,714	54.2	26.1	32,687	48.3	16.7	25,027
Domestic OEM	27,260	25.6	60.5	17,840	26.4	52.5	9,420
International OEM	23,243	21.9	60.6	18,095	26.7	54.7	5,148
Worldwide OEM	50,503	47.5	60.6	35,935	53.1	53.6	14,568
Other	(1,837)	(1.7)	(27.5)	(979)	(1.4)	(11.4)	(858)
Total	$106,380	100.0	34.2	$ 67,643	100.0	24.9	$38,737

The contribution to net revenues and operating income for FY90 YTD on a channel of distribution basis was as follows (amounts in thousands):

Net Revenues	Actual		Plan		Variance Percentage
USSMD	$255,308	30.2%	$238,728	31.9%	7
International Retail	345,727	40.8	299,943	40.0	15
Worldwide Retail	601,035	71.0	538,671	71.9	12
Domestic OEM	112,088	13.3	89,429	11.9	25
International OEM	115,455	13.6	100,383	13.4	15
Worldwide OEM	227,543	26.9	189,812	25.3	20
Other	17,896	2.1	21,109	2.8	(15)
Total	$846,474	100.0%	$749,592	100.0%	13

Operating Income (Loss)	Actual			Plan			
	Income (Loss)	Percentage Total	Percentage Revenue	Income (Loss)	Percentage Total	Percentage Revenue	Variance
USSMD	$ 42,738	15.1	16.7	$ 18,368	11.0	7.7	$ 24,370
International Retail	108,097	38.2	31.3	53,537	32.1	17.8	54,560
Worldwide Retail	150,835	53.3	25.1	71,905	43.1	13.3	78,930
Domestic OEM	64,498	22.8	57.5	43,310	26.0	48.4	21,188
International OEM	71,761	25.4	62.2	55,544	33.3	55.3	16,217
Worldwide OEM	136,259	48.2	59.9	98,854	59.3	52.1	37,405
Other	(4,344)	(1.5)	(24.3)	(4,014)	(2.4)	(19.0)	(330)
Total	$282,750	100.0	33.4	$166,745	100.0	22.2	$116,005

Microsoft Corporation

Quarterly Revenues by Channel
(In thousands)

	Q90-1 $	Q90-1 %	Q90-2 $	Q90-2 %	Q90-3 $	Q90-3 %	Q90-4 $	Q90-4 %	FY 1990 $	FY 1990 %
USSMD	79,526	33.8	97,451	32.4	78,332	25.2			255,308	30.2
Intl Retail	80,213	34.1	123,043	41.0	142,471	45.8			345,727	40.8
US OEM	35,161	14.9	31,880	10.6	45,047	14.5			112,088	13.3
Intl OEM	35,189	15.0	41,910	13.9	38,357	12.3			115,455	13.6
Other	5,072	2.2	6,147	2.1	6,675	2.2			17,896	2.1
	235,161	100.0	300,431	100.0	310,882	100.0	0	0.0	846,474	100.0

	Q89-1 $	Q89-1 %	Q89-2 $	Q89-2 %	Q89-3 $	Q89-3 %	Q89-4 $	Q89-4 %	FY 1989 $	FY 1989 %
USSMD	62,570	35.5	59,751	28.5	43,845	22.3	65,100	29.6	231,266	28.8
Intl Retail	57,548	32.6	82,368	39.2	79,603	40.4	79,160	35.9	298,679	37.2
US OEM	22,715	12.9	27,431	13.1	32,380	16.4	32,508	14.8	115,034	14.3
Intl OEM	28,645	16.2	36,247	17.3	35,975	18.3	38,730	17.6	139,597	17.4
Other	4,915	2.8	4,085	1.9	5,221	2.6	4,733	2.1	18,954	2.4
	176,393	100.0	209,882	100.0	197,024	100.0	220,231	100.0	803,530	100.0

	Q88-1 $	Q88-1 %	Q88-2 $	Q88-2 %	Q88-3 $	Q88-3 %	Q88-4 $	Q88-4 %	FY 1988 $	FY 1988 %
USSMD	30,609	29.8	54,059	34.7	53,258	32.9	51,082	30.0	189,008	32.0
Intl Retail	31,842	31.0	49,008	31.4	55,420	34.2	66,101	38.8	202,371	34.3
US OEM	21,866	21.3	31,517	20.2	25,971	16.0	23,137	13.6	102,491	17.3
Intl OEM	14,389	14.0	17,914	11.5	22,197	13.7	25,386	14.9	79,886	13.5
Other	3,930	3.8	3,398	2.2	4,977	3.1	4,766	2.8	17,071	2.9
	102,636	100.0	155,896	100.0	161,823	100.0	170,472	100.0	590,827	100.0

	Q87-1 $	Q87-1 %	Q87-2 $	Q87-2 %	Q87-3 $	Q87-3 %	Q87-4 $	Q87-4 %	FY 1987 $	FY 1987 %
USSMD	21,092	31.6	31,173	38.5	33,156	33.7	34,244	34.3	119,665	34.6
Intl Retail	16,020	24.0	23,398	28.9	29,071	29.6	29,198	29.3	97,687	28.2
US OEM	16,915	25.3	16,404	20.3	20,139	20.5	18,958	19.0	72,416	20.9
Intl OEM	11,316	16.9	8,245	10.2	13,572	13.8	15,397	15.4	48,530	14.0
Other	1,437	2.2	1,765	2.2	2,425	2.5	1,965	2.0	7,592	2.2
	66,780	100.0	80,985	100.0	98,363	100.0	99,762	100.0	345,890	100.0

USSMD

The Q90-3 condensed burdened operating income statement for USSMD follows (in thousands):

	Actual		Plan		Variance
Net revenues	$78,332	100.0%	$83,212	100.0%	$(4,880)
Cost of revenues	21,871	27.9	24,007	28.9	2,136
Operating expenses	28,858	36.8	29,214	35.1	356
Allocations - Research and development	13,043	16.7	13,921	16.7	878
Allocations - Sales and marketing	6,830	8.7	6,328	7.6	(502)
Allocations - General and administrative	2,362	3.0	2,370	2.8	8
Burdened operating income	$ 5,368	6.9%	$ 7,372	8.9%	$(2,004)

The condensed YTD burdened operating income statement for USSMD through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$255,308	100.0%	$238,728	100.0%	$16,580
Cost of revenues	70,733	27.7	70,810	29.7	77
Operating expenses	80,849	31.7	84,250	35.3	3,401
Allocations - Research and development	36,430	14.3	40,094	16.8	3,664
Allocations - Sales and marketing	17,735	6.9	18,168	7.6	433
Allocations - General and administrative	6,822	2.7	7,038	2.9	216
Burdened operating income	$ 42,739	16.7%	$ 18,368	7.7%	$24,371

Net revenues for Q90-3, at $78.3 million, were 6% below plan of $83.2 million. USSMD net revenues by product group for the quarter were as follows (in thousands):

	Actual		Plan		Variance
Applications	$56,586	72.2%	$56,038	67.3%	$ 548
SPAG	16,105	20.6	13,068	15.7	3,037
Systems	4,650	5.9	10,594	12.7	(5,944)
Languages	4,355	5.6	7,683	9.2	(3,328)
Multimedia	190	0.2	921	1.2	(731)
Non-Specific	1	0.0	0	0.0	1
Adjustments	(3,555)	(4.5)	(5,092)	(6.1)	1,537
Net revenues	$78,332	100.0%	$83,212	100.0%	$(4,880)

In terms of gross revenue generation, the channel's ten leading products (compared with plan) for the quarter were as follows (dollars in thousands):

			Actual		Plan		
Actual	Plan	Product	Units	Revenue	Units	Revenue	Variance
1	1	Mouse	168,203	$15,754	134,640	$13,068	$2,686
2	3	Mac Word	45,279	7,806	48,603	8,608	(802)
3	2	Win Excel	30,141	6,564	39,833	9,090	(2,526)
4	7	PC Word	37,670	6,374	30,300	4,577	1,797
5	4	Win Word	28,139	5,710	37,400	7,817	(2,107)
6	5	Mac Excel	27,754	5,406	35,932	7,019	(1,613)
7	-	Win Word Upgrade	29,584	4,181	4,500	450	3,731
8	6	Windows	52,797	3,955	112,300	6,875	(2,920)
9	8	PC Works	44,017	3,352	43,849	3,252	100
10	-	Mac Office	6,555	2,817	-	--	2,817
				$61,919		$60,756	$1,163
Percent of USSMD's net revenues				79%		73%	

Plan #9 - Mac Works ($3,182), Plan #10 Pro C Compiler ($2,500)

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The division's top ten list comprised 79% of total USSMD net revenues, compared to plan of 73%. The Mouse maintained the number one position generating $15.8 million in revenue, compared to a plan of $13.1 million. This represents 20% of the channel's Q90-3 net revenue. Mac Word revenue of $7.8 million was 9% below plan of $8.6 million. Win Excel revenues of $6.6 million were 28% below plan of $9.1 million. Product Marketing believes this shortfall was due to market anticipation of Windows 3.0, combined with aggressive marketing by Borland (Quattro for $99). PC Word revenue of $6.4 million was above plan of $4.6 million by 39%. Win Word unit shipments were 28,000 versus plan of 37,000, resulting in an unfavorable $2.1 million revenue variance. Mac Excel revenues were $1.6 million below plan of $7.0 million. Due to the slippage of version 3.0, Window's actual revenues were 42% below plan of $6.9 million. Windows revenue per unit was above plan as the revenue mix continues to favor the higher priced 386 version (the 386 version accounted for 50% of total units shipped compared with a plan of 30%). The Mac Office, which was planned as a limited time bundle to be discontinued in December, continues to generate strong demand, with revenues of $2.8 million. Win PowerPoint, DOS retail upgrade and Win Project, with forecasted revenues of $2.3 million, $1.8 million and $1.6 million respectively, did not meet their budgeted ship dates. The Q90-3 budget includes a revenue adjustment used to reduce the product manager's budget. While individual product budgets were unchanged, total revenue for each product group, save SPAG, was reduced. The total adjustments of $7.7 million partially offset actual product slippage.

During Q90-3, sales to Distributors/Franchisors ($38.6 million) and Contracted Dealers ($27.1 million) represented 80% of gross revenue. PC Word special pricing ($185 for Distributors and Franchisors and $195 for LVRs and Major Chains) continued to negatively affect the overall discount percent. End User revenue (formally Fulfillment) consists primarily of updates and finished good sales directly to End Users. End User revenue of $6.0 million represented 7% of USSMD gross revenues. VAR sales decreased 92% from Q90-2. This reduction is due to the completion of the IBM "Free For All" promotion which generated $6.6 million in PC Works revenue in Q90-2. USSMD gross revenues and average discount by customer type were as follows (in thousands):

	Q90-3			Q90-2		
	Sales	%	Discount %	Sales	%	Discount %
Distributors/Franchisors	$38,650	47.2	45.9	$ 53,982	51.5	46.6
Contracted Dealers (LVRs/ Major Chains)	27,082	33.1	44.8	29,011	27.7	44.9
End User	6,035	7.4	29.2	3,685	3.5	32.2
Corporate Accounts	3,927	4.8	52.8	4,231	4.0	48.4
Education	3,661	4.5	46.7	3,373	3.2	48.6
Government	1,335	1.6	44.8	1,382	1.3	49.0
Value Added Resellers	751	0.9	51.1	8,882	8.5	71.0
Other	446	0.5	79.1	231	0.3	84.0
Gross Revenues	$81,887	100.0%	45.5	$104,777	100.0%	49.8

The Federal Systems Sales Group has recorded some impressive wins. In Q90-3, we began to generate revenue from the NASA Code M procurement, a 3 year, $2 million MAC Apps bid awarded to EDS. Additionally, the previously announced Desktop III and FAA/OATS awards were completed and contracts signed. These bids, which were successful due to the joint efforts of the USSMD Federal Group and various members of the OEM Sales force, will be recorded as OEM revenue, since the pricing will be rolled into existing OEM contracts with Unisys and AT&T (see OEM comments for further discussion). Finally, in early April, Federal Systems was awarded a contract from the SEC for 475 units of PM Excel for use in the Edgar Project. This win followed a very heated battle with 123G.

Sales to the top 10 customers, by quarter, for the past five quarters were as follows (in thousands):

	Q90-3	Q90-2	Q90-1	Q89-4	Q89-3
Ingram/Micro D	$25,175	$29,749	$20,017	$19,499	$12,612
Egghead	9,927	13,035	7,310	10,921	6,054
Softsel	5,802	14,774	8,889	7,410	5,153
Microamerica	3,633	4,109	3,605	2,374	1,142
Businessland	3,615	2,763	2,847	3,200	2,473
Corporate Software	3,204	4,073	1,615	1,554	944
Computerland	2,638	3,935	2,574	2,077	1,816
Software Spectrum	2,061	1,929	2,852	2,097	1,138
Softmart	1,748	851	1,001	903	729
800 Software	1,480	1,098	1,220	986	503
	$59,283	$76,316	$51,930	$51,021	$32,564
Percent Of Gross Revenue	72%	73%	62%	70%	69%

In Q90-3, USSMD processed $4.0 million in returned product, representing 5% of net revenues, (compared to $3.1 million and 3% in Q90-2). The division's returns were spread across all product lines with PC Word ($494,000), Win Excel ($371,000), PC and Mac Works ($345,000 and $338,000) contributing the most significant volumes. Of the total returns, Distributors returned $1.2 million (30%), Major Chains returned $1.7 million (42%), and End Users returned $344,000 (8%). Open Returns Authorizations (RAs approved for return, but not received) were $2.3 million at quarter-end, unchanged from last quarter. Products with larger returns pending are: PC Word ($292,000), Mouse ($248,000), Mac Excel ($222,000), and Win Excel ($207,000).

Distributors and Franchisors may earn rebates by maintaining a 30-day stocking level for 25 key Microsoft products, thus attempting to ensure an adequate supply of Microsoft product in the sales channel. Rebates for LVRs and Major Chains are earned by attaining a predetermined internal market share for specific products based on sell-through (versus competitive products) for the individual reseller. This is designed to generate a consistent sell-through of product (not sell-in), striving to prevent excessive inventories.

Rebates were 4.1% of net revenues, versus plan of 5.4%. Reseller rebates were $3.2 million, 28% below plan of $4.5 million. This favorable variance was due to the reversal of $1.5 million in rebates which had been accrued for T3 (September through December 1989). Several resellers (most notable Egghead, Businessland and 800 Software) did not earn 100% of their potential rebate. Due to the uncertainty inherent in the reseller rebate program, we accrued rebates at the maximum level for T3. Had the $1.5 million reversal not occurred, reseller rebates would have approximated budget.

Cost of revenues, as a percentage of net revenues, was 27.9% compared to plan of 28.9%. Actual cost of revenues consisted of 20.0% product costs, 1.2% royalties and 6.7% allocation of manufacturing and distribution costs; whereas budgeted cost of revenues consisted of 21.4% product costs, 1.5% royalties and 6.0% allocations. The gross margin for Q90-3 was 72.1% compared to plan of 71.1%. USSMD's gross profit margin for the last five quarters follows:

Q90-3	72.1%
Q90-2	73.9%
Q90-1	70.6%
Q89-4	65.4%
Q89-3	61.5%

Product costs were 20.0% versus plan of 21.4%. This variance is primarily due to the continuing shift in sales mix toward Applications, which has lower product costs, and away from other product groups (particularly Systems). As illustrated in the table below, Applications' revenue represented 69.1% of gross

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revenues versus plan of 63.5%, and had a composite product cost of 14.2% of revenues, compared to plan of 15.1%.

	Actual			Budget		
	Sales Mix %	Cost %	Weighted Cost %	Sales Mix %	Cost %	Weighted Cost %
Applications	69.1%	14.2	9.8%	63.5%	15.1	9.6%
SPAG	19.7	35.9	7.1	14.8	37.8	5.6
Languages	5.3	20.7	1.1	8.7	16.1	1.4
Multimedia	0.2	13.2	0.0	1.0	3.6	0.0
Systems	5.7	21.2	1.2	12.0	29.7	3.6
Product Cost - Gross	100.0%		19.2	100.0%		20.2
Effect of Adjustments			x 104.5			x 106.1
Product Cost - Net			20.0%			21.4%

Applications' product costs were below plan due to strong sales of products with lower than planned product costs. Win Excel, Mac Excel, Win Word, and PC Word 5.0 all had lower than planned product costs. SPAG product costs were 35.9% of revenue compared to plan of 37.8%. This variance is due to lower than planned product cost on the Serial/PB Mouse. Languages' product costs exceeded budget primarily due to the slippage of C Compiler 6.0, MASM 6.0, and Cobol 3.1. These products are scheduled to have lower product costs than the current versions. Systems' favorable product cost variance is the result of a continuing shift in the sales mix towards the higher margin 386 version, and the slippage of Windows 3.0, and its low margin updates.

Royalty expense of $910,000, 1.2% of net revenue, was below plan of $1.2 million and 1.5%. This variance was primarily due to a decrease in the Mac Works royalty, resulting from our purchase of technology rights from PSI, and lower than planned sales of PC Flight Simulator.

Allocations of manufacturing and distribution costs were 6.7% of net revenues compared to budget of 6.0%. The variance is due to higher than planned inventory adjustments and freight costs. Additionally, we accrued $120,000 in free update costs to offset the cost of fulfilling free updates of C 6.0 (which shipped in April) to individuals who purchased C 5.1 within the free update Window.

Operating expenses of $28.9 million, 36.8% of net revenues, were $356,000 under a planned $29.2 million, or 35.1% of net revenues. Favorable variances in marketing ($2.6 million) and marketing fund incentive programs ($966,000) were largely offset by an accrual for marketing expenses ($2.5 million) and an unfavorable variance in payroll ($446,000).

Marketing expenditures were $10.0 million compared to a plan of $12.6 million. Each product marketing group, except Entry and Office, was under budget. U.S channel marketing campaigns were $966,000 under a plan of $3.4 million. The variance is primarily due to slippage of the Road Show, and lower than planned spending on various dealer and trimester programs. The marketing variances are the result of the inherent difficulty in budgeting the actual months in which expenditures will be incurred, and marketing commitments which have not yet been invoiced. As such, the variances represent timing differences which can be expected to turnaround. Accordingly, $2.5 million in marketing expenses were accrued at the end of Q90-3. This accrual will be used to offset such expenditures in Q90-4. The reason for the unfavorable variance in payroll is twofold. A major change in the compensation program for the field sales force occurred late in the FY90 budget cycle. As a result of the late change, the budget does not reflect the current salary structure for the field sales force. Additionally, unplanned headcount has been added to support the LAN Manager program.

Allocations to USSMD were $22.2 million, 28.4% of net revenues, compared to a plan of $22.6 million, or 27.1% of net revenues. Favorable variances in Applications development ($426,000), Languages development ($225,000) and Multimedia development ($140,000) were partially offset by an unfavorable variance in PSS ($536,000).

For Q90-3, USSMD had a burdened operating income of $5.4 million (6.9% of net revenues) compared to a planned income of $7.4 million (8.9% of net revenues). The shortfall in revenue of $4.9 million was only partially offset by a favorable cost of revenues percentage and lower than planned operating and allocated expenses.

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International Retail

The Q90-3 condensed burdened operating income statement for International Retail follows (in thousands):

	Actual		Plan		Variance
Net revenues	$142,471	100.0%	$112,831	100.0%	$29,640
Cost of revenues	38,629	27.1	34,001	30.1	(4,628)
Operating expenses	31,127	21.8	31,392	27.8	265
Allocations - Research and development	19,334	13.6	20,864	18.5	1,530
Allocations - General and administrative	1,034	0.8	1,261	1.2	227
Burdened operating income	$52,347	36.7%	$25,313	22.4%	$27,034

The condensed YTD burdened operating income statement International Retail through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$345,727	100.0%	$299,942	100.0%	$ 45,785
Cost of revenues	96,313	27.9	91,258	30.4	(5,055)
Operating expenses	83,974	24.3	89,587	29.9	5,613
Allocations - Research and development	54,232	15.7	61,816	20.6	7,584
Allocations - General and administrative	3,111	0.8	3,745	1.3	634
Burdened operating income	$ 108,097	31.3%	$ 53,536	17.8%	$54,561

A summary of Q90-3 revenues by product group sold by the International Retail channel follows (in thousands):

	Actual		Plan		Variance
Applications	$ 101,775	71.4%	$ 76,040	67.4%	$ 25,735
Systems	18,638	13.1	14,569	12.9	4,069
SPAG	17,332	12.2	15,853	14.1	1,479
Languages	7,214	5.1	7,912	7.0	(698)
Books	45	--	-	--	45
Networks	29	-	76	0.1	(47)
Multimedia	17	--	30		(13)
Services	(210)	(0.1)	50	-	(260)
Adjustments	(2,369)	(1.7)	(1,699)	(1.5)	(670)
	$142,471	100.0%	$112,831	100.0%	$29,640

The International Retail channel's leading product families for the quarter were as follows (in thousands):

Actual	Plan		Actual Units	Actual Revenue	Plan Units	Plan Revenue	Revenue Variance %
1	1	PC Word	96,740	$30,413	66,240	$19,958	52
2	2	Mouse	1174,552	16,906	188,391	15,685	8
3	3	Win Excel	46,640	15,967	43,597	14,728	8
4	6	Packaged DOS	143,460	8,597	80,056	5,437	58
5	4	Mac Excel	25,903	6,916	21,904	5,741	20
6	-	WinWord	21,673	6,765	5,579	1,615	319
7	7	Mac Word	29,595	6,695	20,453	5,098	31
8	5	PC Works	54,042	5,941	51,791	5,571	7
9	9	PC Multiplan	23,434	4,110	19,269	3,628	13
10	-	Windows 386	24,766	3,737	18,544	2,604	44
				$106,047		$80,065	
Percent of net revenues				74%		71%	

Plan #8 - Windows 286 ($4,735) ; Plan #10 - Pro C ($2,736)

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International Retail activities are primarily those of wholly-owned subsidiaries. Translation of foreign currency denominated financial statements into U.S. Dollars affects comparisons to plan by increasing actual amounts if the U.S. Dollar is weaker than planned or, conversely, by decreasing actual amounts if the U.S. Dollar is stronger than planned. During Q90-3 the U.S. Dollar's performance varied against most currencies listed in the table below, except for the Japanese Yen which was increasingly weak against the U.S. Dollar. The actual (weekly average) rates versus planned exchange rates and the related percentages of variance for Q90-3 are as follows:

	U.S. dollars per unit of Foreign Currency		
Currency	Actual Rate	Planned Rate	Variance %
British Pound	1.65731	1.77300	(6.5)
Swedish Krona	.16259	.16141	0.7
Deutsch Mark	.59044	.56481	4.5
Swiss Franc	.66416	.65512	1.4
French Franc	.17412	.16468	5.7
Spanish Peseta	.00915	.00893	2.5
Dutch Guilder	.52410	.50052	4.7
Italian Lira	.00080	.00076	4.7
Canadian Dollar	.84492	.84679	(0.2)
Australian Dollar	.76647	.81090	(5.5)
Japanese Yen	.00677	.00806	(16.0)
Korean Won	.00146	.00156	(6.2)
Irish Pound	1.56861	1.50214	4.4

International Retail Q90-3 net revenues of $142.5 million were 26% more than a planned $112.8 million and comprised 46% of the Company's total Q90-3 net revenues. This $29.6 million favorable variance was the combined result of a $28.5 million favorable operations variance, and a $1.1 million favorable exchange rate variance. Actual and planned Q90-3 International Retail net revenues of each consolidating unit are included in the schedule below.

	Actual		Plan		Net Variance	Operations Variance	Exchange Rate Variance
EUROPE							
MS LTD (England)	$ 13,327	9.4%	$ 10,231	9.1%	$ 3,096	$ 4,061	$ (965)
MS AB (Sweden)	11,983	8.4	8,766	7.8	3,217	3,126	91
MS GmbH (Germany)	26,829	18.8	22,065	19.6	4,764	3,608	1,156
MS AG (Switzerland)	4,986	3.5	3,780	3.4	1,206	1,134	72
MS SARL (France)	38,601	27.1	27,018	23.9	11,583	9,497	2,086
MS SRL (Spain)	1,576	1.1	1,395	1.2	181	142	39
MS BV (Netherlands)	5,090	3.6	4,438	3.9	652	425	227
MS SPA (Italy)	7,142	5.0	4,280	3.8	2,862	2,533	329
	109,534	76.9	81,973	72.7	27,561	24,526	3,035
ICON							
MS INC (Canada)	10,034	7.0	9,612	8.5	422	450	(28)
MS PTY (Australia)	7,502	5.3	8,119	7.2	(617)	(171)	(446)
Mexico	953	0.6	873	0.8	80	80	-
Brazil	1,532	1.1	739	0.7	793	793	-
AIME (Africa/India/Mid East)	1,095	0.8	1,249	1.1	(154)	(154)	-
Asia Pacific	1,296	0.9	332	0.2	964	964	-
	22,412	15.7	20,924	18.5	1,488	1,962	(474)
FAR EAST							
MS KK (Japan)	7,325	5.1	8,193	7.3	(868)	543	(1,411)
MS CH (Korea)	649	0.5	581	0.5	68	108	(40)
MS TC (Taiwan)	1,010	0.7	252	0.2	758	758	-
Redmond FE	1,112	0.8	908	0.8	204	204	-
	10,096	7.1	9,934	8.8	162	1,613	(1,451)
Other Redmond	429	0.3	-	-	429	429	-
Total Non-Europe	32,937	23.1	30,858	27.3	2,079	4,004	(1,925)
Total	$142,471	100.0%	$112,831	100.0%	$29,640	$28,530	$1,110

The channel's total cost of revenues was 27.1% of net revenues for Q90-3, compared with a planned 30.1%. As a percentage of net revenues, product costs were 21.8% versus a planned 22.7%. The actual and planned product cost percentages for Q90-3 of the four principal product groups were:

	Actual			Plan		
	Sales Mix %	Cost %	Weighted Cost %	Sales Mix %	Cost %	Weighted Cost %
Applications	70.1%	16.5	11.6%	66.2%	18.1	12.0%
SPAG	12.0	38.2	4.6	13.8	40.4	5.6
Systems	12.9	30.8	4.0	12.7	26.7	3.4
Languages	5.0	23.7	1.2	6.9	19.4	1.3
Other	0.0	-	0.0	0.4	18.2	0.1
Product Cost - Gross	100.0%		21.4%	100.0%		22.4%
Effect of Adjustments			x 1.017			x 1.015
Product Cost - Net			21.8%			22.7%

On an individual product group basis, product costs for Applications and SPAG were below plan, while Systems and Languages were above plan. The composite product cost for the channel was favorably impacted by a sales mix that was heavy on Applications and light on SPAG, relative to plan. In addition, a higher percentage of the Applications revenue was generated by the Office Business Unit (specifically, Word), which also had a lower than planned cost.

As a percentage of net revenues, non-product costs were under plan by 2.1% (5.3% compared to 7.4%). Broken down by individual categories, we picked up 0.6% in inventory adjustments, 0.9% in freight, shipping and other, 0.3% in royalties and 0.4% in allocation from Campus North.

The favorable variance in inventory adjustments is the result of a budgeting error. The budget for this item erroneously excluded the elimination of inter-company mark-up. So, we are comparing true cost and marked-up cost. Absent this, we would be over budget in this category. The subs contributing the most budget overruns (primarily due to obsolete inventory) were GmbH, SARL, and KK. The favorable situation in freight shipping and other is consistent with the year-to-date experience and reflects an element of conservatism in the plan. As a result of the PSI acquisition, Mac Works' royalty expense was only 3.2% of revenues compared to a plan of 20% and total royalty expense in the channel was only 0.5% of revenues compared to a plan of 0.8%.

The favorable allocation from Campus North resulted from previous reductions in our provision for obsolete ROW inventory. The budget includes a provision for obsolete ROW inventory at 3.0% of ROW sales (approximately $60,000 per month). Early in the fiscal year, we determined that our reserve position was more than adequate and suspended the monthly accrual. Through disposals and an increase in inventory, our reserve position is now back in line and we resumed a monthly accrual of 1.5% of ROW sales in February.

International Retail operating expenses in Q90-3 of $31.1 million, were essentially equal to the planned $31.4 million. The $265,000 favorable variance was the net result of a $338,000 favorable operations variance and a $73,000 unfavorable exchange rate variance. The actual and planned operating expenses for Q90-3 charged to the channel by the subsidiaries and Corporate headquarters are as follows (in thousands):

	Actual	Plan	Net Variance	Operations Variance	Exchange Rate Variance
MS LTD (England)	$ 3,116	$ 3,009	$ (107)	$ (335)	$ 228
MS AB (Sweden)	2,500	2,259	(241)	(223)	(18)
MS GmbH (Germany)	6,146	6,026	(120)	147	(267)
MS AG (Switzerland)	621	831	210	218	(8)
MS SARL (France)	6,667	6,532	(135)	229	(364)
MS BV (Netherlands)	1,169	1,271	102	154	(52)
MS SpA (Italy)	1,177	1,099	(78)	(23)	(55)
MS SRL (Spain)	492	531	39	52	(13)
European Subsidiaries	21,888	21,558	(330)	219	(549)
MS INC (Canada)	1,861	1,911	50	45	5
MS PTY (Australia)	2,102	2,222	120	(5)	125
Mexico	280	368	88	88	0
Brazil	677	478	(199)	(199)	0
AIME	304	450	146	146	0
Asia Pacific	213	235	22	22	0
ICON Subsidiaries	5,437	5,664	227	97	130
MS KK (Japan)	1,718	2,428	710	377	333
MS CH (Korea)	197	229	32	19	13
MS TC (Taiwan)	512	264	(248)	(248)	0
Far East Subsidiaries	2,427	2,921	494	148	346
Redmond Operations	1,375	1,249	(126)	(126)	--
Total	$31,127	$31,392	$ 265	$ 338	$(73)

Actual allocated expenses were $20.4 million compared to a plan of $22.1 million. Most cost pools were below planned levels. The most significant contributions were favorable variances from Localization of $770,000 ($5.8 million actual compared with $6.6 million plan), Applications development of $361,000 ($9.1 million actual versus $9.5 million planned), Languages development of $231,000 ($1.5 million compared with $1.7 million) and International support of $230,000 ($61,000 versus $290,000).

The channel's Q90-3 burdened operating income of $52.3 million was 107% more than a planned $25.3 million and was 49.2% of the Company's total burdened operating income. All elements of the division's profit model experienced favorable variances. Specifically, net revenues exceeded plan by $29.6 million, cost of revenues as a percentage of net revenues was 27.1% compared with plan of 30.1%, and both operating expenses and allocated expenses were less than plan ($265,000 and $1.8 million, respectively).

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Domestic OEM

The Q90-3 condensed burdened operating income statement for Domestic OEM follows (in thousands):

	Actual		Plan		Variance
Net revenues	$45,047	100.0%	$33,955	100.0%	$11,092
Cost of revenues	3,005	6.7	2,300	6.8	(705)
Operating expenses	3,596	8.0	3,441	10.1	(155)
Allocations - Research and development	10,050	22.3	9,273	27.3	(777)
Allocations - Sales and marketing	356	0.8	325	1.0	(31)
Allocations - General and administrative	779	1.7	777	2.3	(2)
Burdened operating income	$27,261	60.5%	$17,839	52.5%	$ 9,422

The condensed YTD burdened operating income statement for Domestic OEM through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$112,088	100.0%	$89,429	100.0%	$22,659
Cost of revenues	8,132	7.3	6,516	7.3	(1,616)
Operating expenses	9,701	8.7	9,813	11.0	112
Allocations - Research and development	26,473	23.6	26,604	29.7	131
Allocations - Sales and marketing	946	0.9	907	1.0	(39)
Allocations - General and administrative	2,338	2.0	2,279	2.6	(59)
Burdened operating income	$ 64,498	57.5%	$43,310	48.4%	$21,188

Domestic OEM net revenues by product group for Q90-3 were as follows (in thousands):

	Actual		Plan		Variance
Systems	$26,423	58.7%	$24,128	71.0%	$ 2,295
LPB	8,646	19.2	2,615	7.7	6,031
Networks	3,191	7.1	3,516	10.4	(325)
Applications	2,456	5.4	1,058	3.1	1,398
Xenix	2,334	5.2	2,115	6.2	219
SPAG	702	1.6	398	1.2	304
Languages	287	0.6	125	0.4	162
Multimedia	8	-	-	-	8
Subtotal	44,047	97.8	33,955	100.0	10,092
Adjustments (GAAP)	1,000	2.2	-	-	1,000
Total	$45,047	100.0%	$33,955	100.0%	$11,092
Licensing	$38,274	85.0%	$30,572	90.0%	$ 7,702
Packaged Product	6,773	15.0	3,383	10.0	3,390
Total	$45,047	100.0%	$33,955	100.0%	$11,092

Total Domestic OEM revenues of $45 million were 33% higher than the planned $34 million. Licensing revenues were 125% of plan, and revenues from packaged product sales were 200% of plan. Packaged product sales have increased steadily throughout the year. On a year-to-date basis, total revenues exceed plan by 25%.

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Over 50% of the channel's revenues were generated by the top 10 customers. Significant Domestic OEM customers, by product group, for Q90-3 were (in thousands):

	Systems	UPB	Networks	Apps	Other*	Total Actual		Total Plan	
Zenith	$ 1,659	$2,396	$ –	$ 233	$ 406	$ 4,694	10.7%	$1,572	4.6%
Compaq	3,745	845	–	7	–	4,597	10.5	4,437	13.1
3Com	96	1,245	990	–	–	2,331	5.3	2,244	6.6
NCR	966	998	17	–	76	2,057	4.7	1,612	4.7
Tandy	1,703	190	–	44	25	1,962	4.5	2,009	5.9
DEC	490	563	871	–	1	1,925	4.4	1,250	3.7
SCO	112	–	29	128	1,638	1,907	4.3	2,152	6.4
Amer. Tel & Tel	1,101	(213)	311	19	84	1,302	3.0	913	2.7
AST	1,233	–	–	–	–	1,233	2.8	730	2.1
Tandon	1,011	44	–	6	15	1,076	2.4	1,375	4.0
Phoenix	910	106	–	9	–	1,025	2.3	1,593	4.7
IBM	530	(503)	678	38	236	979	2.2	725	2.1
Hewlett Packard	831	14	91	(1)	25	960	2.2	642	1.9
Unisys	861	–	–	39	1	901	2.0	567	1.7
Zeos Int'l	665	185	–	–	–	850	1.9	**	–
Packard Bell	–	(211)	–	1,049	–	838	1.9	**	–
Headstart Tech	32	781	–	–	–	813	1.8	**	–
Commodore Elec.	285	(56)	–	446	30	705	1.6	1,328	3.9
Memorex Telex	351	325	–	–	–	676	1.5	703	2.2
Wyse	493	173	–	–	–	666	1.5	623	1.8
Wang	468	(1)	40	126	–	633	1.4	582	1.7
Distec Business	625	–	–	–	5	630	1.4	**	–
Everex	575	3	–	–	–	578	1.3	545	1.6
Sun Microsystems	83	420	–	–	–	503	1.1	500	1.5
Other Customers	7,598	1,342	164	313	789	10,206	23.3	7,853	23.1
	$26,423	$8,646	$3,191	$2,456	$3,331	$44,047	100.0%	$33,955	100.0%

* Product groups not listed

**Customer not specifically forecasted

- Zenith - An amendment that resulted in the billing of two $2.15 million minimum commitments this quarter enabled Zenith to edge out Compaq as the channel's leading customer.
- 3Com - Continues to add to its prepaid balance with minimum commitment payments relating to LAN Manager. Royalties of $1.1 million, primarily for LAN Manager, exceeded plan by $260 thousand.
- NCR - Favorable variance relates to minimum commitments in excess of those budgeted. Although its MS-DOS-related royalties fell just short of a planned $883,000, sales of networks products were $17,000 versus a planned $228,000.
- Tandy - As budgeted, Tandy enjoyed a traditionally strong Christmas quarter, owing to sales of MS-DOS.
- DEC - Was $675,000 above plan, primarily because of an unbudgeted $560,000 minimum commitment relating to a new LAN Manager license.
- SCO - Shortfall resulted from a budget that is increasing by $140,000 each quarter versus stable actual royalties. SCO's sales have increased, but this was offset by an amendment which reduced its royalty rate.
- American Telephone & Telegraph - Had a strong quarter, reporting 31,000 units of MS-DOS against a budgeted 22,000 units. In addition, it generated unbudgeted MS Networks revenue of $311,000 and Windows packaged product of $305,000.
- AST - Had strong sales of MS-DOS, coming in 89% over budget and 23% over prior quarter.

• Tandon - Although Tandon reported stronger system sales, its net shortfall resulted from a license renegotiation which reduced its minimum commitment. As part of the renegotiation, a separate OS/2 agreement was consolidated into the MS-DOS license, minimum commitments were lowered, and royalty rates increased.
• Phoenix - Experienced a $500,000 unfavorable variance owing both to decreased sales of MS-DOS and an amendment reducing the royalty rate.
• Hewlett-Packard - OS/2 shipments of 1,200 units versus a plan of 400 units are responsible for $96,000 of its favorable variance, with the remainder resulting primarily from increased sales of MS-DOS.
• Unisys - Had favorable variances for all systems products with OS/2 sales at 300% of budget ($140,000 versus $45,000) and sales of Windows at 123% of budget. The Windows revenue was increased by a sharp rise in per copy Windows/386 sales which carries almost three times the royalty rate of their per system sales.
• Packard Bell - Filed its first royalty report under an August 1989 agreement, reporting 80,700 units of MS-Works.
• Commodore - Shortfall is a consequence of a 43% drop in reported sales of MS-DOS from the prior quarter.
• Data General - Cancellation of an agreement for LAN Manager and LAN Manager X resulted in the crediting of $400,000 in previous due on signing and source code billings.
• Dell - A retroactive agreement signed this quarter supersedes two previous agreements and permits the recoupment of an OS/2-related prepaid balance against MS-DOS royalties. This agreement resulted in a $900,000 reduction in the customer's prepaid balance and a net revenue credit of $295,000 versus planned revenue of $1.1 million for the quarter.
• Ashton-Tate - Generated a $427,000 shortfall as a result of low sales of SQL Server (200 units versus 2,200 units).

Unspecified Product Billing (UPB) of $8.6 million represents due on signing and minimum commitment billings in excess of amounts reclassified to product-specific revenue as royalty reports were received. Significant due on signing amounts related to new agreements for the quarter were Win Laboratories ($350,000 - MS-DOS/Shell), Headstart ($250,000 - MS-DOS ROM, Mouse Driver), Acbel Technologies ($206,000- MS-DOS ROM), Zeos International ($185,000 - MS-DOS/Shell), and Gateway 2000 ($100,000 - MS-DOS/Shell). None of these customers were individually budgeted. The remainder of the UPB amount resulted from minimum commitments in excess of reported royalties.

When UPB is greater than reported royalties on an agreement, the excess represents prepaid royalties against which the customer may recoup future royalties. Thus, to the extent that a prepaid balance exists under an agreement, future royalties reported by the customer will not result in additional revenue being recognized by Microsoft. This "prepaid" balance does not represent a liability to Microsoft, however, because once product has been delivered and accepted by the customer, Microsoft has fulfilled its obligations under the agreement. At the end of Q90-3, total prepaid balance for Domestic OEM customers was approximately $40 million. The GAAP adjustment is an accrual for royalties earned during the quarter, but not yet reported, net of deferred revenue related to billings prior to acceptance of product by the customer. This quarter's adjustment of $1 million reflects an overall higher accrual for earned but unreported royalties in Q90-3 than was accrued at the end of Q90-2.

In terms of real dollars, cost of revenues ($3 million against a plan of $2.3 million) was unfavorably impacted by greater than anticipated volume of OEM mice (25,000 units versus 16,000 planned), packaged MS-DOS (92,000 units versus 37,000 planned), and packaged Windows (13,000 units versus 2,800 planned). As a percentage of net revenues, cost of revenues was essentially at plan despite the shift in sales mix to a higher percentage of packaged product (15% versus 10% planned). A change in the MS-DOS bill of materials resulted in a $270,000 cost savings this quarter.

Operating expenses of $3.6 million were $155,000 above plan, primarily the result of unfavorable variances in bad debt expense ($143,000) and B&O tax ($132,000), partially offset by favorable variances in travel & entertainment ($57,000) and professional fees ($96,000). The bad debt and tax variances are directly related to the increased revenues. The Network development pool exceeded plan, producing an unfavorable allocation variance of $1 million and resulting in total net allocated expenses which were $811,000 greater than plan. The Network development pool overrun resulted from unplanned payments to DCL for contract development.

In summary, the large favorable revenue variance was only partially offset by unfavorable variances in all expense categories, producing a burdened operating income of $27.3 million, 53% greater than the plan of $17.8 million. On a year-to-date basis, burdened operating income of $64.5 million is $21.2 million or 49% greater than the plan of $43.3 million.

Beginning next quarter, the channel anticipates revenue from two license agreements for our OEMs to supply software to the government. The first, expected to be signed in May between AT&T and Microsoft, involves supplying the FAA with Windows, Word for Windows, Excel, MS-Project, mice and several languages. The agreement will run for 3 years and has a potential value of $8 to $10 million. The second agreement, which is a part of a new master agreement with Unisys, involves supplying the Air Force with Desktop III, which will include MS-DOS, Windows 386, mice, and several applications, including Word for Windows, Powerpoint, and Excel. This agreement is in its final signature cycle at Unisys and is expected to be executed shortly. The agreement will be for 5 years with potential value of the government portion totalling approximately $20 million.

International OEM

The Q90-3 condensed burdened operating income statement for International OEM follows (in thousands):

	Actual		Plan		Variance
Net revenues	$38,357	100.0%	$33,110	100.0%	$5,247
Cost of revenues	252	0.7	462	1.4	210
Operating expenses	3,847	10.0	3,643	11.0	(204)
Allocations - Research and development	10,592	27.6	10,451	31.6	(141)
Allocations - Sales and marketing	51	0.1	109	0.3	58
Allocations - General and administrative	372	1.0	350	1.0	(22)
Burdened operating income	$23,243	60.6%	$18,095	54.7%	$5,148

The condensed YTD burdened operating income statement for International OEM through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$115,455	100.0%	$100,383	100.0%	$15,072
Cost of revenues	775	0.7	1,131	1.1	356
Operating expenses	13,292	11.5	11,400	11.4	(1,892)
Allocations - Research and development	28,142	24.4	30,946	30.9	2,804
Allocations - Sales and marketing	121	0.1	332	0.3	211
Allocations - General and administrative	1,364	1.1	1,030	1.0	(334)
Burdened operating income	$ 71,761	62.2%	$ 55,544	55.3%	$16,217

The contribution (actual and plan) to International OEM net revenues by consolidating unit for Q90-3 follows (in thousands):

	Actual		Plan		Variance
EUROPE					
MS LTD (England)	$ 1,902	5.0%	$ 2,205	6.6%	$ (303)
MS AB (Sweden)	1,112	2.9	1,062	3.2	50
MS GmbH (Germany)	4,241	11.1	2,404	7.3	1,837
MS AG (Switzerland)	5	-	-	-	5
MS SARL (France)	1,838	4.8	1,671	5.0	167
MS SRL (Spain)	(109)	(0.3)	190	0.6	(299)
MS BV (Netherlands)	66	0.2	492	1.5	(426)
MS SpA (Italy)	1,515	3.9	2,307	7.0	(792)
	10,570	27.6	10,331	31.2	239
ICON					
MS INC (Canada)	1,406	3.6	1,394	4.2	12
MS PTY (Australia)	76	0.2	152	0.5	(76)
Mexico	261	0.7	304	0.9	(43)
Brazil	296	0.8	441	1.4	(145)
AIME (Africa/India/Mid-East)	156	0.4	113	0.3	43
ASIA Pacific	197	0.5	529	1.6	(332)
	2,392	6.2	2,933	8.9	(541)
FAR EAST					
MS KK (Japan)	14,878	38.8	8,554	25.8	6,324
MS CH (Korea)	5,509	14.4	3,836	11.6	1,673
MS TC (Taiwan)	5,950	15.5	7,206	21.8	(1,256)
Redmond FE	-	-	1,500	4.5	(1,500)
	26,337	58.7	21,096	63.7	5,241
Other Redmond	-	-	(1,250)	(3.8)	1,250
Total Non-Europe	28,729	74.9	22,779	68.8	5,950
Adjustments (see page 62)	(942)	(2.5)	-	-	(942)
Total	$38,357	100.0%	$33,110	100.0%	$5,247

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International Q90-3 OEM net revenues by product group were as follows (in thousands):

	Actual		Plan		Variance
Systems	$27,558	71.9%	$31,889	96.3%	$ (4,331)
UPB	8,977	23.4	(1,351)	(4.1)	10,328
Applications	1,589	4.1	779	2.4	810
Networks	932	2.4	1,538	4.6	(606)
Xenix	172	0.4	6	-	166
Multimedia	51	0.1	-	-	51
Languages	20	0.1	59	0.2	(39)
SPAG	-	-	190	0.6	(190)
Subtotal	39,299	102.4	33,110	100.0	6,189
Adjustments	(942)	(2.4)	-	-	(942)
Total	$38,357	100.0%	$33,110	100.0%	$ 5,247

International OEM revenue, net of adjustments, was $38.4 million for the quarter, 16% over the planned $33.1 million. Adjustments of $942,000 is the net impact of $5.1 million in royalties relating to a retroactive agreement signed with NEC, and a $4.5 million GAAP adjustment, less a $10.5 million reserve related to prepaid balances. On a year-to-date basis, total revenues exceed plan by 16%.

Europe approximated plan ($10.6 million actual against a $10.3 million plan), ICON came in below plan ($2.4 million versus a plan of $2.9 million), and the Far East was substantially over plan ($26.3 million versus $21.1 million).

Significant International OEM customers, by product group, for Q90-3 were (in thousands):

	Systems	UPB	Applications	Networks	Other*	Total Actual		Total Plan	
Fujitsu Ltd	$ -	$ 3,219	$ -	$ -	$ 31	$ 3,250	8.3%	$ 707	2.1%
Toshiba Corp.	2,781	-	-	2	15	2,798	7.1	1,242	3.8
NEC Corp.	419	2,173	-	-	-	2,592	6.6	1,665	5.0
Epson	2,146	296	60	-	-	2,502	6.4	1,544	4.7
Acer	1,498	160	-	-	-	1,658	4.2	2,343	7.1
Sanyo Electric	118	1,248	-	-	2	1,368	3.5	1,538	4.6
Gold Star	526	827	-	-	-	1,353	3.4	800	2.4
Bull S.A.	912	291	-	97	-	1,300	3.3	700	2.1
Samsung Electric	1,132	76	-	-	-	1,208	3.1	1,250	3.8
Schneider Rundfunk.	901	(193)	483	-	-	1,191	3.0	1,191	3.6
Mitac Int'l	385	680	-	-	-	1,065	2.7	1,127	3.4
Tatung	1,100	(100)	-	-	-	1,000	2.5	1,360	4.1
Olivetti	1,564	(597)	-	26	1	994	2.5	1,991	6.0
Hyundai Electric	-	925	-	-	-	925	2.4	650	2.0
Mitsubishi Electric	774	115	21	-	-	910	2.3	793	2.4
Siemens AG	13	267	395	64	139	878	2.2	623	1.9
Nokia Data Systems	798	(341)	-	321	-	778	2.0	776	2.3
Philips Elec.	1,302	(595)	-	-	-	707	1.8	1,166	3.5
Daewoo Telecom.	512	143	-	-	-	655	1.7	400	1.2
Amstrad PLC	309	325	-	-	-	634	1.6	553	1.7
Twinhead Int'l	162	443	-	-	-	605	1.5	**	-
Daewoo Elec.	328	261	-	-	-	589	1.5	**	-
Copam Elec.	477	88	-	-	-	565	1.4	406	1.2
Apricot	370	171	-	22	-	563	1.4	557	1.7
Other Customers	9,031	(905)	630	400	55	9,211	23.6	9,728	29.4
Total	$27,558	$8,977	$1,589	$932	$243	$39,299	100.0%	$33,110	100.0%

* Product groups not listed.
** Customer not individually forecasted.

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• Fujitsu - Became the top customer for the quarter due to a $3.2 million minimum commitment related to an unbudgeted license.
• Toshiba - Reported $2.8 million in royalties against a budget of $1.2 million, reflecting consistently ramping MS-DOS sales. For the first time, Toshiba's sales mix shifted from primarily MS-DOS 3.XX to MS-DOS 4.XX with Shell, resulting in a somewhat higher effective royalty rate.
• NEC - Of $2.6 million in revenue, $2.4 million relates to a due on signing payment for a new retroactive agreement. NEC reported an additional $5.1 million in royalties related to this license agreement which was included in the "adjustments" line. This amount will be transferred to product-specific revenue upon receipt of additional information from the customer.
• Epson's - Favorable $960,000 variance reflects a $1 million due on signing for an unbudgeted GW-BASIC; MS-DOS ROM license.
• Acer - Lack of a planned LAN Manager license agreement led to a $246,000 shortfall in Acer's networks revenue, adding to an unfavorable variance resulting from lower than anticipated machine sales.
• Sanyo - Of its $1.4 million revenue, $1.2 million relates to a minimum commitment for MS-DOS and OS/2. Sanyo's royalty report was late this quarter, causing the revenues to remain as UPB rather than product specific.
• Gold Star's - Favorable variance of $550,000 results from a minimum commitment greater than plan ($1.1 million versus $800,000) and unbudgeted revenues from a printer language license.
• Bull S.A. - An agreement which shifted one-half of Bull S.A.'s Q90-2 minimum commitment to Q90-3 accounts for $500,000 of its $600,000 variance. The remainder pertains to above-plan systems sales.
• Tatung - Filed a late royalty report, causing two quarters of royalties to be posted to Q90-3.
• Olivetti - Delay in processing one month's reported royalties pending a new agreement caused Olivetti's shortfall.
• Other Items - Adjustments relating to new agreements or amendments that cancelled or reduced minimum commitments created unfavorable variances from Bondwell ($256,000), Normerel ($350,000), and Philips ($540,000). Philips was additionally impacted by lack of sales of LAN Manager and SQL Server, against a $240,000 budget for networks products.

Unspecified Product Billing of $9 million reflects due on signing and minimum commitment billings in excess of the amounts reclassified to product-specific revenue as royalty reports were received. Significant due on signing amounts related to new agreements for the quarter included NEC ($2.4 million - MS-DOS; OS/2), Epson ($1 million - GW BASIC; MS-DOS ROM), CTM Computer ($480,000 - OS/2; MS-DOS), Mitac ($469,000 - MS-DOS; Shell; Windows), and Rein Elektronik ($208,500 - MS-DOS; Shell; OS/2).

When UPB is greater than reported royalties on an agreement, the excess represents prepaid royalties against which the customer may recoup future royalties. Thus, to the extent of the prepaid balance exists under an agreement, future royalties reported by the customer will not result in additional revenue being recognized by Microsoft. This "prepaid" balance does not represent a liability to Microsoft, however, since once product has been delivered to and accepted by the customer, Microsoft has fulfilled its obligations under the agreement. At the end of Q90-3, total prepaid balance for International OEM customers was approximately $105 million. This quarter, $10.5 million was booked as a reserve for potential future contractual concessions related to prepaid balances.

The GAAP adjustment is an accrual for royalties earned during the quarter, but not yet reported, net of deferred revenue related to billings prior to acceptance of product by the customer. This quarter's adjustment of $4.5 million is the net effect of an overall lower accrual for earned but unreported royalties in Q90-3 than was accrued at the end of Q90-2 (accounting for -$1 million), combined with a decrease in deferred revenue related to billings prior to product acceptance (accounting for $5.5 million).

The following table summarizes the GAAP adjustment, the NEC accrual, and the UPB reserve discussed above, which are included in the adjustments line in net revenues by consolidating unit on page 59 (in thousands):

	Q90-3
GAAP adjustment:	
Change in earned but unreported royalties	$(1,000)
Deferred revenues	5,500
GAAP adjustment - net	4,500
NEC accrual	5,058
UPB reserve	(10,500)
Adjustments - net	$(942)

Cost of revenues of $252,000 is 45% below the budgeted $462,000. This favorable variance resulted from a lower level of OS/2 revenue ($712,000 versus $3.3 million planned), which led to decreased royalty expense ($301,000). This was partially offset by unbudgeted expenses relating to the sale of camera-ready artwork ($25,000) and by Xenix-related royalty expense that was greater than planned ($78,000).

Total operating expenses of $3.8 million approximated plan. The most significant overrun was $240,000 in B&O tax which resulted from increased revenues. Allocated expenses were $105,000 over plan. This was primarily the net effect of an unfavorable variance in the networks development pool ($455,000), partially offset by favorable variances from Localization ($119,000) and Systems development ($101,000). The Network development pool overrun resulted from unplanned payments to DCL for contract development.

In summary, burdened operating income of $23.2 million (61% of net revenues) against a plan of $18.1 million (55% of net revenues) resulted in a favorable $5.1 million variance. On a year-to-date basis, burdened operating income stands at $71.8 million, or 129% of the planned $55.5 million. This positive variance results from an increase in revenue without a corresponding increase in costs and expenses.

Microsoft Corporation
Channel Reporting Q90-3
Detail of "Other" Channels
(In thousands)

	Press	US PSS	Intl PSS	US MSU	Intl MSU	MSJ	Consulting	Total
Actual								
Net revenues	$3,085	$638	$980	$1,467	($4)	$474	$33	$6,673
Cost of revenues	1,555	212	105	222	15	230	0	2,339
Operating expenses	881	206	608	1,248	170	211	111	3,435
Allocated expenses	942	1,210	278	111	0	159	41	2,741
Operating income	($293)	($990)	($11)	($114)	($189)	($126)	($119)	($1,842)
Net revenues	100.0%	100.0%	100.0%	100.0%	0.0%	100.0%	100.0%	100.0%
Cost of revenues	50.4%	33.2%	10.7%	15.1%	0.0%	48.5%	0.0%	35.1%
Operating expenses	28.6%	32.3%	62.0%	85.1%	0.0%	44.5%	336.4%	51.5%
Allocated expenses	30.5%	189.7%	28.4%	7.6%	0.0%	33.5%	124.2%	41.1%
Operating income	-9.5%	-155.2%	-1.1%	-7.8%	0.0%	-26.6%	-360.6%	-27.6%
Plan								
Net revenues	$4,804	$583	$469	$1,733	$278	$443	$243	$8,553
Cost of revenues	2,235	186	493	294	15	202	0	3,425
Operating expenses	912	320	70	1,205	121	224	673	3,525
Allocated expenses	943	1,086	247	113	0	150	41	2,580
Operating income	$714	($1,009)	($341)	$121	$142	($133)	($471)	($977)
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	46.5%	31.9%	105.1%	17.0%	5.4%	45.6%	0.0%	40.0%
Operating expenses	19.0%	54.9%	14.9%	69.5%	43.5%	50.6%	277.0%	41.2%
Allocated expenses	19.6%	186.3%	52.7%	6.5%	0.0%	33.9%	16.9%	30.2%
Operating income	14.9%	-173.1%	-72.7%	7.0%	51.1%	-30.0%	-193.8%	-11.4%
Variance								
Net revenues	($1,719)	$55	$511	($266)	($282)	$31	($210)	($1,880)
Cost of revenues	680	(26)	388	72	0	(28)	0	1,086
Operating expenses	31	114	(538)	(43)	(49)	13	562	90
Allocated expenses	1	(124)	(31)	2	0	(9)	0	(161)
Operating income	($1,007)	$19	$330	($235)	($331)	$7	$352	($865)

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Microsoft Corporation
Channel Reporting FY90 YTD
Detail of "Other" Channels
(in thousands)

	Press	US PSS	Intl PSS	US MSU	Intl MSU	MSJ	Consulting	Total
Actual								
Net revenues	$10,092	$1,495	$1,275	$3,899	($4)	$1,095	$43	$17,895
Cost of revenues	4,892	568	211	567	15	468	0	6,721
Operating expenses	2,167	687	1,453	3,131	242	423	120	8,223
Allocated expenses	2,603	3,077	695	323	0	481	116	7,295
Operating income	$430	($2,837)	($1,084)	($122)	($261)	($277)	($193)	($4,344)
Net revenues	100.0%	100.0%	100.0%	100.0%	0.0%	100.0%	100.0%	100.0%
Cost of revenues	48.5%	38.0%	16.5%	14.5%	0.0%	42.7%	0.0%	37.6%
Operating expenses	21.5%	46.0%	114.0%	80.3%	0.0%	38.6%	279.1%	46.0%
Allocated expenses	25.8%	205.8%	54.5%	8.3%	0.0%	43.9%	269.8%	40.8%
Operating income	4.3%	-189.8%	-85.0%	-3.1%	0.0%	-25.3%	-448.8%	-24.3%
Plan								
Net revenues	$11,808	$1,412	$1,216	$4,670	$535	$1,106	$363	$21,110
Cost of revenues	5,460	539	1,289	793	15	449	0	8,545
Operating expenses	2,514	1,011	193	3,359	308	555	1,173	9,113
Allocated expenses	2,727	3,126	714	334	0	443	121	7,465
Operating income	$1,107	($3,264)	($980)	$184	$212	($341)	($931)	($4,013)
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	46.2%	38.2%	106.0%	17.0%	2.8%	40.6%	0.0%	40.5%
Operating expenses	21.3%	71.6%	15.9%	71.9%	57.6%	50.2%	323.1%	43.2%
Allocated expenses	23.1%	221.4%	58.7%	7.2%	0.0%	40.1%	33.3%	35.4%
Operating income	9.4%	-231.2%	-80.6%	3.9%	39.6%	-30.8%	-256.5%	-19.0%
Variance								
Net revenues	($1,716)	$83	$59	($771)	($539)	($11)	($320)	($3,215)
Cost of revenues	568	(29)	1,078	226	0	(19)	0	1,824
Operating expenses	347	324	(1,260)	228	66	132	1,053	890
Allocated expenses	124	49	19	11	0	(38)	5	170
Operating income	($677)	$427	($104)	($306)	($473)	$64	$738	($331)

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The contribution to net revenues and operating income for Q90-3 on a product group basis was as follows (amounts in thousands):

Net Revenues	Actual		Plan		Variance Percentage
Applications	$158,145	50.9%	$129,128	47.5%	22
Systems	87,386	28.1	81,520	30.0	7
SPAG	33,236	10.7	28,615	10.5	16
Languages	11,454	3.7	15,278	5.6	(25)
Networks	11,222	3.6	5,634	2.1	99
Other	9,439	3.0	11,485	4.3	(18)
Total	$310,882	100.0%	$271,660	100.0%	14

Operating Income (Loss)	Actual			Plan			
	Income (Loss)	Percentage Total	Percentage Revenue	Income (Loss)	Percentage Total	Percentage Revenue	Variance
Applications	$48,644	45.7	30.8	$21,372	31.6	16.6	$27,272
Systems	48,729	45.8	55.8	42,049	62.2	51.6	6,680
SPAG	9,920	9.3	29.8	6,317	9.3	22.1	3,603
Languages	(300)	(0.3)	(2.6)	1,618	2.4	10.6	(1,918)
Networks	2,799	2.7	24.9	(1,556)	(2.3)	(27.6)	4,355
Other	(3,412)	(3.2)	(36.1)	(2,157)	(3.2)	(18.8)	(1,255)
Total	$106,380	100.0	34.2	$67,643	100.0	24.9	$38,737

The contribution to net revenues and operating income for FY90 YTD on a product group basis was as follows (amounts in thousands):

Net Revenues	Actual		Plan		Variance Percentage
Applications	$417,764	49.4%	$356,992	47.6%	17
Systems	241,954	28.6	218,507	29.2	11
SPAG	94,239	11.1	83,302	11.1	13
Languages	37,518	4.4	43,871	5.9	(14)
Networks	28,882	3.4	18,220	2.4	59
Other	26,117	3.1	28,700	3.8	(9)
Total	$846,474	100.0%	$749,592	100.0%	13

Operating Income (Loss)	Actual			Plan			
	Income (Loss)	Percentage Total	Percentage Revenue	Income (Loss)	Percentage Total	Percentage Revenue	Variance
Applications	$118,581	41.9	28.4	$ 47,482	28.5	13.3	$71,099
Systems	135,186	47.8	55.4	107,057	64.2	49.0	28,129
SPAG	27,111	9.6	28.8	18,508	11.1	22.2	8,603
Languages	2,195	0.8	5.9	4,148	2.5	9.5	(1,953)
Networks	7,598	2.7	26.3	(2,719)	(1.6)	(14.9)	10,317
Other	(7,921)	(2.8)	(30.3)	(7,731)	(4.7)	(26.9)	(190)
Total	$282,750	100.0	33.4	$116,745	100.0	22.2	$116,005

Microsoft Corporation
Quarterly Revenues by Product Group
(In thousands)

	Q90-1 $	Q90-1 %	Q90-2 $	Q90-2 %	Q90-3 $	Q90-3 %	Q90-4 $	Q90-4 %	FY 1990 $	FY 1990 %
Applications	106,425	45.3	153,194	51.0	158,145	50.9			417,764	49.4
Systems	75,232	32.0	79,336	26.4	87,386	28.1			241,954	28.6
SPAG	25,297	10.8	35,706	11.9	33,236	10.7			94,239	11.1
Languages	12,973	5.5	13,091	4.4	11,454	3.7			37,518	4.4
Network	7,650	3.3	10,010	3.3	11,222	3.6			28,882	3.4
Other	7,584	3.2	9,094	3.0	9,439	3.0			26,117	3.1
	235,161	100.0	300,431	100.0	310,882	100.0	0	0.0	846,474	100.0

	Q89-1 $	Q89-1 %	Q89-2 $	Q89-2 %	Q89-3 $	Q89-3 %	Q89-4 $	Q89-4 %	FY 1989 $	FY 1989 %
Applications	72,054	40.8	86,247	41.1	77,283	39.2	105,306	47.8	340,890	42.4
Systems	58,965	33.4	70,858	33.8	73,576	37.3	75,914	34.5	279,313	34.8
SPAG	20,451	11.6	30,082	14.3	22,011	11.2	18,981	8.6	91,525	11.4
Languages	16,043	9.1	13,642	6.5	10,090	5.1	8,727	4.0	48,502	6.0
Network	1,103	0.6	1,570	0.7	3,550	1.8	3,404	1.5	9,627	1.2
Other	7,777	4.4	7,483	3.6	10,514	5.3	7,899	3.6	33,673	4.2
	176,393	100.0	209,882	100.0	197,024	100.0	220,231	100.0	803,530	100.0

	Q88-1 $	Q88-1 %	Q88-2 $	Q88-2 %	Q88-3 $	Q88-3 %	Q88-4 $	Q88-4 %	FY 1988 $	FY 1988 %
Applications	40,312	39.3	61,362	39.4	63,429	39.2	71,187	41.8	236,290	40.0
Systems	37,272	36.3	55,982	35.9	55,793	34.5	56,337	33.0	205,384	34.8
SPAG	9,675	9.4	15,735	10.1	19,226	11.9	19,652	11.5	64,288	10.9
Languages	9,641	9.4	17,569	11.3	15,392	9.5	15,322	9.0	57,924	9.8
Network	348	0.3	480	0.3	717	0.4	746	0.4	2,291	0.4
Other	5,388	5.2	4,768	3.1	7,266	4.5	7,228	4.2	24,650	4.2
	102,636	100.0	155,896	100.0	161,823	100.0	170,472	100.0	590,827	100.0

	Q87-1 $	Q87-1 %	Q87-2 $	Q87-2 %	Q87-3 $	Q87-3 %	Q87-4 $	Q87-4 %	FY 1987 $	FY 1987 %
Applications	22,373	33.5	33,968	41.9	36,649	37.3	37,319	37.4	130,309	37.7
Systems	26,616	39.9	24,706	30.5	33,652	34.2	36,359	36.4	121,333	35.1
SPAG	5,475	8.2	9,207	11.4	11,154	11.3	11,078	11.1	36,914	10.7
Languages	10,600	15.9	11,093	13.7	14,056	14.3	12,740	12.8	48,489	14.0
Other	1,716	2.6	2,011	2.5	2,852	2.9	2,266	2.3	8,845	2.6
	66,780	100.0	80,985	100.0	98,363	100.0	99,762	100.0	345,890	100.0

Applications

The Q90-3 condensed burdened operating income statement for Applications follows (in thousands):

	Actual		Plan		Variance
Net revenues	$158,145	100.0%	$129,128	100.0%	$29,017
Cost of revenues	35,489	22.4	32,978	25.5	(2,511)
Operating expenses	34,190	21.6	35,231	27.3	1,041
Allocations - Research and development	3,285	2.1	3,556	2.8	271
Allocations - Sales and marketing	34,535	21.8	33,978	26.3	(557)
Allocations - General and administrative	2,002	1.3	2,013	1.5	11
Burdened operating income	$48,644	30.8%	$21,372	16.6%	$27,272

The condensed YTD burdened operating income statement for Applications through Q90-3 follows (in thousands)

	Actual		Plan		Variance
Net revenues	$417,765	100.0%	$356,993	100.0%	$60,772
Cost of revenues	95,253	22.8	92,983	26.0	(2,270)
Operating expenses	97,319	23.3	102,203	28.6	4,884
Allocations - Research and development	9,098	2.2	10,646	3.0	1,548
Allocations - Sales and marketing	91,672	21.9	97,710	27.4	6,038
Allocations - General and administrative	5,842	1.4	5,970	1.7	128
Burdened operating income	$118,581	28.4%	$47,481	13.3%	$71,100

Applications net revenues by channel for the quarter were as follows (in thousands):

	Actual		Plan		Variance
International Retail	$101,663	64.3%	$ 75,817	58.7%	$25,846
USSMD	56,586	35.8	56,038	43.4	548
Domestic OEM	2,456	1.6	1,058	0.8	1,398
International OEM	1,589	1.0	779	0.6	810
Adjustments	(4,149)	(2.7)	(4,564)	(3.5)	415
Net revenues	$158,145	100.0%	$129,128	100.0%	$29,017

Applications net revenues by business unit for the quarter were as follows (in thousands):

	USSMD		International Retail		Worldwide OEM		Total Q90-3	
Office	$26,704	16.5%	$52,615	32.4%	$ 588	0.4%	$ 79,907	49.3%
Analysis	14,426	8.9	33,638	20.7	690	0.4	48,754	30.0
Entry	10,599	6.5	12,105	7.5	2,192	1.3	24,896	15.3
Data Access	3,665	2.3	2,769	1.7	575	0.4	7,009	4.4
Graphics	1,192	0.7	536	0.3	–	0.0	1,728	1.0
	$56,586	34.9%	$101,663	62.6%	$4,045	2.5%	162,294	100.0%
Adjustments							(4,149)	
Net revenues							$158,145	

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Net revenues for Q90-3, at $158.1 million, were 22% above plan of $129.1 million. In terms of revenue generation, the product group's leading products (compared with plan) for the quarter were as follows (dollars in thousands):

Actual	Plan		Actual Units	Actual Revenue	Plan Units	Plan Revenue	Variance
1	1	PC Word	139,679	$ 37,286	99,790	$ 24,795	$12,491
2	2	Win Excel	79,822	22,809	88,480	24,145	(1,336)
3	3	Mac Word	74,874	14,501	69,056	13,706	795
4	5	Win Word	51,098	12,503	42,979	9,432	3,071
5	4	Mac Excel	53,657	12,322	57,836	12,759	(437)
6	6	PC Works	250,666	11,339	139,440	9,378	1,961
7	-	Win Word Upgrade	38,221	5,382	4,962	500	4,882
8	8	PC Multiplan	62,865	4,681	27,466	3,798	883
9	7	Mac Works	28,295	3,901	31,922	4,971	(1,070)
10	~	Pro BASIC	12,188	3,271	7,419	1,944	1,327
				$127,995		$105,428	$22,567
Percentage of Applications' net revenues				81%		82%	

Plan #9 Mac PowerPoint ($3,590), plan #10 Win PowerPoint ($3,471)

Once again, PC Word held the number one position, with revenues of $37.3 million, an impressive 50% above plan of $24.8 million. Win Excel remained the number two application, with revenues of $22.8 million, although 6% below plan of $24.1 million. Mac Word revenue of $14.5 million surpassed plan by 6%. Win Word, with revenues of $12.5 million, was 33% above plan of $9.4 million. Mac Excel revenues of $12.3 million were slightly below plan of $12.8 million. Win Word Upgrade rounded out the strong word processing category, with revenues of $5.3 million far exceeding plan of $500,000.

For the third straight quarter the percentage of the Applications revenue generated by PC Apps increased. This reflects the introduction of new Windows Apps as well as the growth of the International Business, which is predominantly PC oriented. International Retail generated 63% of Applications' revenue compared to plan of 59%. The following table shows PC Applications versus Mac Applications by channel for Q90-3 (in thousands):

	USSMD		International Retail		Worldwide OEM		Total Q90-3		Plan
PC Apps	$33,818	20.9%	$ 82,055	50.5%	$3,997	2.5%	$119,870	73.9%	71.0%
Mac Apps	22,777	14.0	19,294	11.9	14	0.0	42,085	25.9	28.2
Other	(9)	0.0	314	0.2	34	0.0	339	0.2	0.8
	$56,586	34.9%	$101,663	62.6%	$4,045	2.5%	162,294	100.0%	100.0%
Adjustments							(4,149)		
Net revenue							$158,145		

As a percentage of net revenues, cost of revenues was 22.4% compared to a budget of 25.5%. Product costs were 15.7% of net revenues, versus plan of 17.2%. USSMD's product cost percentage was 14.2% compared to budget of 15.1%, while International Retail's product cost percentage was 16.5% compared to a budgeted percentage of 18.1%. USSMD's product cost percentage was affected by the lower than budgeted product costs of Mac Excel, Win Excel, PC Word, and Win Word. International Retail's favorable product cost percentage for Applications is largely due to a shift in individual product mix towards higher margin PC Word. As a percentage of net revenues, non-product costs were 6.7% ($10.6 million), compared to budget of 8.3% ($10.7 million). The variance is primarily due to lower than planned royalty expense, specifically for Mac Works, due to the purchase of technology from PSI, and for PC Flight Simulator products, due to lowered than planned sales.

Operating expenses of $34.2 million, 21.6% of net revenues, were $1.0 million below budget of $35.2 million, 27.3% of net revenues. Favorable variances in marketing ($1.5 million), building and grounds distribution ($387,000), and payroll ($348,000) were partially offset by an accrual for marketing expenses ($960,000), an unfavorable variance in bad debt expense ($264,000) and less significant variances in several other operating expense categories.

Actual Applications marketing of $13.5 million was $1.5 million under plan of $15.0 million. The subsidiaries and domestic marketing contributed equally to this variance, underspending by $752,000 and $732,000 respectively. The domestic marketing variance was spread across a number of product and corporate marketing plans, with Brand Statement advertising, Mac and PC Line advertising, Win PowerPoint, PC Word and Omega representing the largest variances. The marketing variance represents timing differences which can be expected to turn around. Furthermore, actual marketing commitments have been made for which we have not been billed. In order to minimize the impact of the turnaround in Q90-4, a marketing expense accrual of $960,000 was made. The accrual reduced the net marketing variance to $547,000. The favorable variance in building and grounds distribution is primarily due to a delay in completion of building ten. The budget assumed completion in March, while actual completion is currently scheduled for early May. The favorable variance in payroll is the result of headcount ramping up at a slower than anticipated rate. Applications headcount has been below budget for each month, and the product group ended the quarter with 718 employees versus plan of 748. The unfavorable variance in bad debt expense reflects higher sales and increases in the bad debt allowance rate at several International subsidiaries.

Allocations to Applications were $39.8 million compared to a plan of $39.5 million. As a percentage of net revenues, actual allocations were 25.2% versus budget of 30.6%. An unfavorable allocation from International Retail ($577,000) was partially offset by a favorable allocation from International R&D ($271,000).

The Q90-3 burdened operating income for Applications was $48.6 million, 30.8% of net revenues, compared to a plan of $21.4 million, 16.6% of net revenues. Strong International Retail revenues, a lower than planned cost of revenues percentage, and an underspending in operating expenses produced a burdened operating income which was more than double plan.

Systems

The Q90-3 condensed burdened operating income statement for Systems follows (in thousands):

	Actual		Plan		Variance
Net revenues	$87,386	100.0%	$81,520	100.0%	$5,866
Cost of revenues	9,154	10.5	9,415	11.5	261
Operating expenses	17,769	20.3	18,865	23.1	1,096
Allocations - Research and development	1,377	1.6	1,456	1.8	79
Allocations - Sales and marketing	9,345	10.7	8,732	10.6	(613)
Allocations - General and administrative	1,012	1.1	1,003	1.4	(9)
Burdened operating income	$48,729	55.8%	$42,049	51.6%	$6,680

The condensed YTD burdened operating income statement for Systems through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$241,955	100.0%	$218,507	100.0%	$23,448
Cost of revenues	23,438	9.6	23,550	10.8	112
Operating expenses	48,814	20.2	54,536	24.9	5,722
Allocations - Research and development	3,841	1.6	4,395	2.0	554
Allocations - Sales and marketing	27,548	11.4	26,001	11.9	(1,547)
Allocations - General and administrative	3,128	1.3	2,967	1.4	(161)
Burdened operating income	$135,186	55.9%	$107,058	49.0%	$28,128

Systems net revenues by channel for Q90-3 were as follows (in thousands):

	Actual		Plan		Variance
International OEM	$27,559	31.6%	$31,889	39.1%	$ (4,330)
Domestic OEM	26,423	30.2	24,128	29.6	2,295
International Retail	18,638	21.3	14,569	17.9	4,069
USSMD	4,650	5.3	10,594	13.0	(5,944)
Subtotal	77,270	88.4	81,180	99.6	(3,910)
Adjustments	10,116	11.6	340	0.4	9,776
Total	$87,386	100.0%	$81,520	100.0%	$5,866

In terms of revenue generation, the Systems product group's leading products (compared with plan) for the quarter were as follows (revenue in thousands):

Actual	Plan		Actual Units	Actual Revenue	Plan Units	Plan Revenue
1	1	MS-DOS/GW-Basic	3,964,559	$55,496	3,729,526	$52,361
2	2	Windows 286	468,982	7,881	651,755	11,474
3	3	Windows 386	132,776	7,923	119,444	7,193
4	4	OS/2	55,782	3,765	116,331	6,057
				$75,065		$77,085
Percent of net revenues*				86%		95%

*Remainder of net revenue results from software development kits, updates and UPB allocation.

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Table of Q90-3 significant International OEM Systems customers, by product (in thousands):

	MS-DOS		Windows 286/386		OS/2		Printer Systems		Total	
Toshiba Corp.	$ 2,781	11.2%	$ –	–%	$ –	–%	$ –	–%	$ 2,781	10.1%
Epson Corp.	2,138	8.6	–	–	7	1.0	–	–	2,145	7.8
Olivetti	978	4.0	556	29.8	29	4.1	–	–	1,563	5.7
Acer Inc.	1,417	5.7	61	3.3	19	2.7	–	–	1,497	5.4
Philips Elec.	1,302	5.3	–	–	–	–	–	–	1,302	4.7
Samsung Elec.	1,132	4.6	–	–	–	–	–	–	1,132	4.1
Tatung	1,100	4.4	–	–	–	–	–	–	1,100	4.0
Bull S.A.	671	2.7	–	–	241	33.8	–	–	912	3.3
Schneider	892	3.6	9	0.5	–	–	–	–	901	3.3
Datronic AB	579	2.3	253	13.6	4	0.6	–	–	836	3.0
Nokia Data Systems	484	2.0	171	9.2	143	20.1	–	–	798	2.9
Mitsubishi Elec.	657	2.7	118	6.3	–	–	–	–	775	2.8
Datatech Enter.	571	2.3	–	–	–	–	–	–	571	2.1
Sharp Elec.	518	2.1	10	0.5	–	–	–	–	528	1.9
Nixdorf	488	2.0	7	0.4	32	4.5	–	–	527	1.9
Gold Star	256	1.0	–	–	–	–	270	101.5	526	1.9
Daewoo Telecom	512	2.1	–	–	–	–	–	–	512	1.9
Copam Elec.	426	1.7	51	2.7	–	–	–	–	477	1.7
SMT Goupil	437	1.8	–	–	5	0.7	–	–	442	1.6
NEC Corp	384	1.6	13	0.7	21	2.9	–	–	418	1.5
Other Customers	6,993	28.3	616	33.0	211	29.6	(4)	(1.5)	7,816	28.4
Total	$24,716	100.0%	$1,865	100.0%	$ 712	100.0%	$ 266	100.0%	$27,559	100.0%
Plan	$24,843		$2,263		$3,283		$1,500		$31,889	

Table of Q90-3 significant Domestic OEM Systems customers, by product (in thousands):

	MS-DOS		Windows 286/386		OS/2		Printer Systems		Total	
Compaq	$ 3,526	16.4%	$ 2	0.1%	$ 217	10.4%	$ –	–%	$ 3,745	14.2%
Tandy	1,697	7.9	–	–	5	0.2	–	–	1,702	6.4
Zenith	1,196	5.6	447	17.5	16	0.8	–	–	1,659	6.3
AST Research	1,178	5.5	–	–	54	2.6	–	–	1,232	4.7
American Tel. & Tel.	784	3.6	298*	11.6	19	0.9	–	–	1,101	4.2
Tandon	555	2.6	451	17.6	4	0.2	1	0.3	1,011	3.8
NCR	854	4.0	4*	0.2	109	5.3	–	–	967	3.7
Phoenix	898	4.2	11	0.4	–	–	1	0.3	910	3.4
Unisys	78	0.4	649	25.4	134	6.4	2	0.7	863	3.3
Hewlett Packard	514	2.4	171*	6.7	147	7.0		–	832	3.1
Zeos	664*	3.1	–	–	–	–	1	0.3	665	2.5
Distec Business	625*	2.9	–	–	–	–	–	–	625	2.4
Dell	511	2.4	–	–	85	4.1	2	0.7	598	2.3
Everex	515	2.4	–	–	60	2.9	–	–	575	2.2
IBM	–	–	3	0.1	526	25.3	–	–	529	2.0
Wyse	490	2.2	–	–	3*	0.1	–	–	493	1.9
Digital Equipment	237	1.1	228	8.9	25*	1.2	–	–	490	1.9
Other Customers	7,183	33.3	274	11.5	679	32.6	290	97.7	8,426	31.7
Total	$21,505	100.0%	$2,538	100.0%	$2,083	100.0%	$297	100.0%	$26,423	100.0%
Licensing	$16,717	77.7%	$2,061	81.2%	$1,350	64.8%	$297	100.0%	$20,425	77.3%
Packaged Product	4,788	22.3	477	18.8	733	35.2	--	–	5,998	22.7
Total	$21,505	100.0%	$2,538	100.0%	$2,083	100.0%	$297	100.0%	$26,423	100.0%
Plan	$19,357		$2,191		$2,080		$500		$24,128	

*Primarily packaged product.

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Q90-3 Systems net revenues were $87.4 million, or 7% over the plan of $81.5 million. Favorable variances in International Retail and Domestic OEM, combined with a net positive revenue adjustment outweighed the negative variances for USSMD and International OEM. On a year-to-date basis, net revenues exceed plan by $23 million, or 11%.

A significant factor in the favorable revenue variance is the allocation of various non-specific items which appears in the revenue "adjustments" line item. The adjustments figure of $10.1 million consists of positive allocations from worldwide OEM of $10.6 million, paritally offset by negative allocations from worldwide retail of $492,000 (attributable to sales returns and rebate accruals). The allocation from worldwide OEM is based on the items shown in the following table (in thousands):

	Domestic OEM	International OEM	Total
GAAP adjustment:			
Change in earned but unreported royalties	$ 1,000	$ (1,000)	$ --
Deferred revenues	--	5,500	5,500
GAAP adjustment - net	1,000	4,500	5,500
Unspecified Product Billing (UPB)	8,646	8,977	17,623
NEC accrual	-	5,058	5,058
UPB reserve	--	(10,500)	(10,500)
Adjustments - net	$9,646	$ 8,035	$17,681
Allocated to Systems (60%)			$10,608
Allocated to Networks (40%)			7,072
			$17,681

The GAAP adjustment is an accrual for royalties earned during the quarter but not yet reported, net of deferred revenue relating to billings prior to acceptance of product by the customer. UPB results from minimum commitments in excess of reported royalties from OEM license agreements, most of which pertain to Systems products. The non-recurring NEC accrual resulted from receipt of a royalty report after the end of the month. Ordinarily such amounts are included in gross revenues. The UPB reserve was established to provide for potential future contractual concessions related to prepaid customer balances.

The unfavorable variance in the International OEM channel for Q90-3 was attributable to sales below plan in all business units. Slow OS/2 sales ($685,000 against a plan of $3.3 million) accounted for $2.6 million, or 60% of the $4.3 million negative variance. This shortfall resulted from slow sales for virtually all OEMs. MS-DOS was right at plan with revenue of $24.7 million. $1.2 million, or 28% of the total variance, related to the Printer Systems unit, the consequence of slow sales coupled with an aggressive budget ($265,000 actual versus $1.5 million budgeted).

The Domestic OEM channel came in $2.3 million over plan, owing to positive business unit variances from MS-DOS ($20.5 million versus $19.4 million planned) and Windows ($2.6 million versus $2.2 planned). OS/2 sales of $2.1 million were as budgeted. Sales of packaged MS-DOS (92,000 units versus 37,000 planned) and packaged Windows (13,000 units versus 2,800 planned) contributed significantly to the channel's results. Compaq, AST, and American Telephone & Telegraph all had strong sales of MS-DOS, although Compaq's favorable variance is the result of out-of-period reporting of MS-Shell ($340,000). Zenith and Phoenix came in under plan due to lower sales of MS-DOS.

International Retail reported revenues $4.1 million over plan, of which $3 million pertains to sales of MS-DOS. This positive variance was offset by a $5.9 million negative variance for USSMD, related to below plan sales of MS-DOS retail upgrade ($2 million) and Windows 3.0 ($4 million). Both products were budgeted in the quarter, but their release has been delayed.

In terms of dollars, cost of revenues was essentially at budget. In terms of percentage of net revenues (10.5% compared to 11.5%), the decrease in cost of revenues is due to the favorable impact of the revenue adjustments which are not "cost bearing."

Consistent with prior quarters, the Systems product group incurred lower than planned operating expenses ($17.8 million against a plan of $18.9 million) primarily because of favorable variances in payroll expenses ($670,000), marketing related expenses ($368,000), travel and entertainment ($136,000), legal fees ($145,000), bad debt expense ($124,000) and B&O tax ($93,000). The latter two of which are the direct result of lower gross revenues. Supplies and equipment and depreciation/amortization incurred the most significant unfavorable variances ($204,000 and $191,000, respectively). The sales and marketing allocation was greater than plan due primarily to a higher amount of non-product group specific costs incurred by the International OEM channel.

In summary, favorable variances in revenues, cost of revenues, and operating expenses, offset only partly by unfavorable allocation variances, resulted in a burdened operating income of $48.7 million, or 16% over the plan of $42 million. On a year-to-date basis, burdened operating income is $135.2 million, or 26% above the planned $107.1 million.

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Systems, Peripherals and Accessories Group (SPAG)

The Q90-3 condensed burdened operating income statement for SPAG follows (in thousands):

	Actual		Plan		Variance
Net revenues	$33,236	100.0%	$28,615	100.0%	$4,620
Cost of revenues	14,254	42.9	13,237	46.3	(1,017)
Operating expenses	2,557	7.7	2,647	9.2	90
Allocations - Research and development	214	0.7	219	0.8	5
Allocations - Sales and marketing	6,069	18.3	5,973	20.8	(97)
Allocations - General and administrative	222	0.6	221	0.8	1
Burdened operating income	$ 9,920	29.8%	$ 6,318	22.1%	$3,602

The condensed YTD burdened operating income statement for SPAG through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$94,239	100.0%	$83,302	100.0%	$10,936
Cost of revenues	42,185	44.8	38,285	46.0	(3,900)
Operating expenses	7,527	8.0	7,969	9.6	442
Allocations - Research and development	646	0.7	713	0.9	66
Allocations - Sales and marketing	16,102	17.3	17,169	20.7	1,068
Allocations - General and administrative	669	0.4	658	0.6	(10)
Burdened operating income	$27,110	28.8%	$18,508	22.2%	$ 8,602

SPAG net revenues by channel for the quarter were as follows (in thousands):

	Actual		Plan		Variance
International Retail	$17,332	52.1%	$15,853	55.4%	$1,479
USSMD	16,105	48.5	13,068	45.7	3,037
Domestic OEM	702	2.1	398	1.4	304
International OEM	-	-	190	0.7	(190)
Adjustments	(903)	(2.7)	(894)	(3.2)	(9)
	$33,236	100.0%	$28,615	100.0%	$4,621

In terms of revenue generation, SPAG's leading products (compared with plan) for the quarter were as follows (dollars in thousands):

	Actual		Plan		Variance
	Units	Dollars	Units	Dollars	
Serial Mouse	246,335	$25,100	190,519	$18,979	$6,121
Bus Mouse	68,640	6,842	110,979	9,215	(2,373)
OEM Mouse	68,105	1,240	45,133	1,085	155
	383,080	$33,182	346,631	$29,279	$3,903
Percent of SPAG's net revenues		100%		102%	

SPAG net revenues of $33.2 million were $4.6 million over plan of $28.6 million. This variance was primarily due to domestic sales of the Serial Mouse/Paintbrush SKU which generated $10.2 million in revenue versus plan of $6.3 million. Both Serial and OEM Mice exceeded plan in terms of net revenues and units shipped, while the Bus Mouse fell short of plan in both categories.

USSMD revenues of $16.1 million were $3.0 million above plan of $13.1 million. This favorable variance is the result of continued strong sales of Mouse/Paintbrush SKUs. The USSMD Mouse backlog of $5.1 million, which existed at the end of Q90-2, has been reduced to $359,000 at the end of Q90-3. International Retail revenue of $17.3 million exceeded plan of $15.9 million by $1.5 million. International Retail represented 52.1% of Q90-3 revenues versus plan of 55.4%.

Cost of revenues was $14.3 million, 42.9% of net revenues, versus plan of $13.2 million, 46.3% of planned net revenues. Product costs, at 38.5% of net revenues, were lower than plan of 40.4%. SPAG's favorable product cost percentage is due to lower than planned product costs for the Mouse. The Domestic Serial Mouse/Paintbrush SKU had a product cost of 34.5% compared to a plan of 39.8% and the Bus Mouse/Paintbrush SKU had a product cost of 35.1% while its plan was 36.4%. As a percentage of net revenues, non-product costs were 4.4% ($1.5 million) compared to plan of 5.9% ($1.7 million). Lower than planned allocations of manufacturing and distribution expenses were partially offset by unfavorable inventory adjustments associated with the scrapping of returned versions of our old Mouse products.

SPAG operating expenses for Q90-3 approximated plan of $2.6 million. As a percentage of net revenues, operating expenses were 7.7% versus plan of 9.2%. Favorable variances in marketing ($342,000) and product development ($96,000) were partially offset by an unfavorable marketing accrual ($365,000) and bad debt expense ($67,000).. Actual marketing expenses ($804,000) were $342,000 below plan of $1.1 million. The entire marketing variance is related to the USSMD channel. This is primarily due to a decision to delay US marketing of the Mouse in order to allow manufacturing to ship existing backlog. The marketing variance, therefore, represents timing differences, which can be expected to turn around. In order to minimize the impact of the turnaround in subsequent quarters, a marketing accrual of $365,000 was made. The product development variance is due to lower than expected expenditures on third-party development. The bad debt expense variance is primarily due to an increase in the International Retail allowance for bad debts.

Allocations to SPAG of $6.5 million were slightly above plan of $6.4 million. The variance is due to higher than expected allocations from International Retail. However, as a result of excess revenues, allocations were 19.6% of net revenues compared to a plan of 22.4%.

Burdened operating income for Q90-3 of $9.9 million exceeded projected operating income of $6.3 million by $3.6 million, or 57%. Robust sales of the Mouse (due in large part to clearing the domestic backlog) combined with lower than anticipated product costs contributed to the outstanding operating results.

Languages

The Q90-3 condensed burdened operating income statement for Languages follows (in thousands):

	Actual		Plan		Variance
Net revenues	$11,454	100.0%	$15,278	100.0%	$(3,824)
Cost of revenues	3,529	30.8	3,929	25.7	400
Operating expenses	3,951	34.5	5,469	35.8	1,518
Allocations - Research and development	494	4.3	530	3.5	36
Allocations - Sales and marketing	3,411	29.8	3,363	22.0	(48)
Allocations - General and administrative	369	3.2	369	2.4	0
Burdened operating income (loss)	$ (300)	(2.6)%	$ 1,618	10.6%	$(1,918)

The condensed YTD burdened operating income statement for Languages through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$37,517	100.0%	$43,871	100.0%	$(6,354)
Cost of revenues	11,220	29.9	11,445	26.1	225
Operating expenses	12,535	33.4	15,912	36.3	3,377
Allocations - Research and development	1,387	3.7	1,613	3.6	226
Allocations - Sales and marketing	9,063	24.1	9,661	22.0	598
Allocations - General and administrative	1,116	3.0	1,091	2.5	(25)
Burdened operating income	$ 2,196	5.9%	$ 4,149	9.5%	$(1,953)

Language revenues by channel for the quarter were as follows (in thousands):

	Actual		Plan		Variance
International Retail	$ 7,214	63.0%	$ 7,912	51.8%	$ (698)
USSMD	4,355	38.0	7,683	50.3	(3,328)
Domestic OEM	287	2.5	125	0.8	162
International OEM	20	0.2	59	0.4	(39)
Microsoft University	1	-	0	-	1
Adjustments	(423)	(3.7)	(501)	(3.3)	78
	$11,454	100.0%	$15,278	100.0%	$(3,824)

Net revenues for Q90-3, at $11.5 million, were $3.8 million below plan. In terms of revenue generation, the product group's leading products (compared with plan) for the quarter were as follows (dollars in thousands):

Actual	Plan		Actual Units	Actual Revenue	Plan Units	Plan Revenue	Variance
1	1	Pro C	25,455	$4,917	22,551	$5,393	$ (476)
2	2	Pro Fortran	5,379	1,360	8,340	1,836	(476)
3	3	Quick C	17,992	1,109	27,742	1,645	(536)
4	5	Pro Cobol	1,905	891	1,861	1,015	(124)
5	-	PM Tools	3,970	889	885	67	822
				$9,166		$9,956	$ (790)
Percentage of Languages' net revenues				80%		65%	

Plan #4- Macro Assembler ($1,230)

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Once again, Pro C, with sales of $4.9 million, was the leading Language product, representing 43% of Languages' net revenue. Due to the slippage of Pro C version 6.0, actual revenue was 9% below plan of $5.4 million. The lower than planned per unit revenue for C is due to sales of C Runtime. 4,465 units were sold generating $76,000 ($16.98 per unit). The plan anticipated shipping 600 units for $90,000 in revenue ($150 per unit). Pro Fortran revenue of $1.4 million was below plan of $1.8 million by 26%, while Quick C revenue of $1.1 million was below plan of $1.6 million by 33%. Pro Cobol revenues of $891,000 were 12% below plan of $1.0 million. Revenues from OS/2 Presentation Manager Toolkits continue to grow, recording $889,000 in revenue compared to plan of $67,000 (3,970 units against plan of 855 units). Product slippage further hurt Languages' Q90-3 revenue by delaying planned update revenue. As a result of missing budgeted ship dates, C updates had a $834,000 unfavorable variance while MASM updates were $575,000 below plan.

As a percentage of net revenues, cost of revenues was 30.8% ($3.5 million) compared to a planned 25.7% ($3.9 million). Product costs were 22.8% of net revenue compared with a budget of 18.1% of net revenues. USSMD product costs were 20.7% of net revenue compared to a budget of 16.1%, while International Retail product costs were 23.7% compared to a budget of 19.4%. The unfavorable USSMD product cost is the result of slippage of C 6.0, MASM 6.0 and Cobol 3.1, which are planned to have lower product costs than current versions. International Retail's margin suffered not only from product slippage, but also from greater than planned update revenues. International Retail updates represented 6.8% of net revenue versus plan of 1.4%. Non-product costs, included in cost of revenues, were 8% of net revenues ($918,000) compared to plan of 7.6% ($1.2 million). This dollar variance is due to lower than planned manufacturing and distribution allocations and royalties. The allocation variance is primarily due to favorable manufacturing variances which are the result of improved throughput. The favorable variance in royalties is the result of lower than planned revenues from royalty-bearing Cobol.

Languages' operating expenses for Q90-3 were $4.0 million, 34.5% of net revenues, compared to a plan of $5.5 million, 35.8% of net revenues. Favorable variances occurred in marketing ($960,000) and third-party product development ($574,000). These favorable variances were partially offset by an unbudgeted marketing expense accrual ($291,000).

USSMD marketing was $568,000 versus a planned $855,000. The variance was evenly distributed, with all products recording favorable marketing variances. This variance is primarily the result of product slippage. International Retail's marketing expenditures were $675,000 below plan of $817,000. In order to offset the impact on Q90-4, when this under-spending reverses, an accrual of $291,000 was made. The favorable variance in third-party product development was fairly evenly distributed with domestic spending coming in $336,000 below plan and the subsidiaries $240,000 below plan.

Allocations to Languages of $4.3 million mirrored plan. As a percentage of net revenue, however, total allocated expenses were 37.3% compared to plan of 27.9%. An unfavorable allocation from International Retail was largely offset by favorable allocations from development.

The Q90-3 burdened operating loss for Languages was $300,000, compared to a planned burdened operating income of $1.6 million. A $3.8 million revenue shortfall was only partially recovered by favorable dollar variances in cost of revenues and operating expenses.

Networks

The Q90-3 condensed burdened operating income statement for Networks follows (in thousands):

	Actual		Plan		Variance
Net revenues	$11,222	100.0%	$5,634	100.0%	$5,588
Cost of revenues	38	0.3	299	5.3	261
Operating expenses	7,092	63.2	5,577	99.0	(1,515)
Allocations - Research and development	541	4.8	593	10.5	52
Allocations - Sales and marketing	420	3.8	388	6.9	(32)
Allocations - General and administrative	332	3.0	334	5.9	2
Burdened operating income (loss)	$ 2,799	24.9%	$(1,557)	(27.6)%	$4,356

The condensed YTD burdened operating income statement for Networks through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$28,882	100.0%	$18,220	100.0%	$10,662
Cost of revenues	114	0.4	944	5.2	830
Operating expenses	17,449	60.4	16,087	88.3	(1,362)
Allocations - Research and development	1,487	5.1	1,767	9.7	280
Allocations - Sales and marketing	1,251	4.3	1,155	6.3	(96)
Allocations - General and administrative	983	3.5	986	5.4	3
Burdened operating income (loss)	$ 7,598	26.3%	$(2,719)	(14.9)%	$10,317

Networks net revenues by channel of distribution for Q90-3 were as follows (in thousands):

	Actual		Plan		Variance
Domestic OEM	$ 3,190	28.4%	$3,515	62.4%	$ (325)
International OEM	932	8.3	1,538	27.3	(606)
International Retail	29	0.3	76	1.3	(47)
Subtotal	4,151	37.0	5,129	91.0	(978)
Adjustments	7,071	63.0	505	9.0	6,566
Total	$11,222	100.0%	$5,634	100.0%	$5,588

In terms of revenue generation, the Network product group's leading products (compared with plan before adjustments) for the quarter were as follows (revenue in thousands):

			Actual		Plan	
Actual	Plan		Units	Revenue	Units	Revenue
1	1	LAN Manager	7,484	$2,187	9,911	$3,103
2	2	MS-Net	60,520	1,795	35,130	1,038
3	3	Other*	215	169	3,460	988
				$4,151		$5,129

*Primarily SQL Server.

Networks revenue exceeded plan for the quarter by $5.6 million, or 99%. On a year-to-date basis, total revenues of $28.9 million are $10.7 million, or 59% above plan. The driving force behind the favorable net revenue variance was the allocation of a portion of Unspecified Product Billing (UPB) ($7.1 million), the GAAP adjustment ($2.2 million), an accrual of NEC royalties ($2.0 million) and a reserve related to prepaid royalties (-$4.2 million). These items from the Domestic and International OEM channels are allocated 60% to Systems and 40% to Networks. UPB results from minimum commitments in excess of reported royalties from OEM license agreements, most of which pertain to Networks products. The GAAP adjustment is an accrual for royalties earned during the quarter but not yet reported, net of deferred revenue relating to billings prior to acceptance of product by the customer. The NEC accrual resulted from additional information being needed before royalties related to a new retroactive agreement with NEC could be processed. These royalties will be reclassified as product specific once the information is received. The reserve was established to provide for potential future contractual concessions related to prepaid customer balances. All of the above items are included in the revenue "adjustments" line item. Refer to the Systems product group section for further information.

In the Domestic OEM channel, revenues from LAN Manager and SQL Server were under budget by $304,000 and $685,000, respectively due to overall low product penetration. This was partially offset by a favorable $659,000 variance for MS-Net (53,000 units versus 28,000 units). Significant contributors were American Telephone & Telegraph (1,000 units for $311,000 versus 5 units for $2,000 budgeted), Hewlett Packard (5,700 units for $91,000 against 100 units for $2,000 budgeted), and Apple Computers (6,000 units for $59,000 against $0 budget). The International OEM channel was $606,000 under budget, also because of unfavorable variances for LAN Manager ($571,000) and SQL Server ($135,000). In the LAN Manager family, Nokia accounted for $256,000 of the shortfall (125 units shipped for $56,000 versus a plan of 871 units for $312,000). Other contributors were Acer, Mitac, and Philips, for a total of $674,000 budgeted versus no shipments. Offsetting these shortfalls was a $250,000 source code payment by Microtempus for a new, unbudgeted license agreement. The variance for SQL Server results from a budget of $137,000 and virtually no sales. A $100,000 favorable variance in the MS-Net family is due to unbudgeted sales by several OEMs, including IBM France ($50,000), IBM Japan ($33,000), and Ricoh ($37,000).

Cost of revenues was $261,000 under budget due to a $286,000 favorable variance in royalty expense. This resulted from the lack of SQL Server sales, for which Microsoft pays royalties to Sybase. Operating expenses were $1.5 million over plan due to a $1.4 million unfavorable variance in Networks product development (unplanned payments to DCL for contract development). Allocated expenses were in line with plan.

In summary, favorable variances in revenues and cost of revenues outweighed the unfavorable operating variance, resulting in a burdened operating income of $2.8 million against a planned loss of $1.6 million. On a year-to-date basis, burdened operating income is $7.6 million against a budgeted loss of $2.7 million. The plan calls for the product group to incur a loss in Q90-4.

Microsoft Corporation
Product Group Reporting Q90-3
Detail of "Other" Product Groups
(In thousands)

	Books	Services	Multimedia	Xenix	MSJ	Elims	Total
Actual							
Net revenues	$3,130	$2,937	$437	$2,506	$474	($45)	$9,439
Cost of revenues	1,570	625	85	1,166	230	(42)	3,634
Operating expenses	1,649	2,454	2,068	229	345	(3)	6,742
Allocated expenses	161	1,728	370	192	25	0	2,476
Operating income	($250)	($1,870)	($2,086)	$919	($126)	$0	($3,413)
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	50.2%	21.3%	19.5%	46.5%	48.5%	93.3%	38.5%
Operating expenses	52.7%	83.6%	473.2%	9.1%	72.8%	6.7%	71.4%
Allocated expenses	5.1%	58.8%	84.7%	7.7%	5.3%	0.0%	26.2%
Operating income	-8.0%	-63.7%	-477.3%	36.7%	-26.6%	0.0%	-36.2%
Plan							
Net revenues	$4,804	$3,351	$906	$2,121	$443	($139)	$11,486
Cost of revenues	2,235	1,069	124	848	202	(139)	4,339
Operating expenses	1,689	2,389	2,426	131	350	0	6,985
Allocated expenses	166	1,573	369	187	24	0	2,319
Operating income	$714	($1,680)	($2,013)	$955	($133)	$0	($2,157)
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	46.5%	31.9%	13.7%	40.0%	45.6%	100.0%	37.8%
Operating expenses	35.2%	71.3%	267.8%	6.2%	79.0%	0.0%	60.8%
Allocated expenses	3.5%	46.9%	40.7%	8.8%	5.4%	0.0%	20.2%
Operating income	14.9%	-50.1%	-222.2%	45.0%	-30.0%	0.0%	-18.8%
Variance							
Net revenues	($1,674)	($414)	($469)	$385	$31	$94	($2,047)
Cost of revenues	665	444	39	(318)	(28)	(97)	705
Operating expenses	40	(65)	358	(98)	5	3	243
Allocated expenses	5	(155)	(1)	(5)	(1)	0	(157)
Operating income	($964)	($190)	($73)	($36)	$7	$0	($1,256)

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Product Group Reporting FY90 YTD

Detail of "Other" Product Groups

(In thousands)

	Books	Services	Multimedia	Xenix	MSJ	Elims	Total
Actual							
Net revenues	$10,249	$6,945	$822	$7,449	$1,095	($443)	$26,117
Cost of revenues	4,922	1,760	99	3,623	468	(409)	10,463
Operating expenses	4,297	6,057	5,471	352	819	(34)	16,962
Allocated expenses	480	4,446	1,059	542	85	0	6,612
Operating income	$550	($5,318)	($5,807)	$2,932	($277)	$0	($7,920)
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	48.0%	25.3%	12.0%	48.6%	42.7%	92.3%	40.1%
Operating expenses	41.9%	87.2%	665.6%	4.7%	74.8%	7.7%	64.9%
Allocated expenses	4.7%	64.0%	128.8%	7.3%	7.8%	0.0%	25.3%
Operating income	5.4%	-76.6%	-706.4%	39.4%	-25.3%	0.0%	-30.3%
Plan							
Net revenues	$11,808	$8,376	$1,870	$5,980	$1,106	($441)	$28,699
Cost of revenues	5,460	2,879	315	2,392	449	(441)	11,054
Operating expenses	4,751	6,044	6,488	462	927	0	18,672
Allocated expenses	490	4,544	1,064	533	71	0	6,702
Operating income	$1,107	($5,091)	($5,997)	$2,593	($341)	$0	($7,729)
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	46.2%	34.4%	16.8%	40.0%	40.6%	100.0%	38.5%
Operating expenses	40.2%	72.2%	347.0%	7.7%	83.8%	0.0%	65.1%
Allocated expenses	4.1%	54.3%	56.9%	8.9%	6.4%	0.0%	23.4%
Operating income	9.4%	-60.8%	-320.7%	43.4%	-30.8%	0.0%	-26.9%
Variance							
Net revenues	($1,559)	($1,431)	($1,048)	$1,469	($11)	($2)	($2,582)
Cost of revenues	538	1,119	216	(1,231)	(19)	(32)	591
Operating expenses	454	(13)	1,017	110	108	34	1,710
Allocated expenses	10	98	5	(9)	(14)	0	90
Operating income	($557)	($227)	$190	$339	$64	$0	($191)

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APPLICATIONS BUSINESS UNIT REPORTING

The contribution to Applications net revenues and operating income for Q90-3 on a business unit basis was as follows (amounts in thousands):

Net Revenues	Actual		Plan		Variance Percentage
Office	$79,603	50.3%	$ 49,972	38.7%	60
Analysis	48,377	30.6	47,073	36.5	3
Entry	21,555	13.6	19,442	15.1	11
Data Access	6,778	4.3	6,139	4.7	10
Graphics	1,832	1.2	6,502	5.0	(72)
Total	$158,145	100.0%	$129,128	100.0%	22

Operating Income (Loss)	Actual			Plan			
	Income (Loss)	Percentage Total	Percentage Revenue	Income (Loss)	Percentage Total	Percentage Revenue	Variance
Office	$37,088	76.2	46.6	$12,569	58.8	25.2	$24,519
Analysis	14,795	30.4	30.6	12,950	60.6	27.5	1,845
Entry	4,465	9.2	20.7	1,063	5.0	5.5	3,402
Data Access	(2,956)	(6.1)	(43.6)	(4,094)	(19.2)	(66.7)	1,138
Graphics	(4,748)	(9.7)	(259.2)	(1,116)	(5.2)	(17.1)	(3,632)
Total	$48,644	100.0	30.8	$21,372	100.0	16.6	$27,272

The contribution to Applications net revenues and operating income for FY90 YTD on a business unit basis was as follows (amounts in thousands):

Net Revenues	Actual		Plan		Variance Percentage
Office	$192,289	46.0%	$138,757	38.9%	39
Analysis	135,853	32.5	130,619	36.6	4
Entry	69,556	16.7	55,311	15.5	26
Data Access	14,452	3.5	16,015	4.5	(10)
Graphics	5,614	1.3	16,290	4.5	(66)
Total	$417,764	100.0%	$356,992	100.0%	17

Operating Income (Loss)	Actual			Plan			
	Income (Loss)	Percentage Total	Percentage Revenue	Income (Loss)	Percentage Total	Percentage Revenue	Variance
Office	$82,164	69.3	42.7	$31,876	67.1	23.0	$50,288
Analysis	42,495	35.8	31.3	31,058	65.4	23.8	11,437
Entry	17,675	14.9	25.4	1,791	3.8	3.2	15,884
Data Access	(11,500)	(9.7)	(79.6)	(12,193)	(25.7)	(76.1)	693
Graphics	(12,253)	(10.3)	(218.1)	(5,050)	(10.6)	(31.0)	(7,203)
Total	$118,581	100.0	28.4	$47,482	100.0	13.3	$71,099

Office Business Unit (OBU)

The Q90-3 condensed burdened operating income statement for OBU follows (in thousands):

	Actual		Plan		Variance
Net revenues	$79,603	100.0%	$49,972	100.0%	$29,631
Cost of revenues	15,543	19.5	11,947	23.9	(3,596)
Operating expenses	11,368	14.3	9,917	19.8	(1,451)
Allocations - Research and development	1,865	2.3	2,016	4.0	151
Allocations - Sales and marketing	13,152	16.6	12,932	25.8	(220)
Allocations - General and administrative	587	0.7	591	1.3	4
Burdened operating income	$37,088	46.6%	$12,569	25.2%	$24,519

The condensed YTD burdened operating income statement for OBU through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$192,289	100.0%	$138,757	100.0%	$53,532
Cost of revenues	38,017	19.8	33,802	24.4	(4,215)
Operating expenses	30,453	15.8	28,268	20.4	(2,185)
Allocations - Research and development	5,083	2.6	5,861	4.2	778
Allocations - Sales and marketing	34,862	18.1	37,196	26.9	2,334
Allocations - General and administrative	1,711	1.0	1,754	1.1	43
Burdened operating income	$82,163	42.7%	$31,876	23.0%	$50,287

OBU net revenues by channel for the quarter were as follows (in thousands):

	Actual		Plan		Variance
International Retail	$52,615	66.1%	$30,337	60.7%	$22,278
USSMD	26,703	33.5	21,073	42.2	5,630
International OEM	317	0.4	11	0.0	306
Domestic OEM	271	0.3	256	0.5	15
Adjustments	(303)	(0.3)	(1,705)	(3.4)	1,402
	$79,603	100.0%	$49,972	100.0%	$29,631

Net revenues for Q90-3, at $79.6 million, were 59% above plan of $50.0 million. The favorable variance is due to the continued strength in sales of PC Word, contributing 47% of net revenues. Continuing as the leader in application software revenue, PC Word surpassed plan by 50%. Win Word and Win Word Upgrade sales were above plan by 33% and 976%, respectively. In terms of revenue generation, the product group's leading products (compared with plan) for the quarter were as follows (dollars in thousands):

			Actual		Plan		Variance
Actual	Plan		Units	Revenue	Units	Revenue	
1	1	PC Word	139,679	$37,286	99,790	$24,795	$12,491
2	2	Mac Word	74,874	14,501	69,056	13,706	795
3	3	Win Word	51,098	12,503	42,979	9,432	3,071
4	-	Win Word Upgrade	38,221	5,382	4,962	500	4,882
5	4	PC Word Updates	41,919	4,851	14,184	1,323	3,528
				$74,523		$49,756	$24,767
Percentage of OBU's net revenues				94%		100%	

Plan #5 Mac Mail ($1,295)

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Sales through the International Retail channel were 66.1% of net revenues. Significant favorable variances occurred for PC Word ($10.5 million), Win Word ($5.2 million), and PC Word updates ($2.6 million). USSMD revenue of $26.7 million was 27% above plan of $21.1 million. The favorable variance may be attributed to sales of Win Word upgrades and PC Word that were above forecast by $3.7 million and $1.8 million, respectively. Adjustments to net revenue were $-303,000 compared to plan of $-1.7 million. The variance is due to a $1.3 million inter-business unit royalty from the Entry business unit. This royalty represents OBU's portion of the revenue generated by the Mac Office. The Office bundle of Mac Word, Excel, PowerPoint and Mail is initially recorded in the EBU and revenue and COGS are transferred to the component products' BUs. The plan anticipated we would discontinue this bundle in December 1989.

As a percentage of net revenues, cost of revenues was 19.5% compared to a budget of 23.9%. Product costs were 14.0% of net revenues, versus plan of 16.4%. USSMD's product cost percentage was 15.6% compared to budget of 14.1%. The unfavorable variance is primarily attributable to sales of the lower margin Win Word upgrade and Word updates (Mac and PC). These products generated a combined $5.4 million in USSMD sales (20% of USSMD gross revenues) with product costs of 15.5%. International Retail's product cost percentage of 13.2% was well below the budgeted percentage of 17.1%. International's product cost percentage was affected by high volume sales of PC Word 5.0 and Mac Word 4.0, with their lower than planned product costs. Non-product costs, as a percentage of net revenues, were 5.5% ($4.4 million) versus plan of 7.5% ($3.7 million). Allocations of manufacturing and distribution were significantly below plan at 3.5% of net revenues compared to a plan of 6.9%. This variance was partially offset by unfavorable variances in manufacturing variances ($422,000) and inventory adjustments ($304,000). The manufacturing variance reflects unfavorable purchase price variances. The inventory adjustments variance reflects the writing off of obsolete inventory and returns scrap. Additionally, royalties were over plan by $268,000. This is the direct result of the above forecasted sales of both Mac and PC Word, both royalty-bearing products.

Operating expenses of $11.4 million, 14.3% of net revenues, were $1.5 million above budget of $9.9 million, 19.8% of net revenues. The most significant unfavorable variances occurred in marketing ($1.0 million), bad debt expense ($128,000), and marketing accrual ($120,000).

International Retail marketing incurred $3.7 million in expenses (compared to budget of $2.7 million), 58% of combined marketing expenditures. USSMD marketing at $2.6 million, was slightly above plan. All products experienced favorable domestic variances except Win Word, $431,000 over plan, and Mac Mail, $66,000 over plan. The unfavorable Win Word variance is the result of advertising media and marketing materials expenditures which were originally slated for Q90-2. Additional USSMD marketing commitments have been made for which we have not been billed. In order to minimize the impact when these occur, a marketing expense accrual of $120,000 was made. The accrual represents timing differences only, and is expected to be absorbed in Q90-4. The unfavorable variance in bad debt expense reflects an increase International Retail's allowance for doubtful accounts.

Allocations to OBU were $15.6 million compared to a plan of $15.5 million. As a percentage of net revenues, actual allocations were 19.6% versus budget of 31.1%. The most significant unfavorable variance occurred in International Retail allocations ($232,000). This was partially offset by favorable variances in International R&D ($113,000), Applications-Support ($39,000), and Corpcom ($20,000).

The Q90-3 burdened operating income for OBU was $37.1 million, 46.6% of net revenues, compared to a plan of $12.6 million, 25.2% of net revenues. The favorable variance represents 195% of plan and may be attributed to revenue that exceeded plan across all channels, and to cost of revenues that was significantly below plan as a percentage of net revenues.

Analysis Business Unit (ABU)

The Q90-3 condensed burdened operating income statement for ABU follows (in thousands):

	Actual		Plan		Variance
Net revenues	$48,377	100.0%	$47,073	100.0%	$1,304
Cost of revenues	11,741	24.3	11,561	24.6	(180)
Operating expenses	7,877	16.3	8,751	18.6	874
Allocations - Research and development	1,102	2.3	1,155	2.4	53
Allocations - Sales and marketing	12,349	25.6	12,141	25.8	(208)
Allocations - General and administrative	512	0.9	516	1.1	4
Burdened operating income	$14,796	30.6%	$12,949	27.5%	$1,847

The condensed YTD burdened operating income statement for ABU through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$135,853	100.0%	$130,619	100.0%	$ 5,234
Cost of revenues	30,756	22.6	32,647	25.0	1,891
Operating expenses	25,355	18.7	27,054	20.7	1,699
Allocations - Research and development	3,018	2.2	3,414	2.6	396
Allocations - Sales and marketing	32,742	24.2	34,917	26.9	2,175
Allocations - General and administrative	1,488	1.0	1,530	1.0	42
Burdened operating income	$ 42,494	31.3%	$ 31,057	23.8%	$11,437

ABU net revenues by channel for the quarter were as follows (in thousands):

	Actual		Plan		Variance
International Retail	$33,638	69.5%	$29,037	61.7%	$4,601
USSMD	14,426	29.8	19,262	40.9	(4,836)
Domestic OEM	473	1.0	365	0.8	108
International OEM	217	0.4	11	0.0	206
Adjustments	(377)	(0.7)	(1,602)	(3.4)	1,225
	$48,377	100.0%	$47,073	100.0%	$1,304

In terms of revenue generation, the product group's leading products (compared with plan) for the quarter were as follows (dollars in thousands):

Actual	Plan		Actual Units	Actual Revenue	Plan Units	Plan Revenue	Variance
1	1	Win Excel	79,822	$22,809	88,480	$24,145	$(1,336)
2	2	Mac Excel	53,657	12,322	57,836	12,759	(437)
3	3	PC Multiplan	62,865	4,681	27,466	3,798	883
4	–	Mac Excel Update	27,116	2,433	24,857	1,237	1,196
5	5	PM & OS/2 Excel	7,729	1,902	8,862	1,861	41
				$44,147		$43,800	$ 347
Percentage of ABU net revenues				91%		93%	

Plan #4 Win Project ($2,781)

Net revenues for Q90-3, at $48.4 million, were 3% above plan of $47.1 million. Sales through the International Retail channel exceeded forecast by 16% ($33.6 million actual versus $29.0 million budget). Mac Excel, Win Excel and a Win Excel/Flight Simulator bundle were the most significant contributors to the International variance, with combined sales exceeding plan by $4.1 million. USSMD revenues, at $14.4

million, were significantly below forecast of $19.3 million. The slippage of Win Project, forecast at $1.6 million, combined with below forecast sales of Mac Excel and Win Excel ($1.6 million and $2.5 million below plan, respectively), contributed the majority of the unfavorable variance. Adjustments to net revenues were $-377,000 compared to plan of $-1.6 million. The variance is due to $1.1 million in inter-business royalty revenue from the Entry business unit relating to the Mac Office. Revenue and product costs are initially recorded in EBU and then distributed to the individual products' respective BUs. It was planned that this bundle of Mac Excel, Word, PowerPoint and Mail would be discontinued in December.

As a percentage of net revenues, cost of revenues was 24.3% compared to a budget of 24.6%. Product costs were 17.3% of net revenues, versus plan of 17.7%. USSMD's product cost percentage was 12.5% compared to budget of 18.1%. The favorable variance is due to lower than planned product costs for both Win Excel and Mac Excel. Due to significant changes in the product's manuals and utilization of file compression, Win Excel's product cost was reduced to 10.4% of gross revenues (versus plan of 15.7%). Mac Excel's product cost was 9.2% of gross revenues (versus plan of 11.0%). International Retail's product cost percentage of 19.4% exceeded the budgeted percentage of 16.5%. An explanation of this variance will require additional research. As a percentage of net revenues, non-product costs of 7.0% ($3.4 million), mirrored budget (6.9% and $3.2 million). Favorable manufacturing and distribution allocations of $609,000, were offset by unplanned inventory adjustments ($309,000), purchase price variances ($181,000), and inter-business unit royalties ($161,000). The unfavorable variance in inventory adjustments is primarily attributable to the recost of product costs, completed in January, and adjustments made for obsolete inventory. The inter-business unit royalty represents the allocation to ABU of product costs related to Mac Office. As mentioned above, the plan anticipated this product would be discontinued in Q90-2.

Operating expenses of $7.9 million, 16.3% of net revenues, were $874,000 below budget of $8.8 million, 18.6% of net revenues. Favorable variances in marketing ($988,000), payroll ($160,000), and building and grounds distribution ($88,000) were partially offset by unfavorable variances that resulted due to an accrual for marketing expenses ($295,000), third-party product development ($76,000), and bad debt expense ($60,000).

Actual ABU marketing of $3.8 million was $988,000 under plan of $4.8 million. Domestic marketing of $1.9 million (51% of total marketing expenditures) was responsible for $268,000 of the variance. The most significant USSMD marketing variances occurred in corporate program spending, Win Excel and Win Project. The rest of the variance may be attributed to International Retail marketing, of which $722,000 went unspent. The favorable marketing results represent a timing difference that is expected to turnaround during Q90-4. To smooth the marketing fluctuations, a marketing expense accrual of $295,000 was made during the quarter. The accrual reduces the net marketing variance for the quarter to $693,000. The favorable variance in payroll and building and grounds distribution may be attributed to headcount, which continues to be below plan. Third-party product development, while over plan for the quarter, remains below forecast year-to-date. The unfavorable variance in bad debt expense reflects an increase in the allowance for bad debts at several International subsidiaries.

Allocations to ABU were $14.0 million compared to a plan of $13.8 million. As a percentage of net revenues, actual allocations were 28.8% versus budget of 29.3%. The most significant unfavorable variance occurred in International Retail ($217,000). This variance was partially offset by a favorable variance in International R&D ($37,000).

The Q90-3 burdened operating income for ABU was $14.8 million, 30.6% of net revenues, compared to a plan of $12.9 million, 27.5% of net revenues. Strong sales through the International Retail channel and below forecast spending in operating expenses overcame the USSMD revenue shortfall and resulted in burdened operating income that was $1.8 million above plan.

Entry Business Unit (EBU)

The Q90-3 condensed burdened operating income statement for EBU follows (in thousands):

	Actual		Plan		Variance
Net revenues	$21,555	100.0%	$19,442	100.0%	$2,113
Cost of revenues	5,589	25.9	6,370	32.8	781
Operating expenses	4,995	23.2	5,508	28.3	513
Allocations - Research and development	1,042	4.9	1,127	5.8	85
Allocations - Sales and marketing	5,118	23.7	5,026	25.8	(92)
Allocations - General and administrative	345	1.6	348	1.8	3
Burdened operating income	$4,466	20.7%	$1,063	5.5%	$3,403

The condensed YTD burdened operating income statement for EBU through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$69,556	100.0%	$55,311	100.0%	$14,245
Cost of revenues	19,756	28.4	18,095	32.7	(1,661)
Operating expenses	14,680	21.1	16,639	30.1	1,959
Allocations - Research and development	2,828	4.1	3,284	5.9	456
Allocations - Sales and marketing	13,616	19.6	14,470	26.2	854
Allocations - General and administrative	1,001	1.4	1,032	1.9	31
Burdened operating income	$17,675	25.4%	$1,791	3.2%	$15,884

EBU net revenues by channel for the quarter were as follows (in thousands):

	Actual		Plan		Variance
International Retail	$12,105	56.2%	$11,107	57.1%	$ 998
USSMD	10,599	49.2	8,405	43.2	2,194
Domestic OEM	1,306	6.1	88	0.5	1,218
International OEM	886	4.1	505	2.6	381
Adjustments	(3,341)	(15.6)	(663)	(3.4)	(2,678)
	$21,555	100.0%	$19,442	100.0%	$2,113

Net revenues for Q90-3, at $21.6 million, were 11% above plan of $19.4 million. In terms of revenue generation, the business unit's leading products (compared with plan) for the quarter were as follows (dollars in thousands):

			Actual		Plan		Variance
Actual	Plan		Units	Revenue	Units	Revenue	
1	1	PC Works	250,666	$11,339	139,440	$ 9,378	$1,961
2	2	Mac Works	28,295	3,901	31,922	4,971	(1,070)
3	-	Mac Office	7,037	3,051	-	-	3,051
4	4	PC Chart	12,942	2,139	8,306	1,973	166
5	3	PC Flight Simulator	36,422	1,175	74,935	2,152	(977)
				$21,605		$18,474	$3,131
Percentage of EBU's net revenues				100%		95%	

Plan #5 Learning DOS ($874)

PC Works revenues of $11.3 million were 21% above plan of $9.4 million, contributing 53% of the business unit's net revenues. The lower than planned revenue per unit was due to unplanned OEM revenue of $1.0 million for 80,688 units sold to Packard Bell. Mac Works revenues of $3.9 million fell below plan by 22% due primarily to a slowdown in sales of Apple's low-end Mac SEs and Mac Pluses. The Mac Office, a bundle of Mac Word, Excel, PowerPoint and Mail recorded revenue of $3.0 million compared to no budget. This bundle was originally introduced as a limited time offer which was to be discontinued in December, 1989. While initially recorded in EBU, revenue and cost of revenues are distributed back to the individual products' EUs via an inter-business unit royalty. This royalty appears as an unfavorable adjustment to net revenues and a reduction of non-product cost of revenues for EBU. PC Chart revenues of $2.1 million were $166,000 above plan. The low revenue per unit revenue is attributable to 3,196 units sold in the International OEM channel at $26 per unit.

As a percentage of net revenues, cost of revenues was 25.9% ($5.6 million) compared to a planned 32.8% ($6.4 million). Product costs were 16.9% of net revenue compared with a budget of 18.4% of net revenue. USSMD product costs were 12.9% of net revenue compared to budget of 13.1%, while International Retail product costs were 18.8% compared to a budget of 22.3%. USSMD's product cost percentage was affected by lower than planned product costs for virtually all PC Works SKUs. International Retail product costs were favorably impacted by greater than budgeted sales of relatively lower cost PC Works. Non-product cost, as a percentage of revenue, were 9.0% ($1.9 million) compared to plan of 14.4% ($2.8 million). The variance is the result of lower than planned royalties ($714,000 compared to plan of $1.4 million) and a $398,000 reduction in costs representing the inter-business royalty transfer of product costs associated with the Mac Office. As previously mentioned, cost of revenue relief was not budgeted for Q90-3. As a result of the purchase of technology from PSI, royalties on Mac Works were reduced from 20% of revenues to 3.2%. This change, combined with the fact Flight Simulator revenues were below plan, resulted in the favorable royalty variance.

EBU operating expenses for Q90-3 were $5.0 million, 23.2% of net revenues, compared to a plan of $5.5 million, 28.3% of net revenues. Favorable variances in marketing ($274,000), the reversal of a prior quarter's marketing accrual ($325,000) and payroll expenses ($101,000) were partially offset by an unfavorable third-party product development variance ($163,000).

The favorable marketing variance is primarily due to below planned spending by the subsidiaries. This was partially offset by overspending on USSMD marketing for PC Works and PC Flight Simulator. EBU's USSMD marketing expense for the quarter exceeded plan of $975,000 by $348,000. This variance reflects the expenditure in Q90-3 of amounts budgeted for prior quarters. Accordingly, we reversed $325,000 in marketing expense reserves which had been accrued earlier in the year. The favorable payroll variance is due to headcount ramping up at a slower rate than forecast. The unfavorable product development variance is due to amortization of the cost of the unanticipated purchase of intellectual property rights from PSI.

Allocations to EBU of $6.5 million equaled plan. As a percentage of net revenues, actual allocations were 30.2% versus budget of 33.4%. Favorable variances from International R&D ($67,000) and Applications-Support ($17,000) were offset by an unfavorable variance in International Retail ($88,000).

The Q90-3 burdened operating income for EBU was $4.5 million, 20.7% of net revenues, compared to a plan of $1.1 million, 5.5% of net revenues. Higher than expected revenues, combined with lower than expected cost of revenues and a favorable variance in operating expenses, resulted in a higher than planned burdened operating income.

Data Access Business Unit (DABU)

The Q90-3 condensed burdened operating income statement for DABU follows (in thousands):

	Actual		Plan		Variance
Net revenues	$ 6,778	100.0%	$ 6,139	100.0%	$ 639
Cost of revenues	1,966	29.0	1,824	29.7	(142)
Operating expenses	4,492	66.3	5,111	83.3	619
Allocations - Research and development	914	13.5	960	15.6	46
Allocations - Sales and marketing	1,995	29.4	1,970	32.1	(25)
Allocations - General and administrative	367	5.4	368	6.0	1
Burdened operating income (loss)	$(2,956)	(43.6)%	$(4,094)	(66.7)%	$1,138

The condensed YTD burdened operating income statement for DABU through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$ 14,452	100.0%	$ 16,015	100.0%	$(1,563)
Cost of revenues	5,135	35.5	4,976	31.1	(159)
Operating expenses	11,911	82.4	13,722	85.7	1,811
Allocations - Research and development	2,485	17.2	2,760	17.2	275
Allocations - Sales and marketing	5,332	36.9	5,661	35.3	329
Allocations - General and administrative	1,089	7.6	1,089	6.8	0
Burdened operating income (loss)	$(11,500)	(79.6)%	$(12,193)	(76.1)%	$ 693

DABU net revenues by channel for the quarter were as follows (in thousands):

	Actual		Plan		Variance
USSMD	$3,665	54.1%	$2,908	47.4%	$757
International Retail	2,769	40.9	2,923	47.6	(154)
Domestic OEM	406	6.0	350	5.7	56
International OEM	169	2.5	252	4.1	(83)
Adjustments	(231)	(3.5)	(294)	(4.8)	63
	$6,778	100.0%	$6,139	100.0%	$639

Net revenues for Q90-3, at $6.8 million, were 10% above plan of $6.1 million. In terms of revenue generation, the product group's leading products (compared with plan) for the quarter were as follows (dollars in thousands):

Actual	Plan		Actual Units	Actual Revenue	Plan Units	Plan Revenue	Variance
1	2	Pro Basic	12,188	$3,271	7,419	$1,944	$1,327
2	1	PC Quick Basic	31,538	2,015	49,271	2,936	(921)
3	-	Pro Basic Update	2,894	521	—	—	521
4	3	Basic Interpreter	282,350	511	205,530	606	(95)
5	5	Mac Quick Basic	3,528	193	4,132	242	(49)
				$6,511		$5,728	$ 783
Percentage of DABU's net revenues				96%		93%	

Plan #4 Mac File ($439)

DABU's favorable revenue variance was primarily attributed to Pro Basic, with sales of $3.3 million (48% of DABU's net revenue), compared to budget of $1.9 million. In addition, the unbudgeted Pro Basic 7.0 update contributed $521,000 in revenue. USSMD revenue was $757,000 above plan. The variance is entirely due to strong sales of Pro Basic, which exceeded its domestic forecast by $935,000. This variance was partially offset by Quick Basic revenue which was $434,000 below plan. The unfavorable International Retail variance of $154,000 is due to a $299,000 Mac File shortfall. International OEM was

$83,000 below plan of $252,000. Basic Interpreter, with actual revenue of $123,000 compared to plan of $252,000, was primarily responsible for this variance.

As a percentage of net revenues, cost of revenues was 29.0% compared to a budget of 29.7%. Product costs were 20.5% of net revenues, versus plan of 21.6%. USSMD's product cost percentage was 14.4% compared to budget of 15.4%, while International Retail's product costs were 31.2% compared to a budget of 30.1%. The USSMD variance was due to the fact that Pro Basic, which has product costs of 12.4%, represented such a large portion of the Q90-3 revenue. The slightly unfavorable variance in International product costs was primarily due to low net revenues of Mac Quick Basic, a high margin product. Non-product costs were 8.5% of net revenues ($577,000) versus plan of 8.1% ($496,000). The most significant unfavorable variance occurred in purchase price variance ($121,000). This was partially offset by a favorable variance in manufacturing and distribution allocations which is attributable to greater than planned throughput.

Operating expenses of $4.5 million were below plan of $5.1 million by $619,000. The most significant favorable variances were in marketing ($757,000), third-party product development ($311,000), and payroll ($110,000). The favorable variances were partially offset by an unbudgeted marketing expense accrual ($640,000). This accrual will be used to offset future marketing expenditures expected to be incurred in Q90-4.

The slippage of Omega contributed $735,000 to the favorable DABU marketing variance. This was partially offset by an unfavorable variance in Basic Compiler marketing ($142,000). The third-party development variance is a result of lower than planned domestic spending on purchase code and freelancers. The favorable variance in payroll is the result of headcount ramping up at a slower rate than anticipated in the budget. DABU's headcount has been below plan for each month, and the business unit ended the quarter with 137 employees versus plan of 158.

DABU's allocations mirrored the budget of $3.3 million. As a percentage of net revenues, actual allocations were 48.3% versus budget of 53.7%. Favorable allocations in Applications-Support ($35,000) and International R&D ($11,000) were partially offset by an unfavorable variance in International Retail ($22,000).

In summary, the burdened operating loss for Q90-3 was $3.0 million compared to a planned loss of $4.1 million. A favorable revenue variance, combined with lower than planned operating expenses, resulted in the the smaller than projected loss.

Graphics Business Unit (GBU)

The Q90-3 condensed burdened operating income statement for GBU follows (in thousands):

	Actual		Plan		Variance
Net revenues	$ 1,832	100.0%	$ 6,503	100.0%	$(4,671)
Cost of revenues	650	35.5	1,276	19.6	626
Operating expenses	3,216	175.5	3,587	55.2	371
Allocations - Research and development	604	33.0	656	10.1	52
Allocations - Sales and marketing	1,923	105.0	1,907	29.3	(16)
Allocations - General and administrative	188	10.2	191	2.9	3
Burdened operating income (loss)	$(4,749)	(259.2)%	$ (1,114)	(17.1)%	$(3,635)

The condensed YTD burdened operating income statement for GBU through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$ 5,616	100.0%	$16,291	100.0%	$(10,675)
Cost of revenues	1,589	28.3	3,463	21.3	1,874
Operating expenses	9,009	160.4	9,970	61.2	961
Allocations - Research and development	1,595	28.4	1,877	11.5	282
Allocations - Sales and marketing	5,121	91.2	5,467	33.6	346
Allocations - General and administrative	553	9.9	564	3.4	11
Burdened operating income	$(12,251)	(218.2)%	$ (5,050)	(31.0)%	$ (7,201)

GBU net revenues by channel for the quarter were as follows (in thousands)

	Actual		Plan		Variance
USSMD	$1,192	65.1%	$4,390	67.5%	$(3,198)
International Retail	536	29.3	2,413	37.1	(1,877)
Adjustments	104	5.6	(300)	(4.6)	404
	$1,832	100.0%	$6,503	100.0%	$(4,671)

Net revenue of $1.8 million was 72% below plan of 6.5 million. As of Q90-3, the Graphics business unit consisted of one product, Mac PowerPoint. Mac PowerPoint revenues were $1.7 million versus plan of $3.6 million. This variance was well apportioned with both USSMD and International Retail coming in at 48% of plan. Windows PowerPoint did not ship as expected and accordingly, generating a $3.5 million revenue shortfall. Revenue adjustments added $104,000 to net revenue compared to a budgeted adjustment of $-300,000. The variance is due to the fact that GBU's portion of the revenue generated by the Mac Office ($355,000) exceeded rebates and the increase in the reserve for returns. Office revenue is originally recorded in the Entry business unit and is distributed, to the BUs in which the component products reside, via an inter-business unit royalty. The budget anticipated this bundle would be discontinued in December.

As a percentage of net revenues, cost of revenues was 35.5% compared to a budget of 19.6%. Product costs were 14.6% of net revenues, versus plan of 12.8%. USSMD's product cost percentage was 12.9% compared to budget of 10.8%. International Retail's product cost percentage was 21.1% compared to budget of 14.7%. The unfavorable variances were due to the fact that a larger than planned percentage of revenue was comprised of lower margin SKUs (Academic products and updates). Non-product costs were $383,000 versus plan of $445,000. The variance is due to an unplanned charge of $51,000 representing the distribution of GBU's share of the product costs related to the Mac Office. As a result of the large revenue shortfall, non-product costs were 20.9% compared to plan of 6.8%

Graphics operating expenses for Q90-3 were $3.2 million compared to a plan of $3.6 million. Due to the delayed release of Win PowerPoint, marketing was $470,000 under plan. Payroll had a $146,000 favorable variance. These favorable variances were partially offset by an unbudgeted marketing expense accrual of ($230,000). This accrual was made in order to minimize the impact on Q90-4 when the marketing variance is expected to turn around.

Allocations to the Graphics business unit of $2.7 million were 99% of budget. International Retail's unfavorable variance of $17,000 partially offset International R&D favorable variance of $45,000. As a percentage of net revenues, total allocated expenses were 148.2% versus budget of 42.4%.

The Q90-3 burdened operating loss for GBU was $4.7 million compared to a planned net loss of $1.1 million.

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SYSTEMS BUSINESS UNIT REPORTING

The contribution to Systems net revenues and operating income for Q90-3 on a business unit basis was as follows (amounts in thousands):

Net Revenues	Actual		Plan		Variance Percentage
DOS	$55,363	63.4%	$52,231	64.1%	6
Windows	17,972	20.6	20,540	25.2	(13)
OS/2	13,489	15.4	6,748	8.3	100
Printer	562	0.6	2,001	2.4	(72)
Total	$87,386	100.0%	$81,520	100.0%	7

Operating Income (Loss)	Actual			Plan			
	Income (Loss)	Percentage Total	Percentage Revenue	Income (Loss)	Percentage Total	Percentage Revenue	Variance
DOS	$43,311	88.9	78.2	$41,469	98.6	79.4	$1,842
Windows	5,983	12.3	33.3	6,670	15.9	32.5	(687)
OS/2	1,099	2.2	8.1	(6,149)	(14.6)	(91.1)	7,248
Printer	(1,664)	(3.4)	(295.4)	59	0.1	2.9	(1,723)
Total	$48,729	100.0	55.8	$42,049	100.0	51.6	$6,680

The contribution to Systems net revenues and operating income for FY90 YTD on a business unit basis was as follows (amounts in thousands):

Net Revenues	Actual		Plan		Variance Percentage
DOS	$157,016	64.9%	$139,772	64.0%	12
Windows	50,760	21.0	51,176	23.4	(1)
OS/2	33,375	13.8	21,559	9.9	55
Printer	803	0.3	6,000	2.7	(87)
Total	$241,954	100.0%	$218,507	100.0%	11

Operating Income (Loss)	Actual			Plan			
	Income (Loss)	Percentage Total	Percentage Revenue	Income (Loss)	Percentage Total	Percentage Revenue	Variance
DOS	$123,228	91.1	78.5	$108,698	101.5	77.8	$14,530
Windows	17,572	13.0	34.6	13,765	12.9	26.9	3,807
OS/2	(1,236)	(0.9)	(3.7)	(15,578)	(14.6)	(72.3)	14,342
Printer	(4,378)	(3.2)	(543.9)	172	0.2	2.9	(4,550)
Total	$135,186	100.0	55.9	$107,057	100.0	49.0	$28,129

MS-DOS

The Q90-3 condensed burdened operating income statement for MS-DOS follows (in thousands):

	Actual		Plan		Variance
Net revenues	$55,363	100.0%	$52,231	100.0%	$3,132
Cost of revenues	3,680	6.7	3,092	5.9	(588)
Operating expenses	2,747	5.0	2,465	4.7	(282)
Allocations - Research and development	341	0.6	360	0.7	19
Allocations - Sales and marketing	5,058	9.1	4,624	8.9	(434)
Allocations - General and administrative	226	0.4	221	0.4	(5)
Burdened operating income	$43,311	78.2%	$41,469	79.4%	$1,842

The condensed YTD burdened operating income statement for MS-DOS through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$157,016	100.0%	$139,772	100.0%	$17,244
Cost of revenues	9,159	5.8	8,240	5.9	(919)
Operating expenses	7,460	4.8	7,114	5.1	(346)
Allocations - Research and development	954	0.6	1,093	0.8	139
Allocations - Sales and marketing	15,482	9.9	13,974	10.0	(1,508)
Allocations - General and administrative	732	0.4	653	0.4	(79)
Burdened operating income	$123,229	78.5%	$108,698	77.8%	$14,531

MS-DOS net revenues by channel for Q90-3 were as follows (in thousands):

	Actual		Plan		Variance
International OEM	$24,716	44.7%	$24,842	47.6%	$ (126)
Domestic OEM	21,505	38.8	19,357	37.0	2,148
Subtotal	46,221	83.55	44,199	84.6	2,022
International Retail	9,266	16.7	6,319	12.1	2,947
USSMD	9	–	1,843	3.5	(1,834)
Subtotal	55,496	100.2	52,361	100.2	3,135
Adjustments	(133)	(0.2)	(130)	(0.2)	(3)
Total	$55,363	100.0%	$52,231	100.0%	$3,132

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Table of significant Domestic and International OEM MS-DOS customers, by product (in thousands):

	MS-DOS/ GW-Basic	MS-Shell	Total Actual	Total Plan	Variance
Compaq	$ 2,995	$ 531	$ 3,526	$3,375	$ 151
Toshiba Corporation	2,489	292	2,781	1,242	1,539
Epson Corporation	1,924	214	2,138	916	1,222
Tandy	1,697	0	1,697	1,802	(105)
Acer Incorporated	1,417	0	1,417	1,478	(61)
Philips Electronics	1,195	107	1,302	798	504
AST Research	1,178	0	1,178	685	493
Zenith	1,165	31	1,196	1,899	(703)
Samsung Electronics	1,132	0	1,132	1,095	37
Tatung	1,309	(209)	1,100	738	362
Olivetti	962	16	978	1,202	(224)
Phoenix Computer	898	0	898	1,593	(695)
Schneider Rundfunkwerk	892	0	892	493	399
NCR Corp	844	10	854	884	(30)
American Telephone & Telegraph	627	157	784	550	234
Bull S.A.	609	62	671	662	9
Zeos International	664	0	664	0	664
Mitsubishi Electric	657	0	657	293	364
Distec Business	625	0	625	0	625
Datatronic	547	32	579	257	322
Datatech Enterprises	562	9	571	644	(73)
Tandon	555	0	555	346	209
Other Customers	19,770	341	20,026	23,247	(3,221)
Total	$44,713	$1,593	$46,221	$44,199	$2,022

Net revenues for MS-DOS were $55.4 million for the quarter, or 6% over the plan of $52.2 million. Favorable variances from International Retail ($2.9 million) and Domestic OEM ($2.1 million) outweighed the negative variances in USSMD ($1.8 million) and International OEM ($126,000). On a year-to-date basis, total MS-DOS revenues of $157.0 million are $17.2 million, or 11% over plan.

Domestic OEM packaged product revenue was 128% over plan ($4.8 million versus $2.1 million). This more than offset a 3% shortfall in royalties and was the driving force behind the channel's $2.1 million favorable variance. Significant packaged product customers included Zeos ($664,000), Supercom ($485,000), Liuski ($363,000), Gateway 2000 ($335,000) and PC Craft ($325,000). (Note: Packaged product is not budgeted by individual customer.) Significant unfavorable variances on the royalty side of the channel included a $730,000 shortfall by Zenith, and a $690,000 shortfall by Phoenix. Phoenix royalties have been sharply lower during FY90 due to several business factors. In addition, an amendment decreasing MS-DOS royalty rates accounted for $100,000 of Phoenix's negative variance. Zenith's shipments of MS-DOS units have been decreasing for the past year, from 160,000 units reported in Q89-3 to 84,000 units in Q90-3. Compaq reported $3.5 million in sales of MS-DOS and MS-Shell against a plan of $3.4 million. A retroactive license amendment resulted in the inclusion of $340,000 in prior-quarter MS-Shell royalties in this quarter's actual numbers. Compaq's plan calls for a 20,000 unit increase in MS-DOS sales each quarter of FY90. Actual unit shipments have been increasing by about 10,000 per quarter. Both AST ($1.2 million against $624,000 planned) and American Telephone & Telegraph ($627,000 versus a plan of $550,000) had a strong quarter. AST's sales have been ramping for the past two quarters.

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International OEM sales of $24.7 million were right at plan. Sizable favorable variances by Toshiba ($1.2 million), Epson ($547,000) and Tatung ($570,000) were offset by unfavorable variances from Olivetti ($240,000), Gold Star ($525,000), Hitachi ($590,000), Hyundai ($500,000) and Mitac ($675,000). Although budgeted quarterly, Hitachi reports semiannually in the second and fourth quarters. Hyundai's royalty report is late.

International Retail reported revenues of $9.3 million compared with a plan of $6.3 million, reflecting continued strong sales of international versions of MS-DOS. The $1.8 million shortfall from USSMD reflects the delay in delivery of the MS-DOS retail upgrade.

Total cost of revenues were $600,000 over the budgeted $3.1 million. In terms of real dollars, product cost increases were the direct result of higher volume of packaged product sales by the International Retail and Domestic OEM channels, which outweighed the savings related to the USSMD shortfall. In terms of a percentage of net revenues, the increase reflects the shift in sales mix to a higher proportion of packaged MS-DOS. A net $113,000 favorable variance in indirect product costs is primarily due to a lower allocation of manufacturing and distribution expenses.

Operating expenses of $2.7 million were 11% over plan. This resulted from an unfavorable variance in marketing-related expenses ($295,000). The unfavorable sales and marketing allocation stemmed from a greater amount of non-product-specific expenses incurred by the International OEM channel.

In summary, the favorable variance in revenue of $3.1 million outweighed unfavorable variances in all other categories, resulting in a burdened operating income of $43.3 million, or 4% over a plan of $41.5 million. On a year-to-date basis, burdened operating income is 13% above plan.

Windows

The Q90-3 condensed burdened operating income statement for Windows follows (in thousands):

	Actual		Plan		Variance
Net revenues	$17,972	100.0%	$20,540	100.0%	$(2,568)
Cost of revenues	4,056	22.6	5,291	25.8	1,235
Operating expenses	3,552	19.8	4,169	20.3	617
Allocations - Research and development	752	4.2	872	4.2	120
Allocations - Sales and marketing	3,372	18.7	3,284	16.0	(88)
Allocations - General and administrative	257	1.4	253	1.2	(4)
Burdened operating income	$ 5,983	33.3%	$ 6,671	32.5%	$ (688)

The condensed YTD burdened operating income statement for Windows through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$50,760	100.0%	$51,176	100.0%	$ (416)
Cost of revenues	11,363	22.4	12,831	25.1	1,468
Operating expenses	9,797	19.3	11,798	23.1	2,001
Allocations - Research and development	2,021	4.0	2,523	4.9	502
Allocations - Sales and marketing	9,185	18.1	9,511	18.6	326
Allocations - General and administrative	823	1.7	748	1.5	(75)
Burdened operating income	$ 17,571	34.6%	$13,765	26.9%	$3,806

Windows net revenues by channel for Q90-3 were as follows (in thousands):

	Actual		Plan		Variance
International Retail	$ 8,402	46.8%	$ 7,557	36.8%	$ (845)
USSMD	4,641	25.8	8,751	42.6	4,110
Domestic OEM	2,538	14.1	2,191	10.7	(347)
International OEM	1,865	10.4	2,263	11.0	398
Microsoft University	5	-	-	-	(5)
Subtotal	17,451	97.1	20,762	101.1	(3,311)
Adjustments	521	2.9	(222)	(1.1)	743
Total	$17,972	100.0%	$20,540	100.0%	$(2,568)

Net revenues for the Windows business unit were $18 million for the quarter, or 13% below the budgeted $20.5 million. Negative variances for USSMD and International OEM offset positive performances by International Retail and Domestic OEM. Revenue adjustments totalling $521,000 resulted from prepaid royalties allocation and reversal of overaccrual of USSMD rebates. On a year-to-date basis, total Windows revenues of $50.8 million are $416,000 under planned revenues of $51.2 million.

The USSMD channel drove the unfavorable revenue variance with sales of $4.6 million, $4.1 million, or 47% under budget. Retail sales have been negatively impacted by the delayed release of Windows 3.0, which was budgeted for this quarter. International Retail, not affected by the delay, had a favorable variance of $845,000 on sales of $8.4 million. Revenues were divided evenly between Windows 286 and Windows 386. The French version of Windows had the highest sales of the localized products, selling $1.4 million and $1.2 million of 286-based and 386-based Windows, respectively.

The $2.5 million in sales reported by the Domestic OEM channel was $347,000 over budget. Significant packaged product variances were generated by American Telephone & Telegraph ($298,000), Hewlett-Packard ($53,000) and Intel ($9,000). Significant positive royalty variances include Unisys ($127,000) and Tandon ($186,000). However, these were partially offset by Zenith's unfavorable variance of $324,000.

International OEM had a $398,000 shortfall on sales of $1.9 million. Significant unfavorable variances came from Olivetti ($245,000), Acer ($209,000), and Amstrad ($104,000). Olivetti's variance results in part from delayed processing of one month of sales pending execution of a new agreement. The unfavorable variance was increased by a number of international OEMs who hold Windows licenses but have not yet begun shipping. These factors were only partially offset by positive variances from Datatronic ($141,000) and Mitsubishi ($118,000).

Cost of revenues was $4.1 million, $1.2 million under the budget of $5.3 million. Favorable product cost variances are all driven by low volume. Additionally, retail cost of revenues is positively impacted by the shift in sales mix from Windows to the higher margin Windows 386. Allocations of indirect expenses include unfavorable variances for unbudgeted manufacturing variances and inventory adjustments and a favorable variance from a manufacturing and distribution pool.

Operating expenses of $3.6 million were $600,000 under the budgeted $4.2 million. Favorable variances include marketing related ($457,000) and professional fees ($130,000). Expenses relating to bad debt and B&O taxes were less than budgeted as a direct result of the lower revenue. Allocated expenses were in line with plan.

In summary, burdened operating income of $6 million was 10% below plan as a result of a $2.6 million deficit in planned revenues. Favorable variances in all other categories reduced but did not completely offset this shortfall. On a year-to-date basis, burdened operating income is $17.6 million, $3.8 million above the $13.8 million plan.

OS/2

The Q90-3 condensed burdened operating income statement for OS/2 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$13,489	100.0%	$6,748	100.0%	$6,741
Cost of revenues	1,418	10.5	1,032	15.3	(386)
Operating expenses	8,683	64.4	9,596	142.2	913
Allocations - Research and development	846	6.3	917	13.6	71
Allocations - Sales and marketing	915	6.8	824	12.2	(91)
Allocations - General and administrative	529	3.9	528	7.8	(1)
Burdened operating income (loss)	$1,098	8.1%	$(6,149)	(91.1)%	$7,247

The condensed YTD burdened operating income statement for OS/2 through Q90-3 follows (in thousands):

	Actual		Plan		Variance
Net revenues	$33,375	100.0%	$21,559	100.0%	$11,816
Cost of revenues	2,916	8.7	2,479	11.6	(437)
Operating expenses	24,806	74.3	27,734	128.7	2,928
Allocations - Research and development	2,434	7.3	2,842	13.1	408
Allocations - Sales and marketing	2,881	8.7	2,516	11.6	(365)
Allocations - General and administrative	1,574	4.7	1,567	7.2	(7)
Burdened operating (loss)	$(1,236)	(3.7)%	$(15,579)	(72.3)%	$14,343

OS/2 net revenues by channel for Q90-3 were as follows (in thousands):

	Actual		Plan		Variance
Domestic OEM	$ 2,083	15.4%	$2,081	30.9%	$ 2
International OEM	712	5.3	3,283	48.6	(2,571)
Subtotal	2,795	20.7	5,364	79.5	(2,569)
International Retail	969	7.2	693	10.3	276
Microsoft University	(3)	--	--	--	(3)
Subtotal	3,761	27.9	6,057	89.8	(2,296)
Adjustments	9,728	72.1	691	10.2	9,037
Total	$13,489	100.0%	$6,748	100.0%	$6,741

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Table of significant Domestic and International OEM OS/2 customers, (in thousands):

	Actual	Plan	Variance
IBM Corporation	$ 526	$ 788	$ (262)
Bull S.A.	241	132	109
Compaq	217	128	89
NTT Data Communications	150	0	150
Hewlett Packard	147	38	109
Nokia Data Systems	143	37	106
Unisys	134	45	89
NCR	109	52	57
Dell	85	40	45
Everex	60	0	60
AST Research	54	29	25
Intel	42	7	35
Nixdorf Computer	32	34	(2)
Olivetti	29	162	(133)
Memorex Telex	27	17	10
DEC	25	0	25
NEC Corporation	21	203	(182)
American Telephone & Telegraph	19	12	7
Acer Incorporated	19	181	(162)
Zenith	16	72	(56)
Kyocera	16	0	16
Other Customers	683	3,387	(2,704)
Total	$2,795	$5,364	$(2,569)

Net revenues for the OS/2 business unit were $13.5 million for the quarter, or 100% above the plan of $6.7 million. On a year-to-date basis, total OS/2 revenues of $33.4 million are 11.8 million, or 55% over plan.

The primary cause of the favorable net revenue variance was the allocation of a portion of UPB ($9.7 million), the GAAP adjustment ($3 million), an accrual of NEC royalties ($2.8 million) and a reserve related to prepaid royalties (-$5.8 million). (See Systems Product Group for discussion of the allocation of revenue adjustments.) Absent these adjustments, revenues would have been $2.3 million under plan for the quarter and $7.2 million under plan year-to-date as a result of overall low product penetration.

Domestic OEM was right on plan with revenues of $2.1 million, the result of IBM having only half the sales that were budgeted ($526,000 versus $1.1 million), offset by positive variances from most of the remaining OEMs who are shipping OS/2. Other Domestic OEMs with sales over $100,000 included Compaq ($217,000), Hewlett Packard ($147,000), Unisys ($134,000), and NCR ($109,000).

International OEM sales of $712,000 were $2.6 million under budget, primarily because many of the OEMs that are licensed for OS/2 are not yet shipping the product. Significant unfavorable variances for those who are shipping include Epson ($298,000), Mitac ($179,000), Olivetti ($133,000), NEC ($181,000) and Acer ($163,000). Unfavorable variances relating to OEMs not yet shipping OS/2 include Fujitsu ($364,000), Coparn ($156,000), Philips ($119,000) and Plus & Plus ($115,000). OEMs generating above plan revenues include Bull S.A. ($241,000 against $132,000 planned), NTT ($150,000 source code charge), and Nokia Data ($143,000 against $37,000 planned).

International Retail reported $969,000 in sales against $693,000 budgeted. These revenues are for sales of OS/2 SDKs (Software Development Kits) and fees for support and installation of International OEM OS/2 products.

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FY'91 PLANNING TARGETS

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Cost of revenues were $1.4 million against a budget of $1.0 million due to a $563,000 unfavorable variance in the International Retail channel (MS KK). This was partially offset by a favorable royalty expense variance ($208,000) which resulted from the sale of fewer OS/2 units.

Operating expenses of $8.7 million were $900,000 under plan. Significant favorable variances contributing to this savings were payroll ($378,000), marketing-related expenses ($284,000) and product development ($161,000). These were partially offset by unfavorable variances in depreciation ($153,000) and supplies equipment ($131,000). Allocated expenses were within $20,000 of plan.

In summary, the favorable variances in revenue and operating expenses outweighed unfavorable variances in cost of revenues and allocated expenses, resulting in a burdened operating income of $1.1 million compared to a planned loss of $6.1 million. On a year-to-date basis, OS/2 carries a burdened operating loss of $1.2 million, $14.3 million less than was budgeted.

Microsoft Corporation

Fiscal Year 1991 Planning Targets

(in thousands)

	FY89 Actual	FY90 Estimate (1)	Growth FY90/89	FY91 Targets	Growth FY91/90
Net revenues:					
USSMD	$231,266	$340,000	47.0%	$455,000	33.8%
Intl Retail	298,680	490,000	64.1%	650,000	32.7%
US OEM	115,034	150,000	30.4%	150,000	0.0%
Intl OEM	139,597	160,000	14.6%	170,000	6.3%
WW Lan Man	0	0		60,000	
Other	18,953	25,000	31.9%	41,000	64.0%
Total net revenues	803,530	1,165,000	45.0%	1,526,000	31.0%
Cost of revenues	204,185	250,000	22.4%	328,000	31.2%
Gross profit	599,345	915,000	52.7%	1,198,000	30.9%
Operating expenses:					
Research and development	110,220	179,000	62.4%	235,000	31.3%
Sales and marketing	218,997	307,500	40.4%	450,000	46.3%
General and administrative	27,898	37,500	34.4%	46,000	22.7%
Total operating expenses	357,115	524,000	46.7%	731,000	39.5%
Operating income	242,230	391,000	61.4%	467,000	19.4%
Non-operating income	16,566	20,000	20.7%	27,000	35.0%
Stock option program expense	(8,000)	(6,000)	-25.0%	(1,500)	-75.0%
Income before income taxes	250,796	405,000	61.5%	492,500	21.6%
Provision for income taxes	80,258	129,000	60.7%	152,500	18.2%
Net income	$170,538	$276,000	61.8%	$340,000	23.2%
Average shares outstanding	112,490	119,000	5.8%	122,000	2.5%
Net income per share	$1.52	$2.32	53.0%	$2.79	20.2%
Net revenues	100.0%	100.0%		100.0%	
Cost of revenues	25.4%	21.5%		21.5%	
Gross profit	74.6%	78.5%		78.5%	
Operating expenses:					
Research and development	13.7%	15.4%		15.4%	
Sales and marketing	27.3%	26.4%		29.5%	
General and administrative	3.5%	3.2%		3.0%	
Total operating expenses	44.4%	45.0%		47.9%	
Operating income	30.1%	33.6%		30.6%	
Non-operating income	2.1%	1.7%		1.8%	
Stock option program expense	-1.0%	-0.5%		-0.1%	
Income before income taxes	31.2%	34.8%		32.3%	
Provision for income taxes	10.0%	11.1%		10.0%	
Net income	21.2%	23.7%		22.3%	

(1) Nine months actual plus Q90-4 estimate of $318.5 million net revenues and $0.63 EPS.

MANUFACTURING

MANUFACTURING

Equivalent Units

Domestic manufacturing measures production and plans capacity in terms of equivalent units. An equivalent unit represents the time consumed in building a particular product relative to other products. PC Word represents one equivalent unit. All other products are classified into one of five categories based upon how their direct labor relates to Word. For example, Basic PPS 7.0, which has more component parts than Word, has a higher equivalent unit measure than Word. A comparison of equivalent units built (EU's) for Q90-3 and Q90-2 follows:

	Q90-3		Q90-2	
	Total EU	EU/Build Day	Total EU	EU/Build Day
In-House	1,352,791	21,473	1,334,109	21,871
Off Site	324,649	5,153	266,669	4,371
Total	1,677,440	26,626	1,600,778	26,242

In-house equivalent units represent the production at Campus North, while off-site represents the production by our seven off-site vendors. Off-site vendors are contracted to assemble product when forecasted demand exceeds plant capacity. The EU/Day measures the number of equivalent units produced per build day during each of the respective periods. As a result of lower than planned sales in March, many production schedules were cancelled. This caused Q90-3 EU productions to be lower than originally projected. We currently calculate Campus North capacity at 25,000 EU's per day.

Microsoft Ireland, which provides the majority of the package products sold by our European sales subsidiaries, has abandoned the EU concept, due to the fact that they build fewer Mac products and updates (low EU products) than Campus North. Ireland feels their production measurement is not adversely effected by using units rather than EUs. Accordingly, Irish manufacturing measures production in terms of the gross number of packages built. Total units produced in Dublin for Q90-3 was 607,000 compared to 493,000 for Q90-2.

Backlog

Domestic manufacturing schedules production based on Product Marketing's forecast of demand. Buildable backlogs occur when sales orders exceed forecasted demand or the plant is not building to forecasted demand. Non buildable backlog occurs when orders have been placed for software that has not yet been released. Total backlog for Q90-3 and Q90-2 follows:

	Q90-3	Q90-2
Buildable Backlog		
Mouse	$ 359,000	$ 5,100,000
WinWord	41,000	1,754,000
C Compiler 5.1	-	1,070,000
Windows	159,000	571,000
PC Word	-	454,000
Other	806,000	1,805,000
Total Buildable Backlog	1,365,000	10,754,000
Non Buildable Backlog	485,000	-
Total Backlog	$1,850,000	$10,754,000

The majority of the backlog at the end of Q90-2 was due to our inability to procure enough hardware to meet the tremendous demand for Mouse. Additionally, Win Word and C 5.1 sales orders outstripped forecasted demand. By the end of Q90-3, the backlog had been substantially reduced. The Windows backlog is due to an attempt to reduce channel inventory prior to the release of Version 3.0. The non buildable backlog at March 31, 1990 consists principally of C Compiler 6.0.

Irish manufacturing demand is created by firm orders placed on the plant by the European sales subsidiaries. The backlog definition is consistent with that used domestically, however, since transactions are valued at transfer price, backlog is tracked in units rather than dollars. Ireland's total backlog in units for Q90-3 and Q90-2 follows:

	Q90-3	Q90-2
Buildable Backlog*	14,100	6,398
Non Buildable Backlog	118,495	68,829
Total Backlog	132,595	75,227

*less than 2 day's production

Rate Based Distribution

In Q90-3 we commenced "Rate Based Distribution". Under this program, we have asked several key customers to forecast their weekly demand for Word, Excel and Works (both the PC and Mac environments). The theory behind this program is that by building and shipping product to our large customers in stable amounts (i.e., 400 Mac Word every week), based upon their forecast, we will be able to lower inventories for both parties while increasing customer satisfaction. Ingram Micro D, Egghead and Computerland are currently part of the program. We anticipate increasing the number of participants and products during Q90-4.

Puerto Rico Operation

The Puerto Rico duplication plant, located in Humacao, became operational near the end of Q90-3. The plant currently employs 34 employees, 27 non-exempt and 7 exempt. A portion of the plant is being used as a temporary facility. The buildout of permanent facilities will be completed before the end of Q90-4. Disk duplication will begin in earnest in Q90-4.

ADMINISTRATION

TAX MATTERS

TAX MATTERS

DOMESTIC

"Spread" From Stock Plans: Q90-3 stock option spread equaled $38.8 million. Cumulative spread for the first three quarters is $80.0 million compared to $33.4 million for the same period last year. The spread reduces both federal and state estimated taxes.

Tax Returns For FY 89: Our Federal and state income tax returns were completed and filed in March. FY 89 federal income tax paid for FY 89 was $9,606,000 on MS Corp book income of $169,485,000. MS Corp, or U.S., book income is approximately 68% of worldwide consolidated book income of $250,796,000 reported publicly for FY'89. State income taxes totaled $2,159,000.

At statutory rates (34%), our FY'89 federal income taxes on $169,485,000 would have been $57,624,000. Actual taxes paid differ from this primarily because of foreign tax credits ($42,406,000) and R&D credits ($3,387,000).

Of possible foreign tax credits of $48,981,000, we were limited to $42,406,000 leaving $6,575,000 available for carryback to FY 87. The R&D credit was limited due to Alternative Minimum Tax leaving $3,127,000 available for carryback to FY 86. We are currently pursuing a method of refund application to get the benefits of these credits that will prevent the I.R.S. from re-examining FY 86 and 87, which were previously examined by the I.R.S. and closed.

R&D Proposed Regulations: The IRS has placed increased emphasis on review of R&D tax credits and originally took the position that the process of developing a version 1.1 based on version 1.0 is not R&D. Much of our R&D falls into this category. As a result of recent lobbying efforts, it appears, however, that the I.R.S. may now concur with our position. In addition, it appears the I.R.S. has also reconsidered whether the preparation of systems documentation is part of the R&D process in a favorable manner for MS.

Payroll Exams: Our ongoing I.R.S. payroll examination has involved Legal, Human Resources, Tax and Public Relations. All of our freelancers have been converted into one of three categories: (1) full time employees, (2) working through temporary agencies (e.g., Volt or Manpower), or (3) approved as independent contractors by the I.R.S. or currently have a determination request pending with the I.R.S.

We have issued W-2's to 40 individuals the I.R.S. examined and determined to be employees during calendar years 1986 and 1987.

In addition, we have employed an Arthur Andersen tax accountant to assist individuals with generic questions they might have with respect to their reclassification and their individual income taxes.

State Exams:

Jurisdiction	Type of Exam	Year	Exposure/ Amount Paid	Status
California	Sales & Use	85-89	$208,134	Completed
Illinois	Income Tax	85-88	$57,020	Completed
Massachusetts	Sales & Use	87-89	$15,000	In Progress
Michigan	Sales,Use,Income	85-89	Small	Pending
Federal	Payroll	86-89	Small	In Progress

Sales and Use Tax: Currently, we are filing sales and use tax returns in 24 states. We will add Maryland and Indiana during Q4. We will continue to register with additional states as it becomes appropriate.

During Q90-3, we took advantage of the Virginia sales and use tax amnesty program and concluded a lengthy negotiation with the State of New Jersey to pay back sales and use taxes, settling for $179,309, but avoiding potential penalties of $50,000.

Taxation of Computer Software: The Washington State Legislature has established a study committee comprised of representatives of government and business to recommend a solution to the question of whether computer software should be subject to personal property tax. We will be represented on the study committee by Bill Neukom.

Legislative Update: The Omnibus Budget Reconciliation Act of 1989 added a new excise tax on ozone-depleting chemicals that are sold or used by a manufacturer, producer, or importer of such chemicals. The new tax is effective starting January 1, 1990. We are currently researching the impact of this issue on MS. Preliminarily, it appears this tax may be assessed on our imported mouse products.

INTERNATIONAL

PFIC: - We are forming a new Dutch corporation, Microsoft Manufacturing BV, to hold the manufacturing assets of our Irish branch. This corporation will be wholly owned by Microsoft International BV. Microsoft IBV will transfer to Manufacturing BV the operating assets of the Irish branch in exchange for stock of Manufacturing BV. This will be done as of 6/30/90. It will avoid interest charges of approximately $10 million in the next three years by enabling Manufacturing BV to avoid PFIC status.

We continue to actively seek a legislative solution to PFIC status to avoid the need for periodic restructurings of our European manufacturing operation.

Puerto Rico: - Build out of the Puerto Rican manufacturing facility is underway. Duplication equipment has been installed in a temporary location. Production will begin as soon as the final lease on the facility has been negotiated. Signing of the lease has been delayed while environmental studies are completed. Full production is scheduled to begin in April.

Staffing of the facility has been completed with the training of manufacturing and office support personnel proceeding at this time. A controller familiar with Section 936 operations has been hired and is working with Cost Accounting, MIS and Manufacturing to set up the proper accounting and financial reporting procedures.

Congress is currently debating a referendum in Puerto Rico (possibly in 1991) to determine the future political status of the island. Statehood is one of the options to be voted upon and its selection would result in the repeal of Section 936. Benefits would be phased out over 10-25 years. We consider statehood status unlikely in the near term.

<u>Dividends/Capital Infusions:</u> - During Q90-3, Microsoft AB (Sweden) remitted a dividend to MS of approximately $1.3 million. MS returned $291,000 as additional capital for expansion.

We are currently reviewing results through Q90-3 to determine optimum dividend repatriations during the balance of FY90.

<u>New Subsidiaries:</u> - During the third quarter, subsidiaries have been established in Norway, Denmark and Singapore. In addition, a liaison office has been created in India to further Microsoft interests in that country. Planning is actively underway toward the establishment of a subsidiary in Portugal at this time with an expected incorporation date of July 1.

<u>Subsidiary Operations</u>: - Tax planning and compliance for foreign subsidiaries continued during the quarter. Issues included:

Microsoft Ltd. (U.K.) - PFIC and withholding issues of financing the new building.

Microsoft Inc. (Canada) - Reporting exercise of stock options by Inc. employees during CY89 and pursuing refunds of Canadian income taxes withheld by OEM customers with Revenue Canada (potential refund approximately $1 million).

Microsoft TC (Taiwan) - Formulation of policy to account for Mice product sales from the manufacturer to the local subsidiary.

Microsoft Sarl (France) - Stock option reporting requirements to French authorities.

Microsoft Srl (Spain) - Implications of Spanish withholding on the import of Microsoft products into Spain. Spain is attempting to classify the sale of boxtop product as a license rather than a product with the intent of securing an increased withholding tax on sales within Spain.

Microsoft Spa (Italy) - Withholding issues similar to those in SRL are being resolved. Informal approval has been announced by the Italian government but efforts continue to secure a formal announcement.

Microsoft CH (Korea) - Formulation of transfer prices for Press products to be sold in the Korean market and potential buy out of Korean minority interest.

INSURANCE MATTERS

INSURANCE MATTERS

During Q90-3 a new coverage "Medical Benefits Abroad", was added covering medical benefits, accidental death and dismemberment, and excess repatriation expenses for travelling subsidiary employees. This insurance assures access to hospital care when travelling on behalf of Microsoft, and reimburses the subsidiary employee for medical treatment required during such travel that would otherwise be excluded from the employee's governmentally or locally provided medical benefits program. The cost of this new coverage is approximately $24,000 per year.

During the period, the Fiduciary Liability, Blanket Crime, and "Special Indemnity" (kidnap and ransom) policies were renewed with only modest price increases reflecting company growth. Coverage under the Special Indemnity policy was broadened to include $10,000,000 in coverage for politically motivated hostage taking, and an increase in accidental death coverage to $300,000 per individual.

On January 30, Microsoft received notice from its general liability insurer (Federal Insurance Co.), that policy coverage for the Apple lawsuit was denied. Several reasons for denial of coverage were given by the insurer, but most, if not all, are considered without sufficient merit to warrant a complete denial of coverage. We are negotiating with Federal concerning coverage for Microsoft's defense costs in this matter.

In February, Microsoft received a letter from an attorney representing several Microsoft freelancers alleging that the freelancers were employees, and that as such they were entitled to certain employee benefits. The letter requests compensation for past benefits denied. Insurance for such allegations is provided under Microsoft's employee benefits errors and omissions liability and fiduciary liability policies, and insurers have been put on notice of potential claim for this situation.

Directors and Officers liability exposures and the availability of Directors and Officers liability insurance has been reviewed. Detailed materials are included on the agenda for the May 5, 1990 Board of Directors meeting.

Current insurance coverages and related deductibles are being reviewed in preparation for the upcoming July 1 insurance renewals. Primary focus is being given to potential cost savings and coverage enhancement that may be achieved by distributing Microsoft's insurance program over an increased number of insurance carriers.

An additional area that we are investigating is Microsoft's assumption of risk by contract. Numerous agreements between Microsoft and its vendors, suppliers, and contractors are being reviewed and modified to reduce Microsoft's potential liability. Contractual assumption of environmental risks under the terms of the new Puerto Rico facility lease agreement was avoided through this process.

FACILITIES REPORT

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FACILITIES REPORT

Microsoft now controls approximately 210 acres of land at Corporate Campus. Coupled with 23 acres of land owned at Canyon Park, Microsoft controls a total of 233 acres in the greater Eastside area. 810,000 square feet of building space is currently managed and occupied at Corporate Campus. To continue with the dynamic growth of Microsoft, Buildings 10, 16 ,17 ,18 and additional leased space, a combined total of 740,000 square feet, are currently under development.

LAND ACQUISITIONS

The Benchmark property acquisition included an option to purchase an adjoining 1.42 acre lot under separate ownership (referred to as Lot O, aka "sawmill"), for a price of $94,000. Closure of Lot O is anticipated for late April 1990, pending resolution of final closing issues. (see Campus Land Map)

CORPORATE CAMPUS DEVELOPMENT

As headcount and space requirements continue to grow at a dynamic pace, development continues in all areas of Corporate Campus Facilities.

The Master Plan of Corporate Campus space projections was submitted for approval during March, 1990. The plan outlined both short term and future space needs based upon finance forecasted headcount and secondary space needs by division. Short term space is currently focused on leased space both inside and in close proximity to the Microsoft Place Office Park. Because of the increasingly tight real estate market conditions in the Bellevue/Redmond area, the number of available options for space are diminishing. Buildings 16,17 and 18 are in respective planning stages for long term and future space accommodations.

Owned Facilities

The Overall Site Master Plan of Corporate Campus has been and continues to undergo revisions to meet and address the changing needs of Microsoft both now and for future use. This involves the re-examining of size, use and potential of the various individual lots in creating a new overall scheme to aid in the planning of Buildings 16,17,18 and future building needs.

Buildings 16 and 17 development continues with the refinement of design and completion of construction documents. The Design Review Board for the City of Redmond approved the general site and proposed building design, giving the go ahead to proceed in the permit process. Current discussions are in process with both the City of Redmond and the City of Bellevue to resolve traffic mitigation issues proposed by both cities in respect to the impact of Buildings 16 and 17. Anticipated ground breaking is expected to commence during May 1990 with an approximate construction schedule of 15 to 16 months. (see Master Site Plan)

Building 18 was approved to proceed with design and general specifications. Building 18 will be incorporated into the general building planning scheme of Buildings 16 and 17 (see Master Site Plan).

Building 10 is on schedule with construction complete the week of April 16, 1990. Occupancy and move in will be during the weekend of May 11, 1990.

Building 12, with respect to space leased by The Ecova Corporation, is currently under negotiations for a possible move out of The Ecova Corporation and an eventual Microsoft occupancy. This space will give needed growth room for both Books/Multi-Media and Administrative Services.

CORPORATE CAMPUS LEASED SPACE

The Koll Overlake Building currently housing part of IPG, is in the process of acquiring additional space for the expansion needs of this group. Approximately 56,000 square feet is scheduled for Microsoft use as of early Fall 1990.

EVA (referred to as the McDonnell Douglas Building) is the existing space for both SPAG and The Printer Business Group. Two additional phases of space acquisitions are planned. The first phase of expansion will be used for the Microsoft Company Store. The remaining building space is scheduled for commencement during Summer 1990, with the intent of using for SPAG and The Printer Business Group expansion space.

EVB (the Microrim Building) is under negotiations for a possible early Fall 1990 Microsoft move in. USSMD support is scheduled to move from Building 8 into the EVB building

LOCAL MOVES AND REMODELS

During the third quarter of FY90, 31 local construction projects and Campus remodels were complete for a total of 41,500 square feet. These projects are inclusive of the EVA (McDonnell Douglas) construction completion (26,000 square feet) and various remodel projects at Campus and local Microsoft sites.

Third quarter major moves and remodels included:

- The relocation of the PC Install group into Building 11 from Building 1. This resulted in a reshuffle of the Systems OS/2 group in Buildings 1 and 2 during January 1990 (164 employees).
- The completion of EVA (McDonnell Douglas). SPAG and the Bauer Group moved in January and March 1990 respectively (73 employees).
- Reshuffle of IPG employees in Building 9 during March 1990 (33 employees).

The occupancy of Building 10 during the fourth quarter of FY90 will accelerate the move schedule in order to accommodate group reorganizations resulting from Building 10. Large scale moves are currently scheduled for three out of every four weekends commencing as of May and continuing through October 1990.

Fourth quarter major moves and remodels include:

Move into Building 10

- Respective Applications groups will move from Buildings 4 through 6 into Building 10 - ABU, DABU, Vice President and staff, Development support (312 employees).
- OEM will move from Building 9 to Building 10 (47 employees).
- A major reshuffle of IPG, Corporate Communications and Human Resources in Building 9 (130 employees).
- Systems groups will relocate from Buildings 1 and 2 into Building 4 in order to accommodate future Systems growth (150 employees).
- Various Applications groups will reshuffle inside of Buildings 5 and 6 (250 employees).

LID/ROAD WORK

- 156th LID (improvements of 156th avenue from Microsoft's south boundary past the connection with Bel-Red Road) is underway and currently on schedule with completion expected to be late this Spring. Included in this work is the installation of traffic lights located at 31st and 156th (near Building 11), and at 36th and 156th (the main entrance). Both lights are expected to be operational as of early May 1990.

- Bel-Red LID (improvements to Bel -Red from 156th to 40th) is anticipated for construction start in early May 1990, pending the resolution of street drainage issues involving the three governing jurisdictions (Bellevue, Redmond and King County), and local property owners. Building 7 cannot be constructed until the Bel-Red LID is complete.

- E-line is a planned connecting road from Bel-Red to 156th across the south end of Microsoft property. Ongoing discussions with the city are continuing in an attempt to reach agreement on whether or not this public road will be on Microsoft property. Microsoft's goal is not to have a public street dividing the campus. The purchase of the Phase VII land further strengthened Microsoft's position in these discussions.

DOMESTIC USSMD

Domestic USSMD physical plant activity over the past three months has primarily focused on the approval of headcount growth projections for USSMD field as a whole. Incorporating planned fiscal year growth with the approved LAN MAN and Windows/ASR push, Capital Expenditure Requests were complete and approved for physical plant expansion in each existing city and the addition of 4 new cities. (see Domestic Locations Map)

17 projects are approved for development over the next 8 to 12 months. This will involve move and expansion activity for each office incorporating the following steps: site selection, lease negotiations, construction project management, space planning, telecommunications, cabling, furniture purchase, install and the actual move in.

The following projects have been approved. The scope of work is subject to change pending specific negotiations:

The Atlanta office will expand in their current space to incorporate growth until the end of FY91. At that time, pending the existing building occupancy and market conditions, the decision will be made to move to a new site or further expand in the current building.

The Boston office is currently under negotiations to incorporate contiguous expansion space.

The New York office is scheduled to move to a new building in the Midtown area of New York City. Site selection is currently underway.

The Philadelphia office will move from executive office suite space in Delaware to a new building in the Philadelphia area. Market analysis will commence during the fourth quarter of FY90.

The Washington DC office will move to a new building in the Bethesda, Maryland area. Preliminary negotiations and space planning are in final stages.

The Chicago office is planned for expansion into contiguous office space.

Dallas is in the process of finalizing lease review for expansion space located adjacent to the current office.

Detroit will move to a new building in the suburban Detroit area. Space planning and site selection are well underway.

The Minneapolis office is scheduled to expand into floor space adjacent to the existing office.

St. Louis will have a new office open during the next eight month period. Market analysis is scheduled to commence during May 1990.

Denver will open a new office with the site selection process currently underway. Preliminary sites are focusing on the Tech Corridor located outside of Denver.

The Los Angeles office is planned to expand at the latter part of FY91. Currently, the Orange County operations are housed in the Los Angeles office.

Orange County is scheduled for a new office to open with site selection activity focusing in the Irvine area.

Phoenix will have a new office open during the latter part of FY91.

The Santa Clara office has two possible options for expansion space - acquiring additional space in the existing building or a move to a new site outside of the Menlo Park area; both pending further negotiations.

The Seattle (Pac West) office will relocate to a new building inside the existing Yarrow Bay Office Park in Kirkland. Space planning is underway.

DOMESTIC DIVISION OFFICES

In addition to the USSMD field office projects, respective Domestic Division Branch Offices saw activity during the third quarter of FY90 and project activity is scheduled to continue.

MSU-Boston office was complete as scheduled during March 1990.

PSS Lincoln Plaza continues to grow and expand at a dynamic pace. 3,000 square feet was occupied during March 1990 while approximately 12,000 additional square feet is under development. Options are currently under consideration to accommodate needs for future headcount growth.

PSS Charlotte is in final lease review and negotiations. A site was chosen during March 1990. The new site is located in the southern part of Charlotte in Three Lake Pointe, a master planned office park developed by Childress Klein Properties. Microsoft's two-story, 50,000 square foot building will commence construction the end of April 1990. Occupancy is scheduled for late this fall. (see Charlotte Site Plan)

Puerto Rico, a new disk duplication facility, is under construction with scheduled completion targeted for early this summer. Lease signing has been prolonged because of discussions with the various local controlling interests of this property relating to environmental issues. An environmental survey has been complete to determine if any environmental concerns should be addressed and is under review at this time. The lease is in the final stages of review and negotiation.

A duplication area has been set up on an interim basis until the completion and occupancy of the new space.

INTERNATIONAL FACILITY DEVELOPMENT

Facilities development continues very active planning for the International offices so the learning curve gained in Redmond development is being leveraged with International operations.

PTY (Microsoft Australia) is starting to pour foundations. Excessive rains have forced a slight delay, however, part of this was already build into the construction schedule. Occupancy is targeted for April 1991.

INC (Microsoft Canada) is in process of completing the foundation for the 76,000 square feet office and warehouse facility. Design and layout requirements are being finalized. Occupancy is targeted October 1990.

LTD (Microsoft England) is in final stages of a 6.94 acres land purchase targeted for the end of April 1990. The development manager has been selected and final discussions are in process for his contract. The office and warehouse facility has been targeted for completion by 1st Qtr FY92.

AB (Microsoft Sweden) is exploring options regarding their future space requirements, ie purchase or lease. A target of May 15, 1990 has been set for completing this study.

CH (Microsoft Korea) has signed a letter of intent with a landlord allowing them to continue discussions regarding price etc for 1032 square meters in an office building targeted for completion July, 1990.

GMBH (Microsoft Germany) will be moving sales/marketing personnel on May 18, 1990 to a new temporary office (for about 1 year) while their additional 7000 square meter office is completed across the street from the headquarters building. The edsionpark complex - building 1- is targeted for completion June 1991. Ground has just been broken and work progressing rapidly.

SARL (Microsoft France) has targeted to move into their 57,000 sq feet office building (phase I) and 30,000 sq feet warehouse December 1990. The construction plan is on schedule.

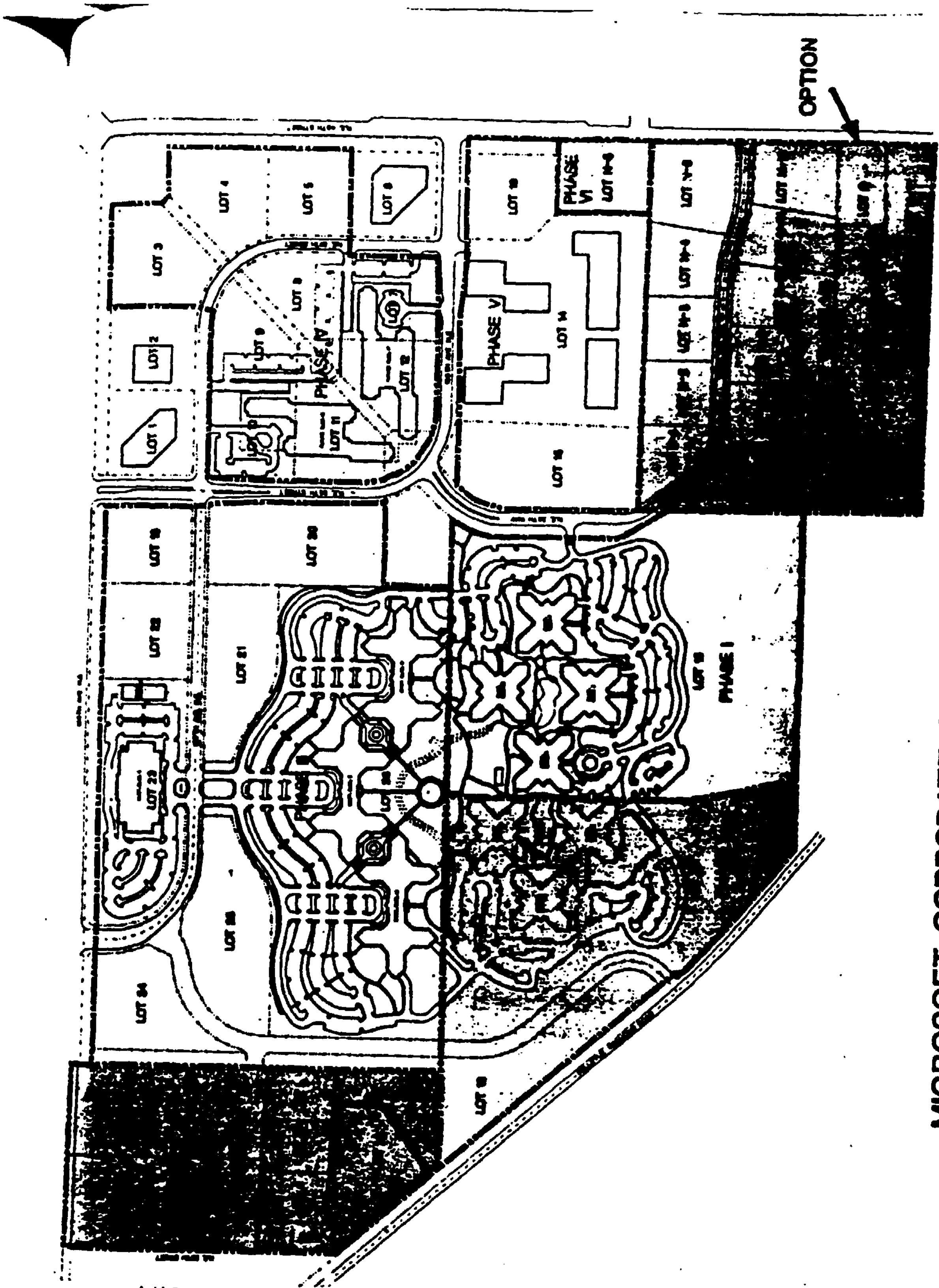
SRL (Microsoft Spain) will move into their new offices September 1990. Delays in finishing and build-out of these offices and providing for continued growth has required a 6 month short term office solution for some of the employees.

The new disk duplication facility in Puerto Rico is targeted for completion the end of June 1990.

MICROSOFT DOMESTIC SQUARE FOOTAGE
(AS OF THE END OF MARCH 1990)

	OCCUPIED MANAGED	DEVELOPMENT
CORPORATE		
buildings 1 - 4	240,000	
buildings 5 - 6	120,000	
buildings 8 - 9	235,000	
building 10		117,500
building 11/11a	83,565	
buildings 16 - 17		320,000
building 18		150,000
buildings 12 - 15	87,185	31,000
koll overlake	18,616	55,848
eva	25,982	19,018
evb		45,000
•corporate subtotal•	810,348	738,366
MANUFACTURING/DISTRIBUTION		
canyon park	264,136	20,000
corp com warehouse	33,221	
•m&d subtotal•	297,357	20,000
WASHINGTON FIELD		
pss offsite	86,725	12,195
ms university	26,237	
off site storage	7,671	
•washington field•	120,633	12,195
USSMD FIELD		
atlanta	5,255	10,920
boston	10,219	16,520
new york	9,377	18,480
wash dc	6,990	5,880
philadelphia	1,160	24,080
•eastern subtotal•	33,001	75,880
chicago	7,551	12,880
dallas	9,770	16,240
detroit	1,924	10,360
minneapolis	4,179	8,680
st louis	0	7,840
•central subtotal•	23,424	56,000
denver	0	5,600
los angeles	11,822	14,840
orange county		3,360
phoenix		10,360
santa clara	7,158	17,920
seattle	3,920	12,040
•western subtotal•	22,900	64,120
•USSMD subtotal•	79,325	196,000
MISCELLANEOUS FIELD		
msu - boston	3,563	
menlo park (GBU)	31,847	
pss east coast		50,000
ny systems journal	3,200	
•miscellaneous field subtotal•	38,610	50,000
TOTAL SQUARE FOOTAGE	1,346,273	1,016,561
GRAND TOTAL SQUARE FOOTAGE		2,362,834

MICROSOFT CORPORATE CAMPUS LAND PURCHASES



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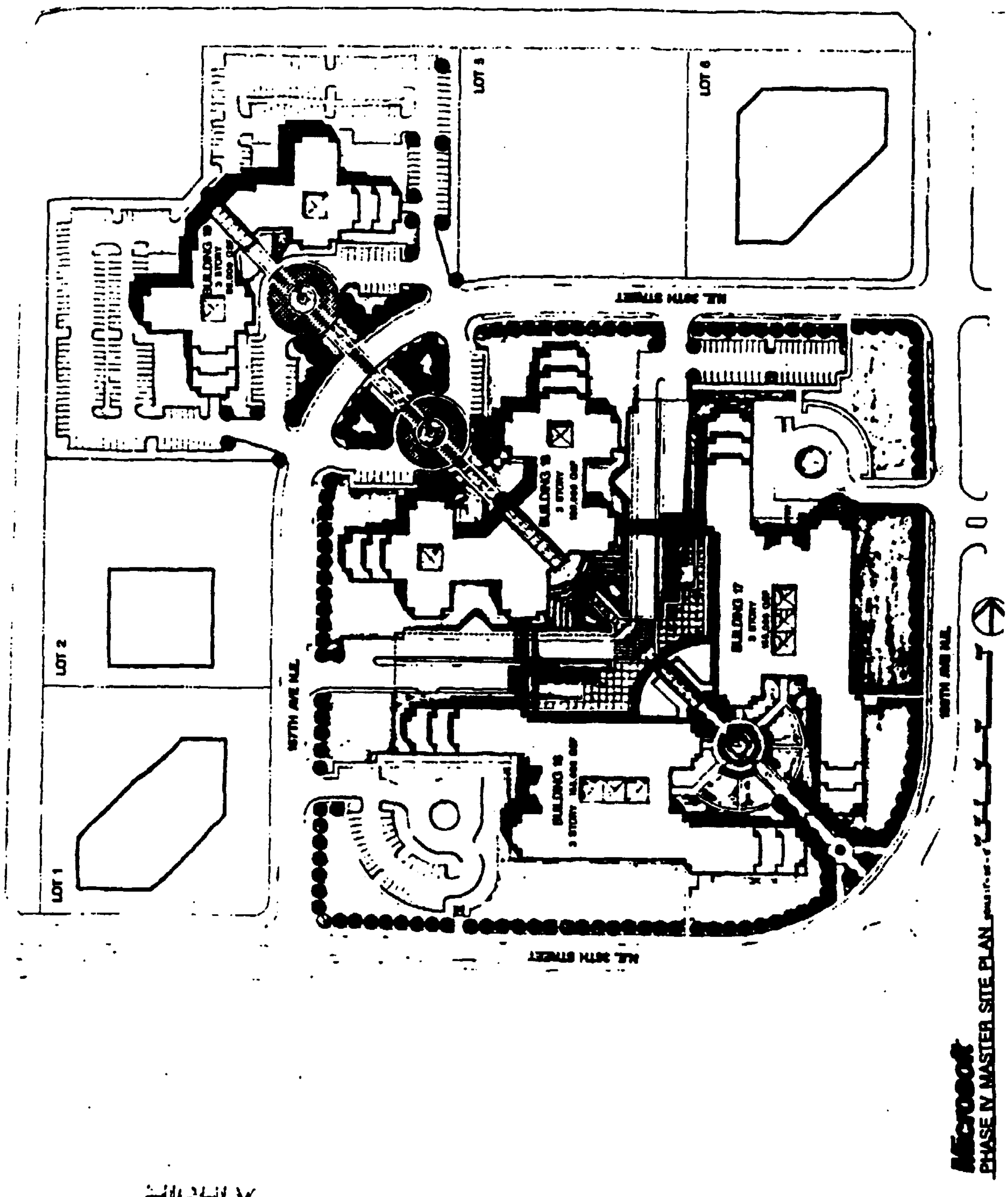
LOT 1
LOT 2
LOT 5
LOT 6
Microsoft
PHASE IV MASTER SITE PLAN

MICROSOFT DOMESTIC LOCATIONS

FACILITIES

○ MANAGED AND UNDER DEVELOPMENT
● MANAGED
● UNDER DEVELOPMENT

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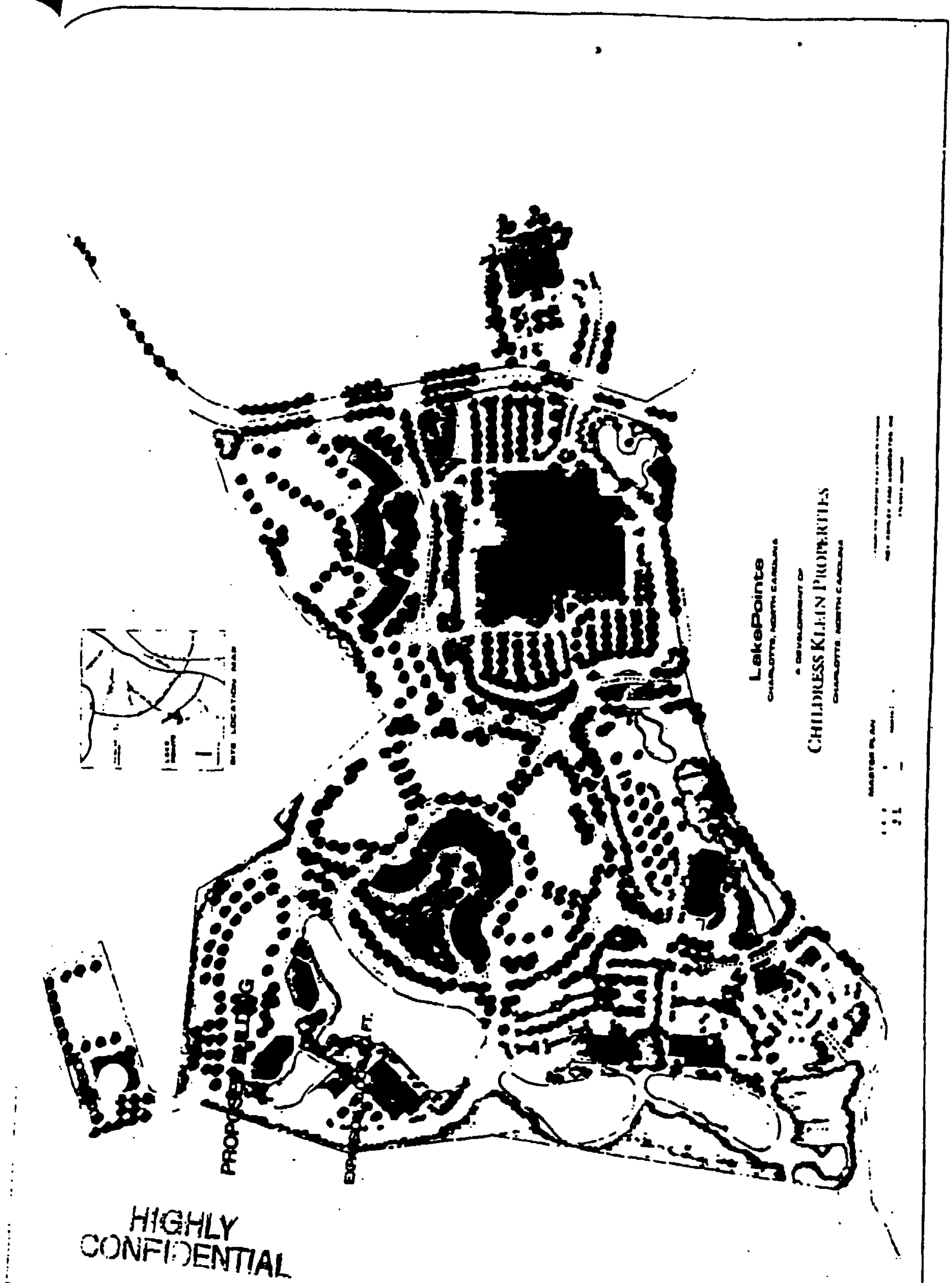
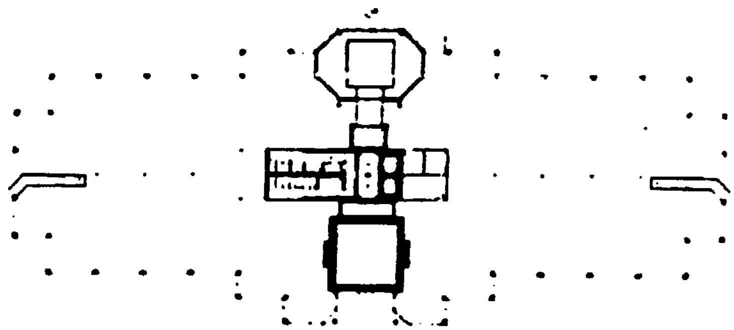
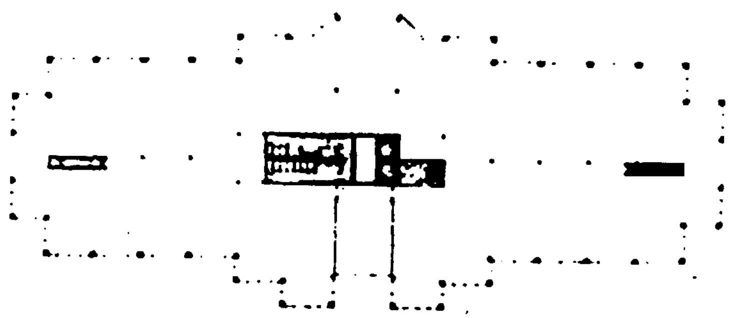
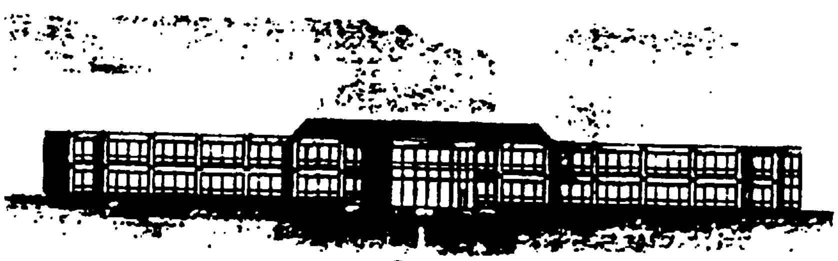

LakePointe
Childress Klein Properties
Proposed PSS Charlotte





Second Floor Plan

West Elevation



East Elevation

Three Lake Pointe

Childress Klein Properties

Charlotte, North Carolina

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Proposed PSS Charlotte

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INVESTOR RELATIONS/
STOCK ACTIVITY

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[redacted]

INVESTOR RELATIONS/STOCK ACTIVITY

Financial Releases - On April 17, 1990, the full earnings release for the third quarter was issued at 1:15 p.m. P.D.T. which is after the close of the markets (including the Pacific Exchange on which MSFT options trade until 1:10 p.m. P.D.T.).

Conference Call - As part of the third quarter earnings release, Microsoft hosted a conference call to discuss the financial results. The "call" was held at 2:30 p.m. P.D.T. and included more than 80 analysts from both sell-side and buy-side. Each received a fax copy of the results prior to the call.

Selected Earnings Estimates for MSFT for FY90 - Below are earnings estimates by selected analysts. Q3E obviously were issued prior to the March 17, 1990 earnings release for Q90-3. Estimates for Q90-4 and FY'90 are being changed based on Q3 results. As this report is printed, those analysts who have revised their Q4 and annual estimates based on Q3 results are listed.

Analyst	Q3E	Q3A	Q4E	FY90E	FY91E
Alex Brown	$.60	$.62	$.63	$2.32	$2.90
CJ Lawrence	.60		.63	2.31	2.90
Dean Witter	.63		.63	2.30	2.90
DLJ Securities	.61			2.28	3.00
Goldman Sachs	.60		.64	2.33	2.90
Merrill Lynch	.55		.64	2.32	2.75
Montgomery	.52		.62	2.31	2.80
Paine Webber	.62		.56	2.25	2.85
Piper Jaffray	.61		.64	2.33	2.85
Salomon Bros.	.59		.52	2.32	3.00
Shearson Lehman	.59		.62	2.30	2.90
Smith Barney	.57		.64	2.32	3.00

Alex. Brown/Cashless Exercises: During Q90-3, cashless exercises through Alex. Brown constituted trades for 725 optionees out of a total 815, or 90% for the quarter. This accounted for approximately 510,000 shares exercised and traded. Alex. Brown has become the primary brokerage firm which our employees use to execute their sales and finance the exercise price and taxes due Microsoft at the time of exercise. We continue to modify and streamline the exercise process by creating additional tracking methods for limit orders and stock sales.

SUMMARY OF SHARES EXERCISED FY89 - Q90-2

(adjusted for stock split)

	FY89	Q90-1	Q90-2	Q90-3	FY90 YTD
Shares Exercised	2,047,098	747,214	1,296,668	1,276,668	3,320,550
Price					
High	34.8125	34.25	44.25	58.25	
Low	23.00	26.00	34.50	43.0625	
Average	27.05	29.10	40.50	48.43	

In summary, the combined total of shares exercised in the first three quarters of FY90 have exceeded FY89 by approximately 65%. Should this trend continue, shares exercised during FY90 will exceed shares exercised during FY89 by 100%.

Float: Microsoft public float, excluding Officers, Directors and Paul Allen, as of March 31, 1990, was approximately 38% or 44,820,312 shares.

Microsoft Ownership Profile

(as of most recent filing)

Officer, Directors and 10% Shareholders	Number of Shares	% of Shares Outstanding
William H. Gates	40,350,620	36.0%
Paul Allen	18,550,000	16.5
Steve Ballmer	7,198,004	6.4
Other Officers & Directors	1,367,376	1.2
Total Officers & Directors	67,466,000	60.1
Other Holders	44,820,312	39.9
Total Shares Outstanding	112,286,312	100%

Stock Split: On March 13, 1990, Microsoft announced a 100% stock dividend for shareholders of record on March 26, with the payable date of April 13, 1990.

In preparation for the stock split, Shareholder Services and First Interstate Bank (transfer agent) jointly reconciled the accounts of all shareholders of record and successfully executed the dividend certificate distribution on April 13.

Additional steps were taken to ensure the timely and accurate distribution for all international shareholders of record. A geographical survey was prepared to identify Microsoft employees of each subsidiary who were entitled to a dividend certificate. All MS International dividend certificates were sent directly to the General Managers of each subsidiaries to help eliminate the possibility of lost certificates.

Employee Stock Purchase Plan: Beginning July 1990, we will be implementing an automatic enrollment process, which will eliminate biannual enrollment.

Enrollment for the current period January - June 1990 has shown a 50% increase to 3,000 for both international and domestic participants in comparison to 2,000 participants in the previous period ending December 1989.

On January 2, 1990, Microsoft's closing fair market value was $44.375 (post-split), and should the upward trend in Microsoft's stock price continue, the ESPP shares will be purchased at $37.72 (85% x $44.375).

Stock Buyback Program: Proceeds received from stock option exercises in each previous quarter are employed during the current quarter to repurchase shares of the Company's stock.

Repurchases are made during a window that begins three days after we have released earnings and extends through the Friday of the last week in the second month in the quarter (April 23 through June 1st during Q90-4). Repurchases are made on our behalf by Goldman Sachs at their discretion. In our instructions to Goldman we reserve the right to suspend repurchases under the program during the window period.

Of $20.5 million in available proceeds from Q90-2, we used $16.3 million during Q90-3 to repurchase 336,000 (post-split) shares at an average per share price of $48.64. The program began February 12th, so the window was shorter during Q90-3, than it will be in subsequent quarters.

Goldman's weekly performance during the Q90-3 window was a follows:

Week	Our Average Price	Market Average	Number of Shares*
2/12-1/16	$47.73	$47.95	130,000
2/20-2/23	$48.89	$8.78	81,000
2/26-3/2	$49.42	$49.98	125,000
Total	$48.63		336,000

* adjusted for split

Proceeds available for the program from Q90-3 are $18.8 million which, together with $4.2 million remaining from Q90-2, provides approximately $23 million for repurchases during Q90-4.

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NASDAQ NATIONAL MARKET SYSTEM STATISTICAL REPORT

FOR MONTH ENDING 30 MAR 90

NASD NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST, WASHINGTON, D.C. 20006

NASDAQ/NMS SYSTEM STATISTICS

	COMPOSITE INDEX	ASSIGNED INDEX (INDUSTRIAL)
HIGH	443.31	459.25
LOW	424.44	428.57
CLOSE	435.54	450.51
PREVIOUS CLOSE	425.83	430.07
% CHANGE	+2.28	+4.75

TOTAL NASDAQ VOLUME: 2,885,436,100
TOTAL NMS VOLUME: 2,139,278,217
TOTAL NMS TRADES: 970,107
TOTAL NMS SECURITIES: 2,688

NASDAQ SYMBOL: MSFT
SECURITY DESCRIPTION: Common Stock ($0.001 Par Value)
TOTAL SHARES OUTSTANDING: 55,676,000
SHORT INTEREST REPORTED: 1,221,969 AS OF 03/15/90
PLEASE NOTIFY NASDAQ OF ANY CHANGE IN COMPANY CONTACT OR ADDRESS

SUMMARY FOR THIS SECURITY

1. PRICE RANGE: HIGH 117 LOW 98 1/2
2. LAST PRICE: (FEB) 98 3/4 PERCENT CHANGE: +12.15
   (MAR) 110 3/4
3. VOLUME FOR MONTH: 11,909,123
4. TOTAL TRADES 10,914
5. BLOCKS: NUMBER OF BLOCKS 127 NUMBER OF SHARES 1,624,350

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DATE	HIGH	LOW	LAST	NET CHANGE	SHARE VOLUME	TRADES	NMS VOLUME	NASDAQ VOLUME	COMPOSITE CLOSE
THU 1	101 3/4	98 1/2	100	+ 1 1/4	535,366	487	104,414,313	134,244,700	427.22
FRI 2	104 3/8	100 1/8	103 3/4	+ 3 3/4	696,997	549	99,045,415	132,374,900	431.02
WEEK	104 3/8	98 1/2	103 3/4	+ 5	1,232,363	1,036	203,459,728	266,619,600	431.02
MON 5	105 3/4	102 1/4	105 1/4	+ 1 1/2	526,138	453	83,135,180	110,996,200	430.15
TUE 6	105	102 1/2	104 1/2	- 3/4	477,496	452	96,791,318	139,145,500	432.32
WED 7	105 1/2	102 3/4	102 3/4	- 1 3/4	331,247	303	112,870,260	167,546,200	432.47
THU 8	107 1/4	101 3/4	106 1/4	+ 3 1/2	618,837	491	108,167,220	145,731,700	436.50
FRI 9	108	105 1/4	106 1/2	+ 1/4	526,759	416	101,975,450	135,115,200	436.76
WEEK	108	101 3/4	106 1/2	+ 2 3/4	2,480,477	2,115	502,939,428	698,534,800	436.76
MON 12	108 3/4	106	108 1/4	+ 1 3/4	478,936	375	75,864,519	103,840,700	436.56
TUE 13	109	106 1/4	106 1/4	- 2	592,466	522	89,838,504	123,820,500	434.58
WED 14	108 1/4	106	107 1/4	+ 1	847,590	693	108,586,360	122,177,900	436.15
THU 15	111 3/4	107 3/4	111	+ 3 3/4	583,642	674	95,940,408	128,675,700	438.06
FRI 16	115 1/4	111 3/4	114	+ 3	827,168	721	141,118,867	176,038,900	442.16
WEEK	115 1/4	106	114	+ 7 1/2	3,329,802	2,985	511,348,658	654,353,700	442.16
MON 19	117	113	116 1/2	+ 2 1/2	564,836	645	98,235,544	129,401,300	442.91
TUE 20	116 3/4	112 1/2	113	- 3 1/2	642,961	710	111,800,709	142,222,800	440.08
WED 21	115 1/2	112 1/4	113 1/4	+ 1/4	490,823	669	95,607,912	131,083,300	439.30
THU 22	113 3/4	110 1/4	111 1/4	- 2	642,829	543	103,120,150	146,217,200	434.51
FRI 23	113 1/4	109	110 1/4	- 1	373,176	421	80,319,923	130,736,700	437.25
WEEK	117	109	110 1/4	- 3 3/4	2,714,625	2,878	489,084,238	679,661,300	437.25
MON 26	112 1/2	110 3/8	111 1/2	+ 1 1/4	389,259	385	69,604,056	98,275,700	438.84
TUE 27	113	110 3/4	112 1/2	+ 1	365,070	345	81,186,910	106,914,700	439.50
WED 28	112 1/4	108 1/2	111	- 1 1/2	691,609	548	104,952,445	132,261,500	436.69
THU 29	112 3/4	110	110 1/2	- 1/2	450,404	377	89,229,582	124,188,100	435.42
FRI 30	111	109 1/4	110 3/4	+ 1/4	255,514	245	87,473,172	128,626,300	435.64
WEEK	113	108 1/2	110 3/4	+ 1/2	2,151,856	1,900	432,446,165	586,266,700	435.54

NASDAQ MARKET MAKERS IN THIS SECURITY

AS OF 03/30/90

MERRILL LYNCH, PIERCE, FENNER	1,097,897	PIPER, JAFFRAY & HOPWOOD, INC	421,905	MONTGOMERY SECS INC	173,260
PAINEWEBBER INC	879,494	SHERWOOD SECS CP	394,700	MIDWEST STOCK EXCHANGE	145,700
HERZOG, HEINE, GEDULD INC	846,787	PRUDENTIAL-BACHE SECS INC	348,490	RAGEN MCKENZIE INC.	104,699
GOLDMAN, SACHS & CO	839,351	BATEMAN EICHLER, HILL RICHARD	318,134	ROBERTSON STEPHENS & CO	61,250
TROSTER SINGER CP	750,270	WEEDEN AND CO INC	309,300	CYRUS J. LAWRENCE, INC.	52,608
DONALDSON, LUFKIN & JENRETTE	709,056	SMITH BARNEY/HARRIS UPHAM	302,335	SOUNDVIEW FIN GP INC	49,700
THE FIRST BOSTON CP	526,350	SALOMON BROS INC	291,212	DATEK SECURITIES CP	27,900
SHEARSON LEHMAN HUTTON INC	508,848	MAYER & SCHWEITZER INC	271,204	OLDE DISCOUNT CORPORATION	20,168

NASDAQ NATIONAL [illegible]

FOR MONTH ENDING 28 FEB 90

NASDAQ/NMS SYSTEM STATISTICS

	COMPOSITE INDEX	ASSIGNED INDEX (INDUSTRIAL)
HIGH	430.92	435.22
LOW	415.79	415.25
CLOSE	425.83	430.07
PREVIOUS CLOSE	415.81	415.28
% CHANGE	+2.40	+3.56

TOTAL NASDAQ VOLUME: 2,420,905,700
TOTAL NMS VOLUME: 1,713,332,037
TOTAL NMS TRADES: 773,964
TOTAL NMS SECURITIES: 2,704

NASDAQ SYMBOL: MSFT
SECURITY DESCRIPTION: Common Stock ($0.001 Par Value)
TOTAL SHARES OUTSTANDING: 55,676,000
SHORT INTEREST REPORTED: 1,260,407 AS OF 02/15/90
PLEASE NOTIFY NASDAQ OF ANY CHANGE IN COMPANY CONTACT OR ADDRESS

SUMMARY FOR THIS SECURITY

1. PRICE RANGE: HIGH 100 1/2 LOW 92 1/4
2. LAST PRICE: (JAN) 92 1/2
   (FEB) 98 3/4 PERCENT CHANGE: +6.76
3. VOLUME FOR MONTH [illegible] 942,710
4. TOTAL TRADES [illegible].781
5. BLOCKS. NUMBER OF BLOCKS 169 NUMBER OF SHARES 2,146,429

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DATE	HIGH	LOW	LAST	NET CHANGE	SHARE VOLUME	TRADES	NMS VOLUME	NASDAQ VOLUME	COMPOSITE CLOSE
THU 1	94 1/4	92 1/2	93 3/4	+ 1 1/4	620,624	394	90,656,155	135,469,600	417.76
FRI 2	95 1/2	93	93 3/4	0	497,153	433	98,626,257	135,020,100	422.21
WEEK	95 1/2	92 1/2	93 3/4	+ 1 1/4	1,117,677	827	189,282,412	270,489,700	422.21
MON 5	94 1/4	93 1/4	94 1/4	+ 1/2	415,533	231	77,589,070	108,352,100	424.73
TUE 6	94 1/4	92 1/4	94	- 1/4	569,494	392	86,302,803	119,698,300	423.99
WED 7	94 3/4	93	93 1/4	- 3/4	933,249	438	111,896,386	149,301,200	426.79
THU 8	95	93 1/4	94 1/4	+ 1	662,245	375	108,570,903	140,027,500	427.32
FRI 9	94 3/4	94	94 1/2	+ 1/4	433,807	217	90,164,631	125,327,300	428.84
WEEK	95	92 1/4	94 1/2	+ 3/4	3,014,128	1,653	474,523,793	642,706,400	428.84
MON 12	95 1/2	94	94 3/4	+ 1/4	389,968	268	70,732,437	113,031,800	426.38
TUE 13	95 1/4	94 1/2	94 3/4	0	408,867	236	82,734,530	127,225,500	425.75
WED 14	96 1/4	94 1/2	95	+ 1/4	249,389	182	97,058,077	139,538,000	426.66
THU 15	98	95	97	+ 2	622,498	452	99,341,257	152,375,800	429.61
FRI 16	98 3/4	97 3/4	98	+ 1	493,229	361	91,459,631	120,220,100	429.01
WEEK	98 3/4	94	98	+ 3 1/2	2,163,751	1,479	441,325,932	652,391,800	429.01
MON 19	HOLIDAY								
TUE 20	100 1/2	97	100 1/4	+ 2 1/4	922,277	574	75,954,522	108,276,600	423.83
WED 21	100	95 3/4	96 1/8	- 4 1/8	718,591	610	86,188,000	120,102,500	421.52
THU 22	98 1/4	96 1/4	96 3/8	+ 1/4	423,334	358	93,248,617	134,873,500	422.75
FRI 23	97 3/4	95 1/2	97 1/2	+ 1 1/8	395,197	275	83,683,550	117,221,500	419.52
WEEK	100 1/2	95 1/2	97 1/2	- 1/2	2,459,399	1,817	339,074,689	480,474,100	419.52
MON 26	100	97 1/4	99 1/4	+ 1 3/4	481,239	392	73,706,284	114,595,600	420.95
TUE 27	99 1/2	98	98	- 1 1/4	431,266	334	95,802,144	130,852,700	422.61
WED 28	99 3/4	98	98 3/4	+ 3/4	275,261	279	99,616,783	129,395,400	425.83
WEEK	100	97 1/4	98 3/4	+ 1 1/4	1,187,766	1,005	269,125,211	374,843,700	425.83

4. NASDAQ MARKET MAKERS IN THIS SECURITY

AS OF 02/28/90

WEEDEN AND CO INC	1,025,196	PIPER, JAFFRAY & HOPWOOD, INC	284,132	PRUDENTIAL-BACHE SECS INC	75,620
GOLDMAN, SACHS & CO	1,008,180	H.J. MEYERS & CO INC	277,023	MONTGOMERY SECS INC	72,135
HERZOG, HEINE, GEDULD INC	968,567	JEFFERIES & CO INC	253,617	DEAN WITTER REYNOLDS, INC.	67,875
THE FIRST BOSTON CP	858,810	DONALDSON, LUFKIN & JENRETTE	247,528	KIDDER, PEABODY & CO INC	50,263
TROSTER SINGER CP	846,719	MAYER & SCHWEITZER INC	221,810	ROBERTSON STEPHENS & CO	35,105
PAINEWEBBER INC	499,870	SMITH BARNEY/HARRIS UPHAM	198,630	DATEK SECURITIES CP	16,500
ALEX BROWN & SONS	489,898	BATEMAN EICHLER, HILL RICHARD	188,700	CYRUS J. LAWRENCE, INC.	13,600
MERRILL LYNCH, PIERCE, FENNER	462,452	SHERWOOD SECS CP	170,200	SOUNDVIEW FIN GP INC	3,400
SHEARSON LEHMAN HUTTON INC	437,563	BEAR, STEARNS & CO.	156,243		
[illegible]	[illegible]	[illegible]	[illegible]		

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NASDAQ/NMS SYSTEM STATISTICS

	COMPOSITE INDEX	ASSIGNED INDEX (INDUSTRIAL)
HIGH	461.72	456.64
LOW	409.98	409.89
CLOSE	415.81	415.28
PREVIOUS CLOSE	454.82	447.99
% CHANGE	-8.57	-7.30

TOTAL NASDAQ VOLUME: 3,027,805,200
TOTAL NMS VOLUME: 2,221,999,074
TOTAL NMS TRADES: 1,061,667
TOTAL NMS SECURITIES: 2,706

NASDAQ SYMBOL: MSFT
SECURITY DESCRIPTION: Common Stock ($0.001 Par Value)
TOTAL SHARES OUTSTANDING: 54,996,000
SHORT INTEREST REPORTED: 1,301,606 AS OF 01/15/90
PLEASE NOTIFY NASDAQ OF ANY CHANGE IN COMPANY CONTACT OR ADDRESS

SUMMARY FOR THIS SECURITY

1. PRICE RANGE: HIGH 96 LOW 84
2. LAST PRICE: (DEC) 87 PERCENT CHANGE: +6.32
   (JAN) 92 1/2
3. VOLUME FOR MONTH: 16,545,892
4. TOTAL TRADES 12,022
5. BLOCKS: NUMBER OF BLOCKS 249 NUMBER OF SHARES 3,632,550

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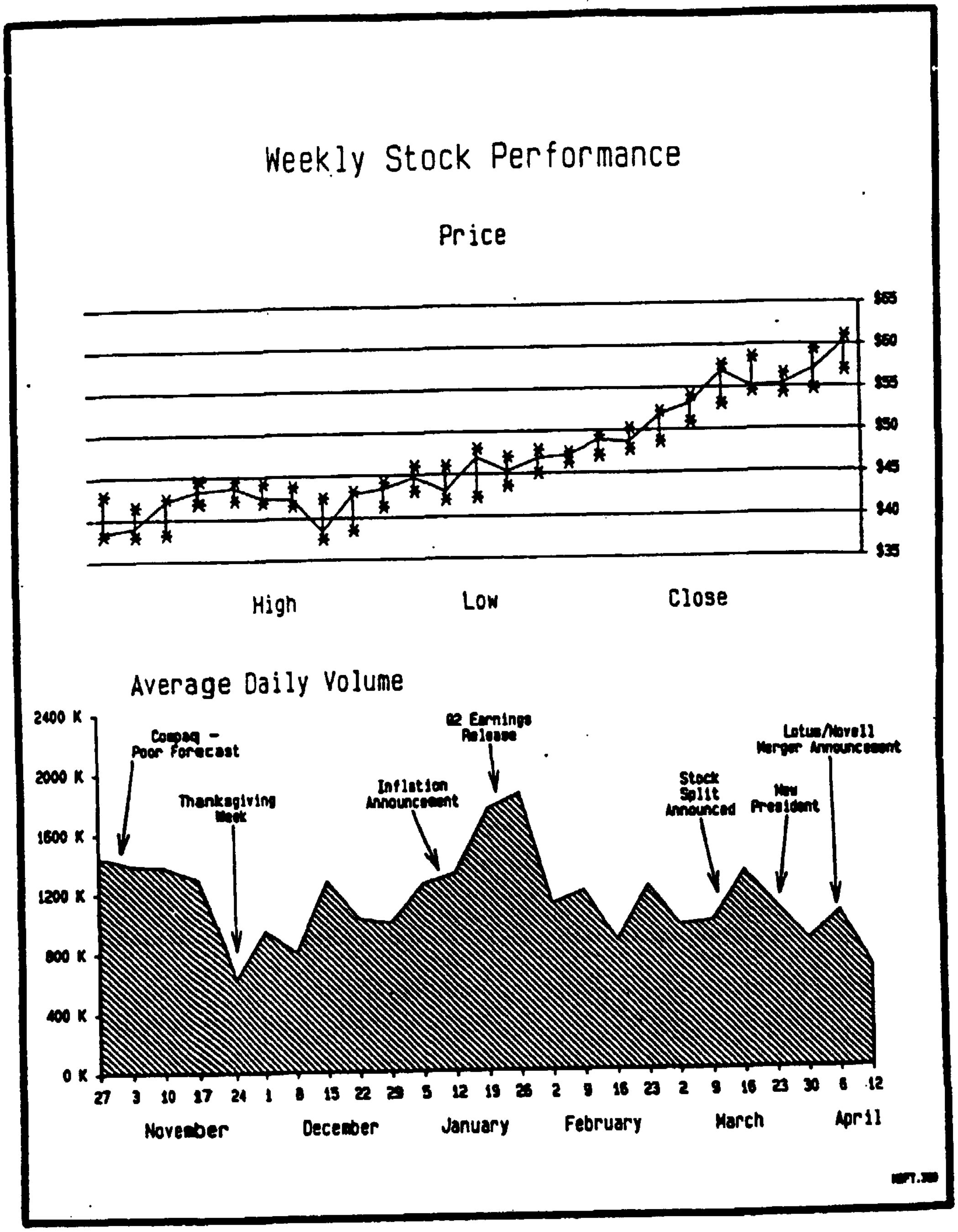
DATE	HIGH	LOW	LAST	NET CHANGE	SHARE VOLUME	TRADES	NMS VOLUME	NASDAQ VOLUME	COMPOSITE CLOSE
MON 1	HOLIDAY								
TUE 2	88 3/4	86 1/8	88 3/4	+ 1 3/4	369,793	409	84,241,655	110,716,300	459.33
WED 3	90 1/4	88 1/2	89 1/4	+ 1/2	791,777	671	118,140,816	152,663,700	460.90
THU 4	92	88 3/4	91 7/8	+ 2 5/8	874,533	614	112,230,815	147,950,400	459.39
FRI 5	92	89 1/2	89 5/8	- 2 1/4	484,027	533	100,561,682	137,227,200	458.22
WEEK	92	86 1/8	89 5/8	+ 2 5/8	2,520,130	2,227	415,174,968	548,557,600	458.22
MON 8	91	88 1/2	91	+ 1 3/8	410,461	337	78,930,058	115,500,100	458.71
TUE 9	92	90 1/4	90 3/4	- 1/4	488,775	381	95,798,008	131,130,200	456.77
WED 10	91 1/4	88 1/8	88 1/4	- 2 1/2	721,025	562	105,200,315	143,885,700	450.70
THU 11	89 1/2	85	86 1/2	- 1 3/4	665,557	649	93,190,771	132,996,200	448.86
FRI 12	87 1/4	84	86 1/8	- 3/8	1,034,940	710	102,293,378	143,504,400	439.72
WEEK	92	84	86 1/8	- 3 1/2	3,320,758	2,639	475,412,530	667,016,600	439.72
MON 15	87	85 1/4	86 1/8	0	434,429	336	75,963,650	108,055,500	436.64
TUE 16	89 1/4	84 1/2	88 3/4	+ 2 5/8	557,213	507	105,962,884	147,594,200	440.16
WED 17	90 1/2	87	87 1/2	- 1 1/4	678,589	523	99,947,679	139,152,400	438.68
THU 18	95	89 1/2	95	+ 7 1/2	2,033,559	1,396	100,631,976	136,325,100	437.52
FRI 19	96	93 1/2	94 1/8	- 7/8	691,893	723	100,800,514	152,166,300	440.88
WEEK	96	84 1/2	94 1/8	+ 8	4,395,683	3,485	483,306,703	683,293,500	440.88
MON 22	94	90 1/2	90 3/4	- 3 3/8	1,165,222	628	93,459,239	130,489,500	431.94
TUE 23	91 1/4	89 1/4	89 3/4	- 1	968,434	570	107,081,381	141,436,300	430.42
WED 24	90 3/4	87 1/8	90 3/4	+ 1	1,244,060	665	125,266,591	163,429,400	425.66
THU 25	92 1/2	90 1/2	90 3/4	0	781,540	462	102,440,466	130,496,200	426.24
FRI 26	91 1/4	90	90 3/4	0	473,381	349	103,717,387	136,338,500	421.33
WEEK	94	87 1/8	90 3/4	- 3 3/8	4,632,607	2,674	531,965,054	702,189,900	421.33
MON 29	92 1/4	90 1/4	91 1/2	+ 3/4	383,842	316	86,186,799	118,590,100	418.11
TUE 30	92 1/2	90	91 1/4	- 1/4	508,138	393	120,824,441	160,160,300	410.72
FRI 31	92 1/2	91 1/4	92 1/2	+ 1 1/4	784,734	288	109,128,579	147,997,200	415.81
WEEK	92 1/2	90	92 1/2	+ 1 3/4	1,676,714	997	316,139,819	426,747,600	415.81

NASDAQ MARKET MAKERS IN THIS SECURITY

AS OF 01/31/90

GOLDMAN, SACHS & CO	2,348,582	PIPER, JAFFRAY & HOPWOOD, INC	483,571	BEAR, STEARNS & CO.	160,767
HERZOG, HEINE, GEDULD INC	1,613,641	DREXEL BURNHAM LAMBERT, INC.	432,800	H.J. MEYERS & CO INC	157,100
PAINEWEBBER INC	1,223,180	SHERWOOD SECS CP	387,790	MIDWEST STOCK EXCHANGE	135,950
MERRILL LYNCH, PIERCE, FENNER	1,173,261	COWEN & CO.	364,288	DEAN WITTER REYNOLDS, INC.	124,363
THE FIRST BOSTON CP	911,850	MAYER & SCHWEITZER INC	349,985	SMITH NEW COURT/CARL MARKS	93,100
TROSTER SINGER CP	873,917	BATEMAN EICHLER, HILL RICHARD	340,759	RAGEN MCKENZIE INC.	86,210
SALOMON BROS INC	865,315	DONALDSON, LUFKIN & JENRETTE	324,273	ROBERTSON STEPHENS & CO	83,465
ALEX BROWN & SONS	667,325	WEEDEN AND CO INC	292,800	CYRUS J. LAWRENCE, INC.	80,075
JEFFERIES & CO INC	630,000	MONTGOMERY SECS INC	215,204	SOUNDVIEW FIN GP INC	35,500



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MICROSOFT CORPORATION
SUMMARY OF STOCK OPTION PLAN ACTIVITY
AS OF MARCH 31, 1990

Shares Available For Grant

	Available Beginning Of Period	Additions		Reductions	Available End Of Period
		New Approvals	Forfeited Shares	Net Shares Granted (1)	
Fiscal 1982	0	12,080,000	0	(3,428,000)	8,652,000
Fiscal 1983	8,652,000	0	419,600	(3,717,600)	5,354,000
Fiscal 1984	5,354,000	0	1,661,404	(3,032,460)	3,982,944
Fiscal 1985	3,982,944	0	938,172	(2,626,860)	2,294,256
Fiscal 1986	2,294,256	5,600,000	835,478	(4,938,316)	3,791,418
Fiscal 1987	3,791,418	8,000,000	688,042	(2,406,200)	10,073,260
Fiscal 1988	10,073,260		942,906	(3,883,020)	7,133,146
Fiscal 1989	7,133,146	10,000,000	1,162,178	(5,034,770)	13,260,554
Fiscal 1990					
Q90-1	13,260,554	12,000,000	294,368	(2,594,795)	22,960,127
Q90-2	22,960,127	500,000	87,830	(485,190)	23,062,767
Q90-3	23,062,767		150,126	(211,040)	23,001,853
Since Inception	0	48,180,000	7,180,104	(46,973,266)	8,386,838

Outstanding Stock Options

	Outstanding Beginning Of Period	Additions	Reductions		Outstanding End Of Period
		Net Shares Granted (1)	Shares Exercised	Forfeited Shares	
Fiscal 1982	0	3,428,000	0	0	3,428,000
Fiscal 1983	3,428,000	3,717,600	(7,600)	(419,600)	6,718,400
Fiscal 1984	6,718,400	3,032,460	(287,168)	(1,661,404)	7,802,288
Fiscal 1985	7,802,288	2,626,860	(859,612)	(938,172)	8,631,364
Fiscal 1986	8,631,364	4,938,316	(2,416,064)	(835,478)	10,318,138
Fiscal 1987	10,318,138	4,812,400	(3,365,664)	(688,042)	11,076,832
Fiscal 1988	11,076,832	7,766,040	(1,852,422)	(942,906)	16,047,544
Fiscal 1989	16,047,544	10,069,540	(2,047,098)	(1,162,178)	22,907,808
Fiscal 1990					
Q90-1	22,907,808	5,189,590	(747,214)	(294,368)	27,055,816
Q90-2	27,055,816	970,380	(1,296,668)	(87,830)	26,641,698 (2)
Q90-3	26,641,698	422,080	(1,276,668)	(150,126)	25,636,984
Since Inception	0	46,973,266	(14,156,178)	(7,180,104)	25,636,984

Footnotes:

(1) Net shares granted is equal to gross shares less ISOs converted to NQSOs.
(2) Due to activity in Q90-3 which affects prior quarters, the number of stock options outstanding as of the end of Q90-2 (26,372,768) has increased by 268,930.

TRAINING
AND
PERSONNEL ADMINISTRATION

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TRAINING AND PERSONNEL ADMINISTRATION

The third quarter was a very challenging time for Training and Personnel Administration. Major wins with the February review, conversion of freelance workers, the launch of the Microsoft PARENT daycare referral service, open enrollment for 401(k), and training program enhancements have had very positive organizational impact. Our strategy of moving full scope HR services to the business units is progressing very well with the introduction of the International HR support role, resident support of PSS in Lincoln Plaza as well as providing more support for M&D. In addition, we now have an HR professional in Puerto Rico and have started recruiting for an HR professional for the PSS facility in Charlotte, North Carolina.

Management and Employee Development Programs: During 3rd Quarter FY 90 353 managers and employees attended 21 sessions of 14 different seminars. This is a 59.73% increase in number of participants compared to the 221 participants in the 3rd Quarter of 1989. A bar graph illustrating the Number of Participants by Division is attached.

The management curriculum, consisting of five levels, are designed to build a foundation and develop high levels of management and leadership skills including: communication, motivation, scheduling, self-management, problem solving, and creativity. Currently available are programs in effective management techniques, time/project management, persuasive presentations, conducting meetings, management styles, and team building. All programs have the connecting thread of maintaining or increasing effective communications, innovation, and problem solving at all levels in the organization.

Three of the four seminars in the Technical Leadership Program have been conducted and received high ratings by those in attendance. The three seminars that have been introduced to date are: Software Quality Dynamics, Leading Technical Reviews, and Innovation in Design. The fourth seminar, Technical Leadership Workshop, is in development and will be released during 1st Quarter FY 91.

In the third quarter we introduced the Televised Instruction in Engineering program offered through the University of Washington's College of Engineering. A small pilot program was set up with five Microsoft SDEs to determine if the program should be offered to the entire company. If the program is a success, Microsoft personnel will be able to study and obtain an M.S. from the UW without commuting to Seattle. Within the next 6 to 12 months the UW anticipates being able to offer a M.S. in computer science.

There are 28 sessions scheduled in 4th Quarter FY 90 with 533 projected attendees (see the following chart for courses offered).

COURSES CONDUCTED DURING 3RD QUARTER FY 1990

Course Title	Number of Sessions	Number of Participants
Effective Management Skills	1	18
Interpersonal Review Skills-Managers	3	30
Time/Business Organization Workshop-Managers	2	63
Conducting Effective Meetings	1	10
Microsoft Management Styles Seminar	1	14
Presentation Skills	3	28
Managing Interpersonal Relationships-Managers	1	23
Team Building and Staff Development	1	17
Time/Business Organization Workshop-Employees	1	50
Selling Your Ideas-Employees	1	14
Managing Interpersonal Relationships-Employees	1	22
Leading Technical Reviews	2	19
Software Quality Dynamics	2	27
Innovation in Design	1	18
TOTALS	21	353

COURSES TO BE OFFERED 4TH QUARTER FY 1990

Course Title	Number of Sessions	Number of Participants
Effective Management Skills	1	18
Interpersonal Review Skills-Managers	5	60
Effective Interviewing Skills	3	54
Time/Business Organization Workshop-Managers	1	35
Selling Your Ideas	2	30
Conducting Effective Meetings	1	12
Microsoft Management Styles Seminar	1	16
Presentation Skills	1	14
Managing Interpersonal Relationships-Managers	1	24
Interpersonal Review Skills-Employees	4	72
Time/Business Organization Workshop-Employees	2	90
Managing Interpersonal Relationships-Employees	1	24
Career Planning and Development	1	20
Leading Technical Reviews	1	12
Software Quality Dynamics	1	16
Innovation in Design	2	36
TOTALS	28	533

Employee Relations: Assisting managers and employees in the resolution of distractions from our work such as performance problems, internal conflict, career counseling, and personal issues, is the primary goal of our employee relations effort.

Activity for 3rd Quarter FY 90 consisted of 150 counseling sessions. Of these sessions 61% were performance related resulting in 6 probations and 8 terminations. The remaining were divided with 1% related to disability issues, 17% for career counseling, 1% to sexual harassment concerns, and 20% to personal issues. Thirty-nine exit interviews were conducted.

The most common reasons employees gave for leaving Microsoft were poor management skills and styles, and low compensation.

Affirmative Action: The final quarterly report, in compliance with our Conciliation Agreement, has been submitted to the OFCCP. Feedback received to date on previous quarterly reports has primarily been positive.

Overall Corporate Comparative Analysis statistics are outlined on the attached chart. Primary areas of deficiencies are for females throughout the majority of EEO categories.

Freelance Contract Administration: As a result of the IRS audit, Microsoft agreed to reclassify freelancers as employees, agency temporaries, or independent contractors, beginning with calendar year 1990. The attached chart outlines the distribution of these individuals into the various categories.

Employee Communications: *Micronews* continues to average 14-16 pages per week, with occasional 18 page issues. Circulation is over 5,400. Articles covered during 3rd Quarter FY 90 included new product releases, Microsoft company events, personnel changes, and features on subjects such as Microsoft Brazil, the new buildings on campus, important sales contracts, and honors won by Microsoft employees.

The popular Unclassified Ads section was reorganized as the Semi-Classified Ads with categories for housing, transportation, computer equipment, household goods and miscellaneous.

In February a memo was sent to the general managers of all the Microsoft subsidiaries asking them to appoint a *Micronews* correspondent so that international coverage can be increased in the newsletter. This list of correspondents should be complete by the end of April.

Applications Software Training: From January through March 1990, Applications Training taught 151 regularly scheduled classes at Corporate and Campus North on Microsoft products and basic computer operation. During January and February alone, attendance averaged 345 people per month, with the largest percentage of students from USSMD at 20%, 16% from Applications, 14% from International, 13% from Administration, and Systems and Campus North each with 9%.

During this quarter we have added classes in Word for Windows and WinMail, Introduction to OS/2, and Aldus Pagemaker. Special classes were held for several groups, such as WinWord PrintMerge and Macros features developed for USSMD Customer Service and the Windows APPS documentation team.

A new program at Campus North--the Training Advantage--has been initiated during 3rd Quarter. This 8-month long training course in either the Macintosh or PC environment utilizes a combination of classroom instruction, video tapes, reading and project assignments to give participants a thorough understanding of Microsoft products and in turn enable them to be resource people for others at M&D. Eight participants have been selected by a screening committee to begin the program in May.

The new training database is in place and is now being used to register and track students for all Applications Training classes, as well as send reminder notices via email and produce transcripts and class rosters.

In January a binder was assembled with the handouts for all of our classes and mailed to all USSMD field offices and Microsoft subsidiaries, as well as the Technical Library and other training groups on campus. Reaction has been very favorable, and we plan to issue updates of both the handouts and the accompanying files on a quarterly basis.

Compensation: Several significant activities have occurred during the third quarter in the area of domestic compensation and international compensation and benefits. Beginning May 1, new non-exempt hires will be eligible for performance/salary reviews after 90 days of employment. This replaces the 60/180 day reviews. This change will allow employees to more quickly transition into the normal review cycle, provide managers with a more significant period in which to evaluate performance, and will more closely tie in performance and pay. An expatriate compensation program is under development which will allow us to consistently and equitably treat US citizens on international assignments. Several other groups including Benefits, International, Stock Administration, Tax, and Risk Management are also involved in drafting this program. Compliance with the Fair Labor Standards Act (FLSA) as it relates to overtime requirements has been a priority given the recent publicity given to Nordstrom. We have identified several groups where we have some level of vulnerability such as Inside Sales, Customer Service, IPG Testing, User Education, Customer Support Technicians, Group/Administrative Assistants, and first line supervisors. These are being addressed on an individual basis. A complete benefits package for Microsoft Singapore PTE Limited has been developed and brokered with implementation planned for May 1990.

Personnel Systems: As of March 31, total Corporate work force was 5,201 a net increase of 36.4% from one year ago with 4,054 domestic and 1,147 subsidiary employees. The attached charts, Number of Employees, Domestic Headcount, and Headcount by Location show the divisional breakdown of headcount at Microsoft.

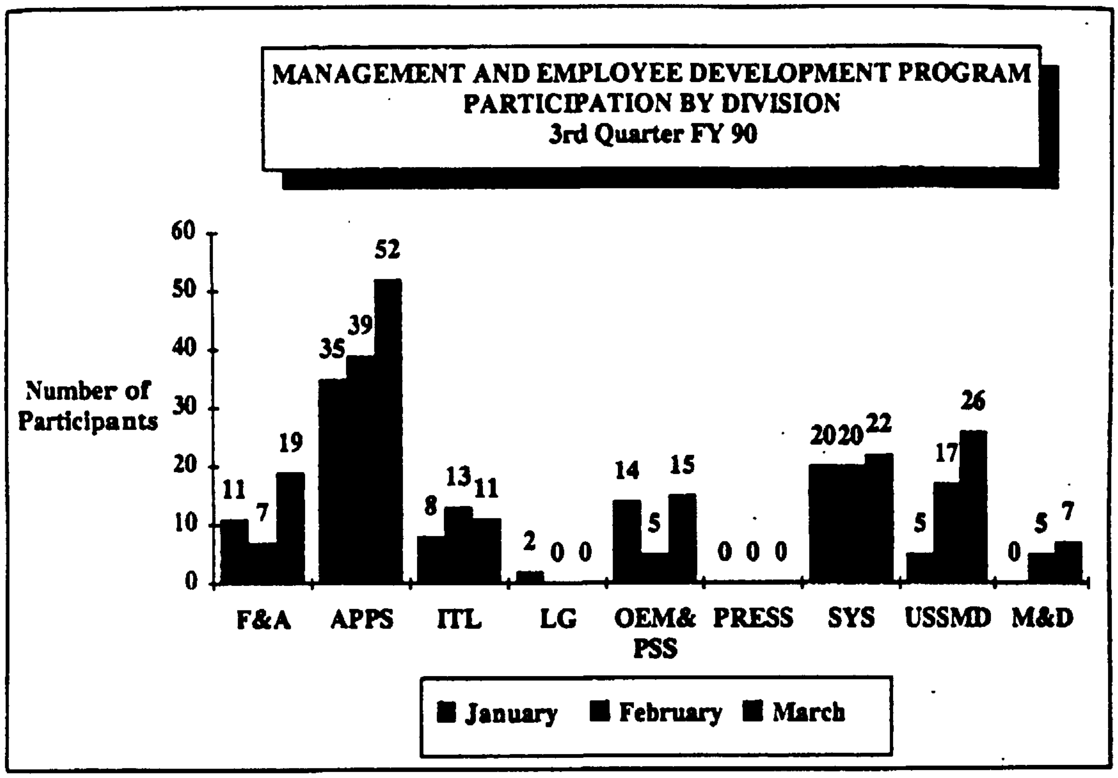
Based on the average headcount and number of terminations for the last twelve months, excluding product localization associate (AIESEC), co-op and associate sales (ASR, ACAR, AGSR, EASR and AESR) positions, the annual domestic turnover rate is 11.8%. The attached chart, Domestic Employee Turnover Analysis, shows the annual turnover rate by division for the third quarter.

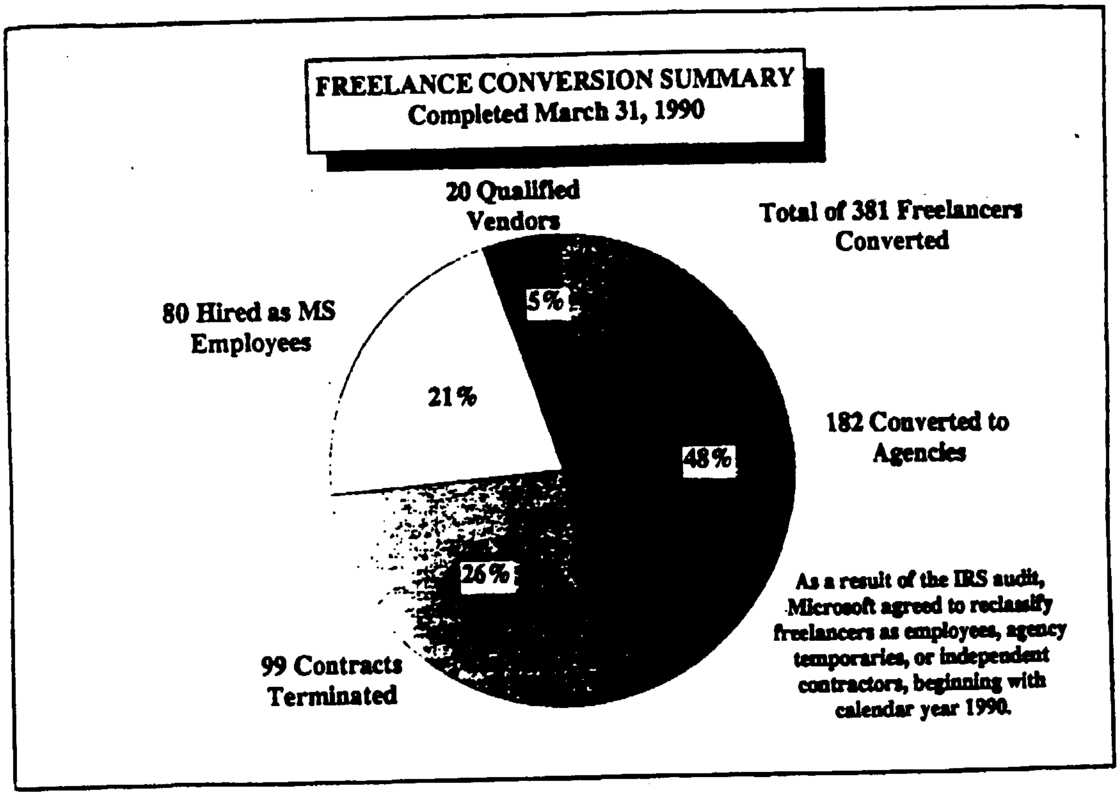
Employee Benefits: Participation in the Savings Plus 401(k) Plan rose to an all time high during the quarterly enrollment period in March. Seventy-three percent of all eligible employees are now enrolled in this tax-deferred savings plan. The increase is due largely to a major communication effort to all eligible non-participating employees during the month. Potential enrollees were provided detailed information on the advantages of participating in the plan, fund performance information and follow-up discussions one-on-one regarding the tax advantages of participating in the program. A record number of investment changes and contribution rate changes also were processed in March, an overall increased activity level of 214% over the previous year. The attached charts, Investment Option Participation and Participation Rate by Division, outlines the investment split and participation rate by division for the Savings Plus 401(k) Plan.

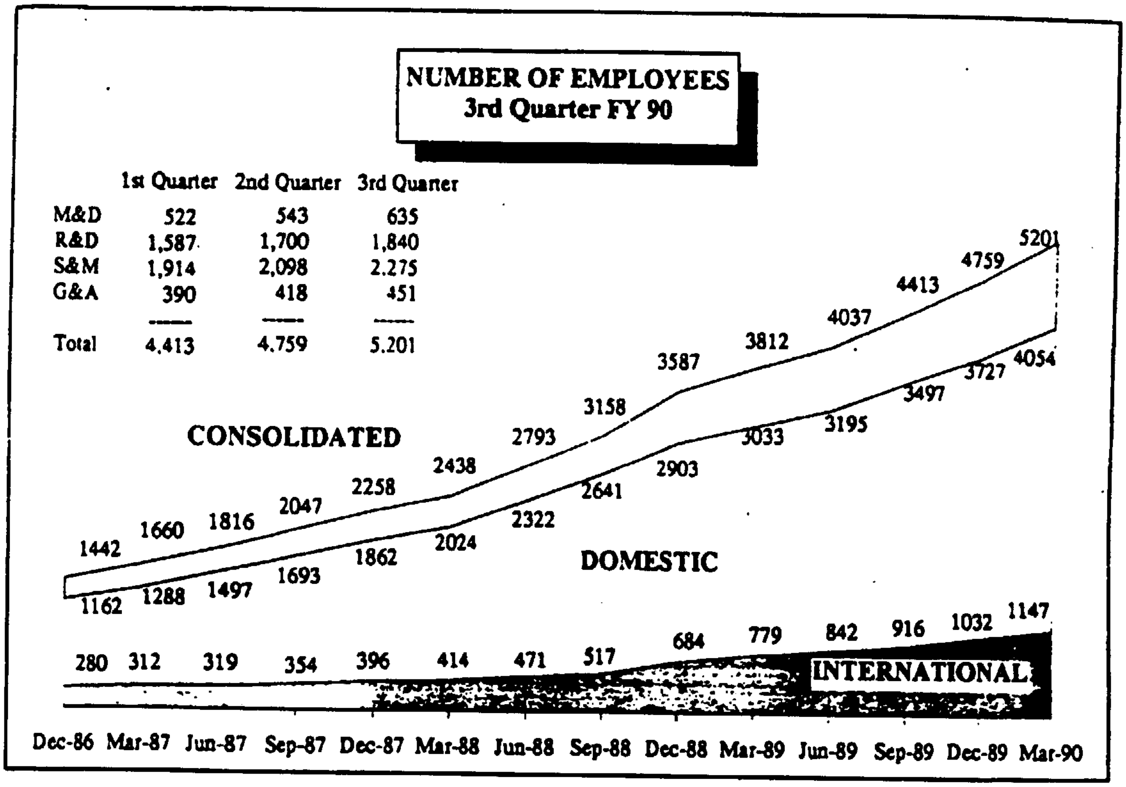
The Microsoft PARENT program provided its first "brown bag" lunch seminar on parenting skills and how to deal with work and family. Over 80 employees and their spouses attended the session. The feedback from the session attendees was very positive. The PARENT program (a child care resource and referral service) was implemented during 3rd Quarter FY 90 and has been well received by employees and new candidates nationwide.

MICROSOFT CORPORATION
COMPARATIVE ANALYSIS OF FEMALES AND MINORITIES
Third Quarter, 1990

EEO CATEGORY	FEMALES			MINORITIES			OVERALL # EMPLOYEES IN JOB GROUP
	Ideal	Actual	Goal	Ideal	Actual	Goal	
OFFICIALS/MANAGERS							
101 - Exec./Sr. Mgmt.	20	11	9	5	5	0	85
102 - Administration	52	49	3	7	8	0	103
103 - Manufacturing	16	14	2	2	4	0	42
104 - Prod./Tech.Supp.	48	39	9	20	20	0	236
105 - Mktg./Crp.Comm./User Ed.	62	67	0	4	2	2	118
106 - CBT,PSS,LPM Testing	31	34	0	8	5	3	94
PROFESSIONALS							
200 - Sr. Technical	5	1	4	6	3	3	81
201 - Technical	33	18	15	45	53	0	342
202 - Technical Entry	53	21	32	31	47	0	219
203 - Administrative	51	63	0	7	6	1	85
204 - Prod/Tech.Supp.	33	35	0	12	13	0	103
205 - Creative Supp.	90	105	0	11	8	3	199
206 - Corp Comm.Spec.	24	38	0	3	4	0	42
207 - CST Design/Devl./Usability	36	57	0	10	4	6	94
208 - Tester	58	62	0	25	33	0	232
209 - Prod.Support Technical	61	52	9	30	38	0	277
210 - Admin.Technical, Sys.Ana.	17	22	0	7	6	1	71
TECHNICIANS							
301 - Technicians	46	40	6	20	17	3	169
SALES WORKERS							
401 - Sales Mgmt.	55	64	0	14	11	3	150
402 - Sales & Supp.	70	77	0	13	8	5	159
403 - Associate Sales Reps.	70	118	0	13	9	4	169
OFFICE/CLERICAL							
501 - Secretarial	194	203	0	18	12	6	209
502 - Administrative	103	95	8	14	10	4	140
503 - Cust.Support	96	100	0	12	15	0	117
505 - Specialty Support	76	76	0	8	10	0	112
506 - Manufacturing	55	43	12	13	10	3	135
CRAFTSWORKERS							
600 - Craftworkers	11	9	2	2	0	2	29
OPERATIVES							
700 - Operatives	136	121	15	28	33	0	210
LABORERS/SVC. WORKERS							
890 - Laborers/SVC Workers	5	3	2	2	1	1	19


MANAGEMENT AND EMPLOYEE DEVELOPMENT PROGRAM
PARTICIPATION BY DIVISION
3rd Quarter FY 90
Number of Participants
60
50
40
30
20
10
0
11 7 19
35 39 52
8 13 11
2 0 0
14 5 15
0 0 0
20 20 22
5 17 26
0 5 7
F&A
APPS
ITL
LG
OEM& PSS
PRESS
SYS
USSMD
M&D
January
February
March


FREELANCE CONVERSION SUMMARY
Completed March 31, 1990
20 Qualified Vendors
Total of 381 Freelancers Converted
80 Hired as MS Employees
5%
21%
48%
182 Converted to Agencies
26%
99 Contracts Terminated
As a result of the IRS audit, Microsoft agreed to reclassify freelancers as employees, agency temporaries, or independent contractors, beginning with calendar year 1990.



	1st Quarter	2nd Quarter	3rd Quarter
M&D	522	543	635
R&D	1,587	1,700	1,840
S&M	1,914	2,098	2,275
G&A	390	418	451
Total	4,413	4,759	5,201

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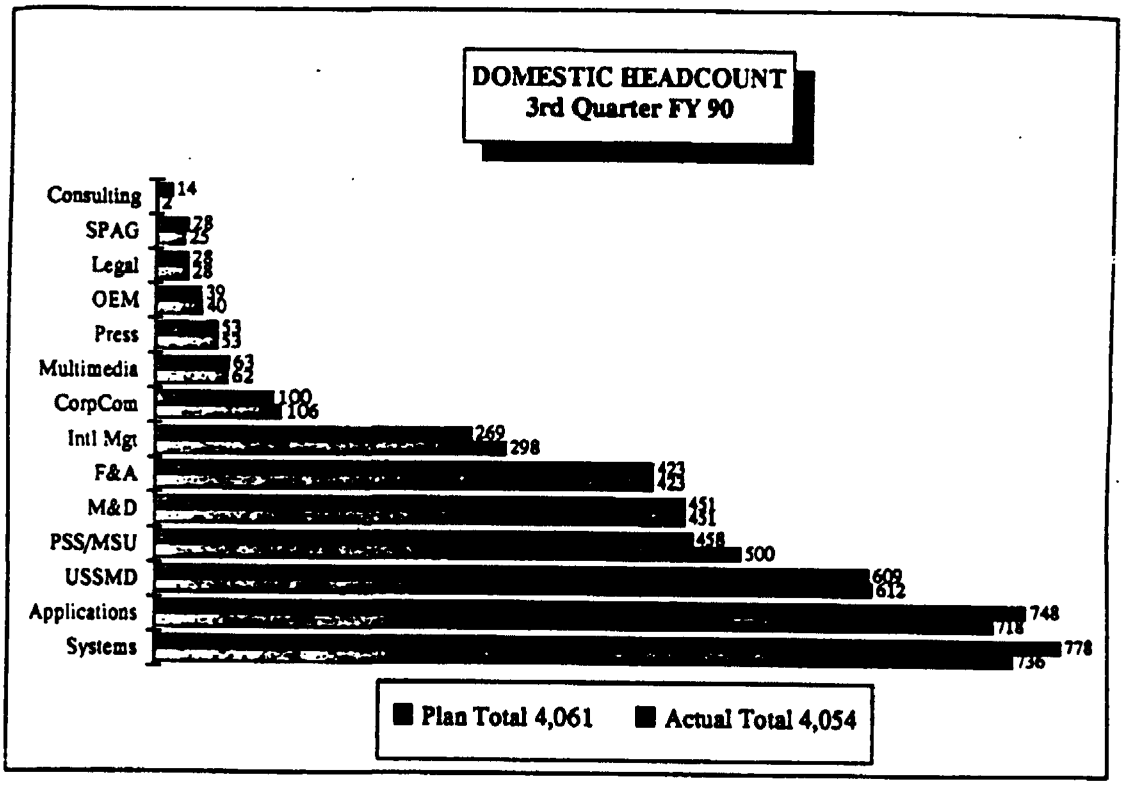

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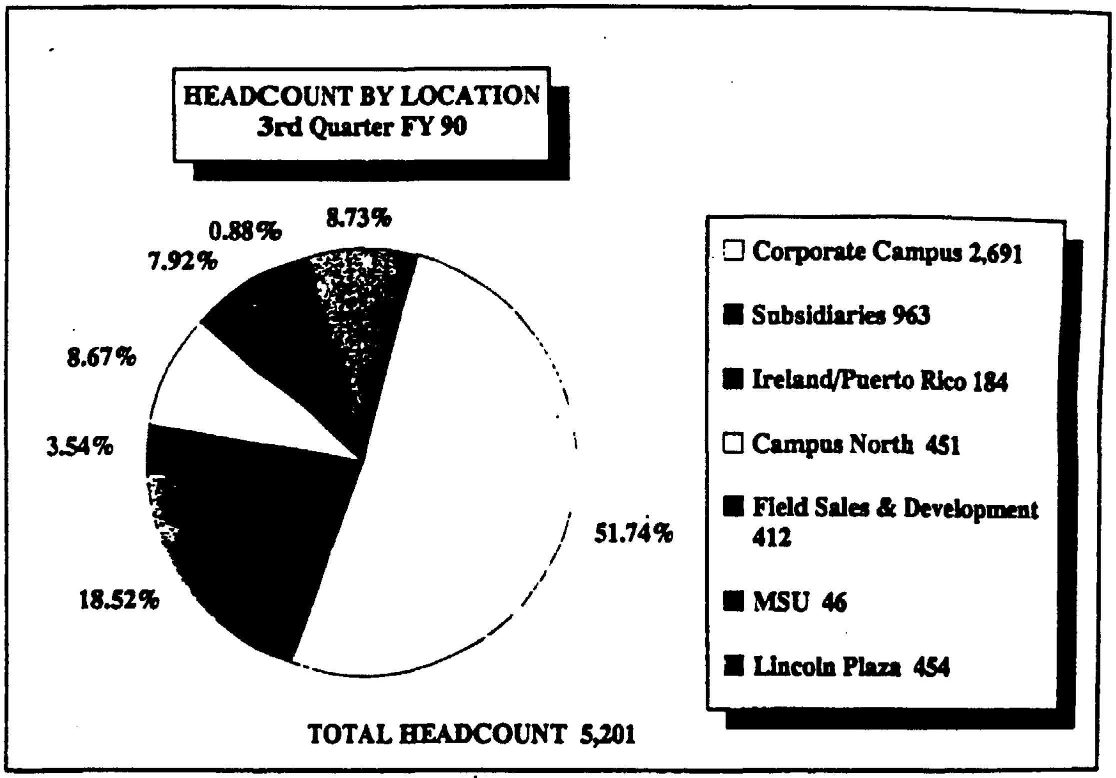
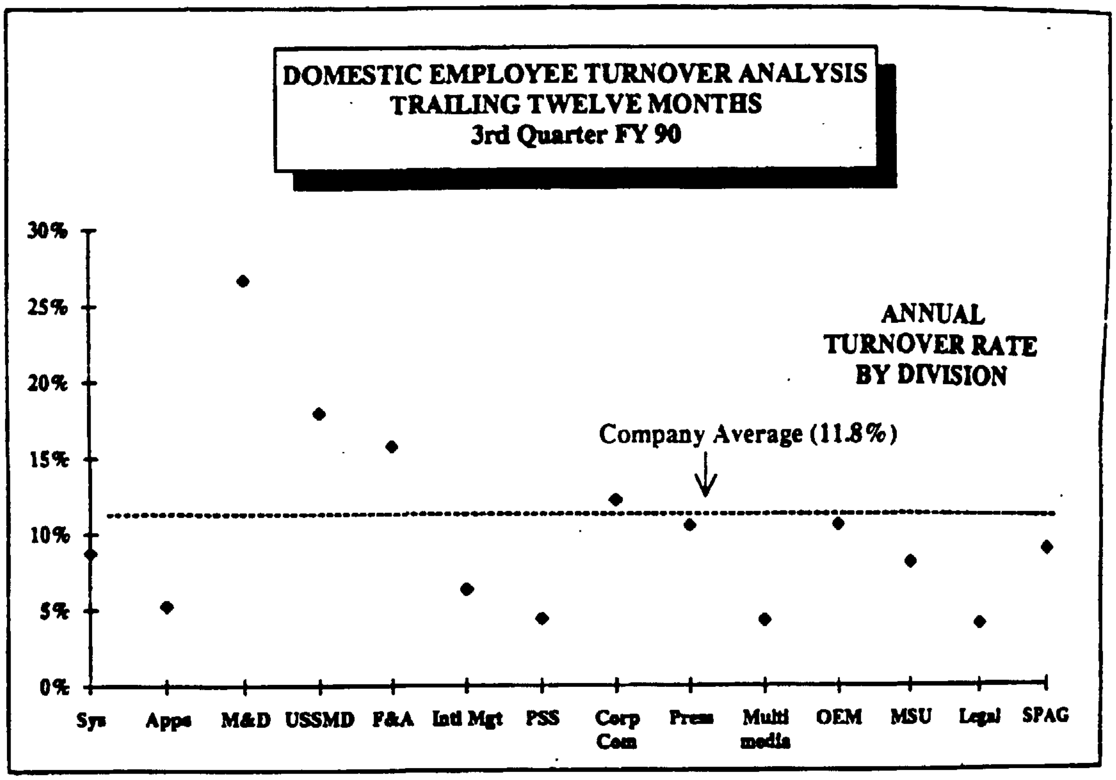

HEADCOUNT BY LOCATION
3rd Quarter FY 90
0.88%
8.73%
7.92%
8.67%
3.54%
51.74%
18.52%
Corporate Campus 2,691
Subsidiaries 963
Ireland/Puerto Rico 184
Campus North 451
Field Sales & Development 412
MSU 46
Lincoln Plaza 454
TOTAL HEADCOUNT 5,201


DOMESTIC EMPLOYEE TURNOVER ANALYSIS
TRAILING TWELVE MONTHS
3rd Quarter FY 90
ANNUAL
TURNOVER RATE
BY DIVISION
Company Average (11.8%)
30%
25%
20%
15%
10%
5%
0%
Sys
Apps
M&D
USSMD
F&A
Intl Mgt
PSS
Corp Com
Press
Multi media
OEM
MSU
Legal
SPAG

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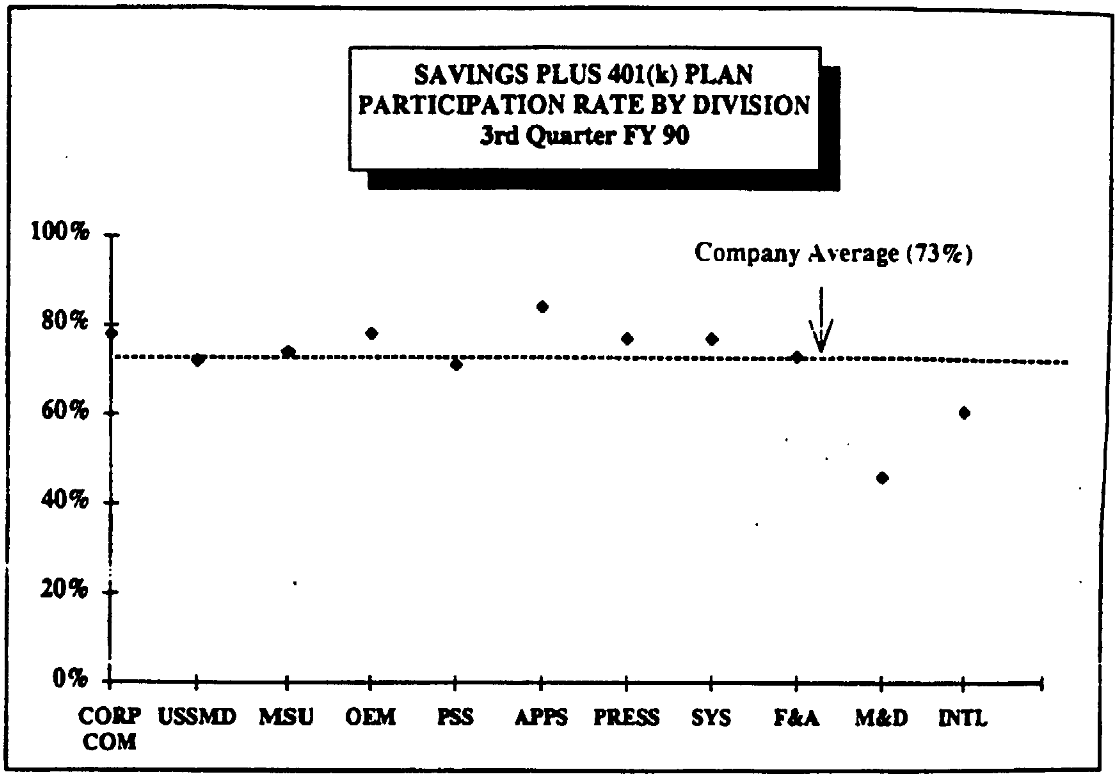
SAVINGS PLUS 401(k) PLAN
PARTICIPATION RATE BY DIVISION
3rd Quarter FY 90
100%
80%
60%
40%
20%
0%
Company Average (73%)
CORP COM
USSMD
MSU
OEM
PSS
APPS
PRESS
SYS
F&A
M&D
INTL

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