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(Comes v. Microsoft)

Q96-2 Board of Directors'  
Report

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Case No. 2:96CV645B

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## Q96-2 BOARD OF DIRECTORS' REPORT

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*This report was prepared with Word for Windows 7.0. All tables were created in Excel 7.0 and either embedded in the document or linked to master spreadsheets. Additionally, most of the channel and product group tables were generated via automation from the general ledger. Each of these automated tables is made accurate in its calculations by using data at a lower level than the rounded amounts shown in this report. These lower level amounts are used to calculate variances and are then rounded and displayed in this report. Therefore, individual amounts are rounded perfectly but totals and variances may not foot precisely. All other tables have individual numbers that may be rounded. While these individual numbers may not tie precisely to supporting schedules, they will foot exactly as shown in this report.*

(NOTE: Revenue is "net" unless otherwise stated. Gross revenue is net of returns.)

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**EXECUTIVE SUMMARY**

**Microsoft Corporation Income Statement**

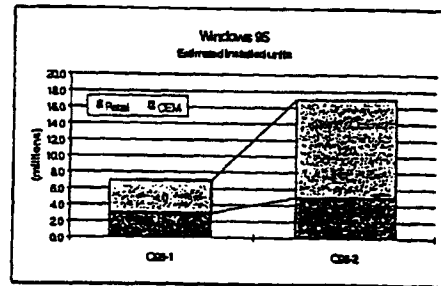
	EXTERNAL GAAP RESULTS							
	Q96-2		Q96-1		Growth	Q95-2		Growth
Net Revenue	\$2,195	100%	\$2,016	100%	9%	\$1,482	100%	48%
Operating expenses:								
Cost of revenue	330	15%	322	16%	2%	222	15%	49%
Research and development	313	14%	303	15%	3%	199	13%	57%
Sales & marketing	690	31%	621	31%	11%	479	32%	44%
General & administrative	76	3%	63	3%	22%	62	4%	23%
Total cost & expenses	1,409	64%	1,309	65%	8%	962	65%	46%
Operating income	786	36%	708	35%	11%	520	35%	51%
Interest income - net	76	3%	66	3%	16%	42	3%	81%
Noncontinuing items	30	1%	0	0%	nm	0	0%	nm
Other expenses	(7)	(0%)	(4)	(0%)	76%	(5)	(0%)	36%
Income before income taxes	885	40%	770	38%	15%	557	38%	59%
Provision for income taxes	(310)	(14%)	(271)	(13%)	14%	(184)	(12%)	68%
Net Income	\$575	26%	\$499	25%	15%	\$373	25%	54%
Earnings per Share	\$ 0.90		\$ 0.78		16%	\$ 0.60		50%
Weighted avg shares outstanding	638		640			625		

	Q94-3	Q94-4	Q95-1	Q95-2	Q95-3	Q95-4	Q96-1	Q96-2
Net revenue (in millions)	\$1,244	\$1,293	\$1,247	\$1,482	\$1,587	\$1,621	\$2,016	\$2,195
Operating income (% of net revenue)	39%	38%	35%	35%	35%	33%	35%	36%
Net income (% of net revenue)	21%	28%	25%	25%	25%	23%	25%	26%
Earnings per share	\$0.42	\$0.59	\$0.51	\$0.60	\$0.63	\$0.58	\$0.78	\$0.90

**Q96-2 Highlights**

- Net revenue for the quarter as reported externally under GAAP was \$2.2 billion, an increase of 48% over the comparative quarter in FY95 and 9% over Q96-1. The year over year increase was due to strong sales of Office and Office Pro, Windows 95 and the BackOffice suite of products. OEM revenue increased to a record \$672 million, 57% over the comparative quarter of prior year reflecting continued strong growth in the PC market and the rapid adoption of Windows 95 by computer manufacturers.
- An estimated 17 million units of Windows 95 have been sold to end users since launch. Retail sales during the quarter were estimated at 2 million units, down from 3 million last quarter reflecting the expected tapering off of sales following the initial launch. OEM sales increased to 8 million units as compared to 4 million last quarter.
- Research and development costs in the quarter grew 57% and represented 14.3% of revenues. This growth reflects increased investments across all product divisions, but particularly

Consumer and MSN. Sales and marketing expenses increased 44% primarily reflecting increases in marketing and product support costs.



- Other income and expense include a \$30 million non-recurring net gain from the disposal of long-term assets.
- Net income for the quarter totaled \$575 million, a 15% increase over prior quarter and 54% over Q95-2. Earnings per share grew 16% to \$0.90 from the prior quarter, and 50% over Q95-2 EPS of \$0.60.

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### Notes to Consolidated Management Reports

The consolidated management P&L is based on functional responsibility and prepared in accordance with MAP (Microsoft Accounting Principles). These results may not include the impact of certain adjustments and reclassifications as required by Generally Accepted Accounting Principles (GAAP) for external reporting. Significant differences between financial statements prepared for internal management use and externally reported results include:

- Revenue for internal management reports is generally recognized "as billed." Under GAAP, net revenue includes adjustment for certain billed, but unearned revenue, such as Windows 95 revenue that will be recognized over the product life cycle, and revenue from Office 4.x that is expected to be upgraded to Office 95. Conversely, certain revenue that is earned but not yet billed such as unreported OEM and Select revenue is also recognized for external purposes.
- Q96-2 management reports include a Desktop 95 channel reserve based on estimates provided by sales management of all Windows 95 and Office 95 inventory remaining in the channel as of December 31. For external reporting, these reserves have been adjusted to reflect channel inventory in excess of normal levels with potential for return.
- For external reporting purposes, the net cost of MSN operations is included in research and development expenses until such time as MSN has profitable gross margins. MSN cost of operations are included in cost of revenue as a business channel in management P&Ls.
- For external reporting purposes, all product marketing related activities are classified as a sales and marketing expense. For internal reporting purposes, product marketing departments and related marketing expenses are included in product development.
- Non-operating income, expenses, non-continuing items, and income taxes are excluded from internal management reports.

### REVENUE SUMMARY

Gross Product Revenue -Q96-2 (Revsum categories, in millions)									
	Gross as Billed	Desktop 95 Reserve	Adjusted Gross			Adj. Gross as % of			
				Plan	FY95	Total	Plan	FY95	
Desktop applications	\$ 970.6	\$ 72.3	\$ 1,042.8	\$ 980.9	\$ 833.1	41%	106%	125%	
Win 3.x, MS-DOS (PS)	419.8	-	419.8	335.7	401.6	16%	125%	105%	
Win 95, MS Plus(PSD)	114.1	293.9	408.0	333.9	-	16%	122%	nm	
BackOffice (BSD)	234.7	-	234.7	129.8	111.2	9%	181%	211%	
Consumer software	151.9	-	151.9	181.9	135.6	6%	84%	112%	
Consumer hardware	99.6	-	99.6	106.5	81.2	4%	94%	123%	
Developer products	129.3	-	129.3	98.3	73.0	5%	132%	177%	
Microsoft Network	9.5	-	9.5	15.6	-	0%	61%	nm	
Press & other	51.6	-	51.6	45.4	36.2	2%	114%	142%	
Gross revenue	\$ 2,181.1	\$ 366.2	\$ 2,547.3	\$ 2,227.9	\$ 1,671.9	100%	114%	152%	

- Q96-2 gross revenue adjusted for Desktop 95 reserves (i.e., on a sell-in basis) was \$2.54 billion, 14% ahead of plan and 52% ahead of last year. For the year to date, adjusted gross revenue was \$4.65 billion, 11% of plan and 59% ahead of FY95. Positive variances are primarily due to continued strong sales of Office and Office Pro, sales of BackOffice products primarily Windows NT (increasing 111% over the same quarter last year and 81% ahead of plan) and the introduction of Windows 95.
- Q96-2 Desktop Applications revenue totaled \$1.04 billion, 6% better than plan and 25% over the prior year quarter. Sell-through of Office 95 totaled \$213 million, significantly less than the

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\$410 million planned (52%). Offsetting this variance were continued strong sales of 16-bit versions of Office, with sales totaling \$590 million or 155% of plan. For the year, DAD revenue totals \$1.88 billion, 8% above plan and 28% above FY95, with \$268 million remaining in the Office 95 channel reserve.

- Q96-2 Personal Systems revenue totaled \$828 million or 24% better than plan, including a \$294 million adjustment for returns and sell-through of Windows 95 reserved in Q96-1. Sell-through of Windows 95 totaled \$386 million for the quarter and \$700 million year to date, 91% of plan. Year-to-date PSD sales total \$1.61 billion, or 9% better than plan and 111% above FY95, including \$375 million reserved for Windows 95 channel inventory.
- Q96-2 Business Systems revenue grew 111% over Q95-2 to \$235 million and exceeded plan

by 81%. Windows NT generated over \$124 million in revenue in the quarter, while BackOffice totaled \$27 million. Business System revenue for the year totals \$383 million, 128% growth over FY95 and 61% over plan.

- Total Consumer revenue was under plan by 13% for the quarter, but ahead 2% for the year. In North America, Consumer software revenue in Q96-2 was only 56% of plan and 22% below last year. Consumer hardware revenue was 14% better than plan for the year on strong sales of the Sidewinder Joystick, offset by slow sales of keyboards.
- Developer revenue exceeded plan by 32% in Q96-2 primarily due to strong sales of Visual Basic. VB sales totaled \$61 million, 137% better than plan and 215% better than last year.

Net Channel Revenue -Q96-2									
(in millions)	Net before		Adjusted			Adj Net as % of			
	DT95 adj	Desktop 95 Reserve		Net	Plan	FY95	Total	Plan	FY95
North America FG	\$ 269.0	\$ 406.3	\$ 675.3	\$ 685.6	\$ 514.8	29%	98%	131%	
Europe FG	612.0	12.8	624.8	618.7	458.2	26%	101%	136%	
ICON FG	118.7	10.0	128.6	151.2	103.7	5%	85%	124%	
Far East FG	279.3	(62.9)	216.5	113.1	107.9	9%	191%	201%	
Total finished goods	1,279.0	366.2	1,645.2	1,568.7	1,184.6	70%	105%	139%	
OEM	672.7	-	672.7	487.8	385.1	29%	138%	175%	
MS Press	22.6	0.0	22.6	16.1	10.5	1%	140%	215%	
MS Online	9.5	0.0	9.5	13.3	-	0%	71%	nm	
Softimage & other	9.0	-	9.0	10.2	8.0	0%	88%	114%	
Net revenue	\$ 1,992.8	\$ 366.2	\$ 2,359.0	\$ 2,096.1	\$ 1,588.2	100%	113%	149%	

- Q96-2 net FG revenue totaled \$1.645 billion, 5% better than plan. The Far East region exceeded plan by 91% due to the release of Windows 95 in Japan during the quarter. North America, Europe, and ICON were all at or under plan. On a year-to-date basis, net FG revenue totals \$3.09 billion, 3% better than plan and 50% better than FY95, with \$642 million reserved for remaining Desktop 95 channel inventory.
- Growth in major sales locations is led by Japan with a year-over-year increase of 91%, followed by Germany (76%) and Italy (74%). Year-over year-growth in the United States is 43%.

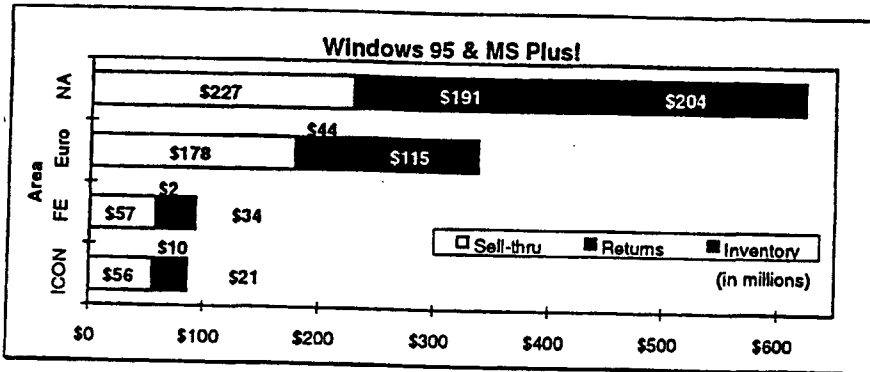
- The OEM channel exceeded plan by 38% with record net revenues of \$673 million. Continued strong processor growth and the adoption of Windows 95 contributed to the 75% growth as compared to last year. Year-to-date OEM revenue totals \$1.18 billion, 32% over plan and 61% over FY95. OEM is expected to reach \$2.5 billion in gross revenue for the year.
- MS Press revenue of \$41 million for the year is 111% over FY95 mainly due to strong sales of Windows 95 related titles.

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**Desktop 95 Channel Reserve**

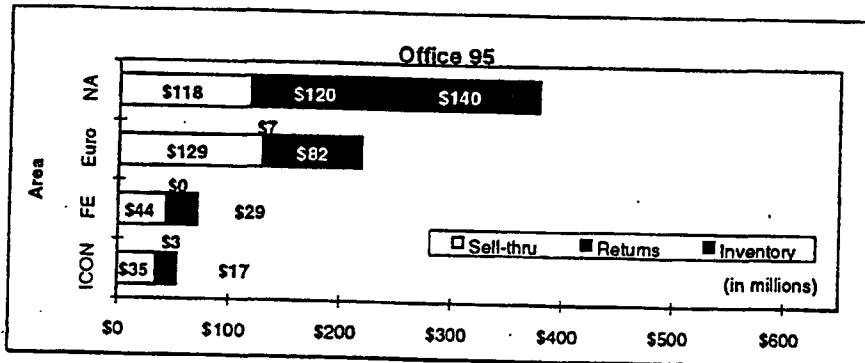
- Channel inventories of Desktop 95 product are estimated to be \$643 million at the end of the quarter.
- Shipments of Windows 95 and MS Plus! into the finished goods channel totals \$1.14 billion

year to date. As shown below, an estimated \$519 million has sold through to end users and \$375 million remains in the channel, primarily in North America and Europe. Returns of Windows 95 and MS Plus! to MS total \$247 million.

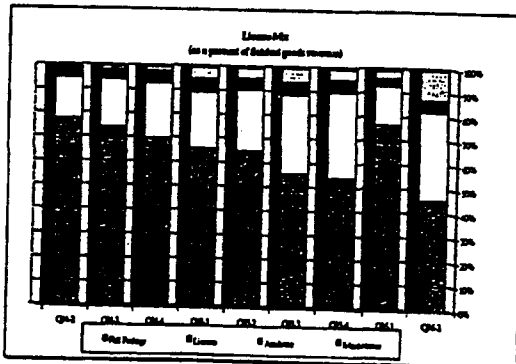


- Year-to-date shipments of Office 95 total \$726 million, with an estimated sell through of \$327

million. Inventory remaining in the channel is estimated at \$268 million.



**License Mix**



- Sales of full-packaged product (including upgrades) as a percent of finished goods revenue continues to decline following the extraordinary sell-in of Desktop 95 in Q96-1.
- Select license revenue totaled \$264 million during the quarter, 27% above prior quarter. Revenue from maintenance agreements generated over \$100 million in gross revenue, more than double prior quarter.

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- Pricing was generally consistent with plan as all material variances were driven by mix factors. Finished goods revenue per license, including version upgrades, for all product divisions was \$101 against a plan of \$105. The table shown to the right highlights worldwide finished goods revenue per license for several major products. See Appendix for complete revenue and pricing summaries by region.

	Actual	Plan
Office -new users	\$257	\$251
Office -existing users	\$164	\$155
OfficePro -new users	\$276	\$296
OfficePro -existing users	\$211	\$188
Windows 95	\$92	\$85
Windows NT -servers	\$531	\$514
Windows NT -workstations	\$196	\$212

**Foreign Exchange Impact on Consolidated Net Revenue**

(in millions)

	Q96-2 Variance			FYTD96		
	Operations	FX	Variance	Operations	Fx	Variance
North America FG	(\$11.3)	\$1.0	(\$10.3)	(\$141.3)	\$1.6	(139.7)
Europe FG	(21.0)	27.1	6.1	15.8	49.0	64.8
ICON FG	(23.8)	1.2	(22.6)	0.5	2.4	2.9
Far East FG	126.1	(22.8)	103.3	201.6	(27.4)	174.2
OEM, Other AT & Channels	186.1	0.3	186.4	297.7	0.4	298.1
Variance to plan	\$256.1	\$6.8	\$262.9	\$374.3	\$26.0	\$400.3

- The table shown above summarizes the impact of actual foreign exchange rates compared to plan for Q96-2. Actual local currency revenue at planned rates resulted in a positive operations variance of \$256 million to net revenue. Positive fx rate variances in Europe were offset by the strengthening US dollar in Japan, resulting in a favorable variance of \$6.8 million.
- Year-to-date positive variances in European subsidiaries included Germany (\$11 million), England (\$7.9 million), France (\$8.4 million), Switzerland (\$4.8 million), Sweden (\$4.1 million), and Italy (\$5.3 million).
- The negative variance in the Far East is due primarily to results from Japan, where the dollar strengthened from 84 Yen in June to an average Yen of 101 in December. The FY96 budgeted rate is at 90 Yen. It is likely a negative foreign exchange variance will occur throughout the year for Japan results.

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**COST OF REVENUE**

By Channel	Sales Mix	Weighted Ave	Cost of Revenue	
			Actual	Plan
North America FG	28.6%	6.8%	23.9%	18.5%
Europe FG	26.5%	3.3%	12.6%	13.4%
ICON FG	5.5%	0.9%	16.9%	19.3%
Far East FG	9.2%	1.4%	14.8%	21.1%
<b>Total Finished Goods</b>	<b>-69.7%</b>	<b>12.5%</b>	<b>17.9%</b>	<b>16.7%</b>
OEM	28.5%	1.6%	5.6%	5.4%
Other (includes MSN)	1.7%	1.5%	84.3%	82.8%
	100.0%	15.5%	15.5%	15.4%
<b>By Product Division</b>				
Desktop Apps	40.6%	5.2%	12.7%	12.3%
Consumer	10.2%	4.9%	48.1%	35.3%
Personal Finance	0.3%	0.1%	33.7%	49.6%
MS On-line	0.4%	0.8%	198.1%	175.6%
Applications & Content	51.5%	10.9%	21.2%	19.4%
Business Systems	11.9%	1.0%	8.1%	15.1%
Personal Operating Syste	29.9%	2.4%	7.9%	7.0%
Developer	5.5%	0.8%	14.1%	14.7%
Consumer Systems	0.3%	0.1%	21.1%	29.2%
Platforms	47.6%	4.2%	8.8%	9.5%
Other (primarily MS Press)	1.0%	0.4%	42.0%	33.4%
	100.0%	15.5%	15.5%	15.4%

- Cost of revenue in the finished goods channel was 17.9% versus plan of 16.7% due to a \$70 million charge for excess Desktop 95 inventory in North America and a \$20 million charge for excess keyboard inventories. These charges were partially offset by a higher than planned shift from disk to CD-ROM media across all product divisions. Total cost of revenue was about as planned due to the positive impact of higher than planned OEM sales.
- Consumer Division cost of revenue was 13 percentage points higher than plan due to charges taken for excess keyboard inventory noted above and the impact of price cuts on many products beginning in October.

- CD-ROM mix by division versus plan and last year is illustrated in the following table.

FYTD CD ROM mix	Actual	Plan	Prior yr
Personal Systems	53%	21%	1%
Desktop Application	33%	12%	4%
Consumer	75%	55%	43%
Business Systems	51%	34%	36%
Developer	64%	25%	20%
<b>Total</b>	<b>54%</b>	<b>37%</b>	<b>19%</b>

- For the year, total cost of sales is 15.3% versus plan of 15.4% .

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**OPERATING EXPENSES**

Operating Expenses						
(in millions)	Q96-2	Plan	% of Plan	FYTD96	FYTD95	Growth
People costs (less contingent staff)	\$413.4	\$440.8	94%	\$797.9	\$599.1	33%
Contingent staff and outsourcing	170.0	160.1	106%	284.0	109.9	159%
Infrastructure costs	130.3	143.3	91%	248.8	223.2	11%
Marketing expenses	269.4	298.4	90%	498.5	242.3	106%
PSS/MCS cost recovery	(67.6)	(71.5)	95%	(122.1)	(55.4)	120%
Third Party Product development	46.8	43.2	108%	83.6	53.0	58%
Other expenses	64.9	62.5	104%	151.8	92.8	64%
	<u>\$1,027.2</u>	<u>\$1,076.6</u>	95%	<u>\$1,942.6</u>	<u>\$1,264.9</u>	54%
Average MS headcount	19,399	21,673	90%	18,717	16,417	14%
People cost per head	\$85,246	\$81,345	105%	\$85,262	\$72,991	17%
Infrastructure cost per head (annualized cost per average MS head)	\$26,861	\$26,441	102%	\$26,582	\$27,192	-2%
Contingent staff and outsourcing (as a percentage of People costs)	41.1%	36.3%	113%	35.6%	18.3%	94%

- Operating expenses were 5% under plan for the quarter and 7% for the year, although year-to-date spending of \$1.94 billion represents year-over-year growth of 54%, well in excess of revenue growth of 49%. There are general increases across almost all categories of spending, but particularly in marketing (including broad reach) and contingent staffing and outsourcing, each growing in excess of 100%.
- People costs excluding contingent staff (temporary help, consulting and outsourcing) were 94% of plan reflecting below plan headcount hiring, although cost per average head was 5% over plan. This variance is primarily due to accrued, but not budgeted, management and executive bonuses, and employee recruiting costs, particularly signing and relocation bonuses.
- Infrastructure costs increased a modest 11% year over year, although telecommunication costs increased 63% to \$49 million.

- Contingent staff and outsourcing costs increased 159%, or \$174 million over last year. As shown below, outsourced PSS represents the most significant increase.

Contingent staff and Outsourcing costs			
	FYTD96	FYTD95	Growth
PSS	\$110.7	\$30.6	262%
Product Groups	81.2	31.3	160%
ITG	39.6	19.8	100%
Sales Groups	24.3	15.3	59%
MCS	16.1	0.8	1817%
G&A	12.0	11.9	1%
	<u>\$284.0</u>	<u>\$109.7</u>	159%

- Other expenses include bad debt, tax, and license expenses which are generally variable with sales volume.

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PRODUCT DEVELOPMENT COSTS

(in millions)	Q96-2					
	Actual	Plan	% of Plan	Prior Year	% of PY	
<b>Platform Product Group</b>						
Business Systems	\$52.8	14%	\$54.1	13%	98%	\$41.9 18% 126%
Personal Systems	27.6	7%	29.9	7%	92%	16.5 7% 168%
Developer	38.4	10%	36.1	9%	106%	29.4 12% 131%
Consumer Systems	30.7	8%	35.1	9%	87%	30.0 13% 102%
Platform Management	18.1	5%	17.4	4%	104%	10.1 4% 180%
<b>Total Platform Products</b>	<b>167.6</b>	<b>45%</b>	<b>172.6</b>	<b>43%</b>	<b>97%</b>	<b>127.3 54% 131%</b>
<b>Application &amp; Content Group</b>						
Desktop Applications	48.5	13%	50.3	12%	96%	35.9 15% 135%
Consumer	63.5	17%	68.1	17%	93%	31.7 13% 200%
Microsoft on-line	23.5	6%	28.9	7%	81%	7.4 3% 318%
Personal Finance	1.7	0%	3.5	1%	47%	1.7 1% 97%
Research & Management	7.4	2%	9.9	2%	75%	6.8 3% 112%
<b>Total Application &amp; Content</b>	<b>144.6</b>	<b>39%</b>	<b>160.8</b>	<b>40%</b>	<b>90%</b>	<b>83.3 35% 174%</b>
Product Marketing	51.5	14%	69.0	17%	75%	22.5 10% 229%
Other Development Costs	11.1	3%	2.7	1%	410%	1.8 1% 624%
<b>Total</b>	<b>\$374.8</b>	<b>100%</b>	<b>\$405.1</b>	<b>100%</b>	<b>93%</b>	<b>\$235.4 100% 159%</b>

(in millions)	FY1996					
	Actual	Plan	% of Plan	Prior Year	% of PY	
<b>Platform Product Group</b>						
Business Systems	\$101.1	14%	\$111.7	14%	81%	\$81.9 18% 123%
Personal Systems	52.0	7%	58.5	7%	89%	36.0 8% 145%
Developer	73.4	10%	71.5	9%	103%	55.3 12% 133%
Consumer Systems	64.8	9%	72.8	9%	89%	57.4 13% 113%
Platform Management	31.3	4%	33.8	4%	93%	18.5 4% 169%
<b>Total Platform Products</b>	<b>322.6</b>	<b>45%</b>	<b>348.4</b>	<b>44%</b>	<b>93%</b>	<b>249.0 55% 130%</b>
<b>Application &amp; Content Group</b>						
Desktop Applications	95.6	13%	101.8	13%	94%	69.5 15% 138%
Consumer	117.9	16%	131.8	17%	89%	58.2 13% 202%
Microsoft on-line	39.7	5%	51.6	7%	77%	12.5 3% 318%
Personal Finance	3.2	0%	5.9	1%	53%	3.4 1% 93%
Research & Management	14.3	2%	19.2	2%	74%	12.4 3% 116%
<b>Total Application &amp; Content</b>	<b>270.7</b>	<b>37%</b>	<b>310.4</b>	<b>39%</b>	<b>87%</b>	<b>156.0 35% 174%</b>
Product Marketing	96.2	13%	126.1	16%	76%	42.3 9% 227%
Other Development Costs	34.0	5%	6.0	1%	569%	3.7 1% 925%
<b>Total</b>	<b>\$723.6</b>	<b>100%</b>	<b>\$790.8</b>	<b>100%</b>	<b>92%</b>	<b>\$451.0 100% 160%</b>

- Year-to-date product development costs increased 60% over last year. Headcount increased 49% to 6,775 at quarter end. Product marketing, contingent staffing and third party development costs increased across all divisions.
- Application and Content headcount grew 9% over Q96-1 to 2,820, while controllable expenses grew 15%, and were 90% of plan. Year-to-date expenses total \$271 million, 74% growth over FY95. Year over year growth is primarily due to increased investment in Consumer and MSN headcount, combined with increases in third party product development and localization costs.
- Platforms headcount grew 4% over Q96-1 to 3,953. Controllable expenses in Q96-2 were 98% of plan. Year-to-date Platform product group controllable expenses were \$323 million or 97% of plan and 30% over FY95. Localization costs related to Windows 95 and continued investment in Business Systems and Developer are the primary drivers of this increase.
- Other product development costs include \$7 million in Q96-2 related to investment in DreamWorks Interactive and \$20 million year to date related to development agreements with DEC.

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## SALES, MARKETING, &amp; SUPPORT COSTS

(\$ in millions)	Q96-2							
	Actual		Plan		% of Plan	Prior Year		% of PY
<b>Sales Expenses</b>								
North America	\$61.4	11%	\$72.5	12%	85%	\$58.6	15%	105%
Europe	67.2	12%	69.8	12%	96%	59.0	15%	114%
ICON	28.6	5%	26.4	4%	108%	21.3	5%	134%
Far East	20.5	4%	22.0	4%	93%	12.6	3%	163%
OEM	29.5	5%	24.2	4%	122%	18.8	5%	157%
Other	12.5	2%	22.8	4%	55%	16.4	4%	76%
Total sales expenses	219.8	38%	237.7	40%	92%	186.7	47%	118%
Marketing Costs	218.1	38%	228.7	38%	95%	131.1	33%	166%
Support Cost	140.9	24%	130.3	22%	108%	76.0	19%	185%
<b>Total</b>	<b>\$578.6</b>	<b>100%</b>	<b>\$596.7</b>	<b>100%</b>	<b>97%</b>	<b>\$393.7</b>	<b>100%</b>	<b>147%</b>
	FYTD 96							
	Actual		Plan		% of Plan	Prior Year		% of PY
<b>Sales Expenses</b>								
North America	\$126.7	12%	\$147.9	13%	86%	\$113.7	16%	111%
Europe	134.1	12%	139.3	12%	96%	111.1	16%	121%
ICON	51.5	5%	51.7	5%	100%	40.0	6%	129%
Far East	40.2	4%	44.8	4%	90%	23.0	3%	174%
OEM	52.2	5%	45.6	4%	114%	37.4	5%	140%
Other	32.6	3%	48.1	4%	68%	33.4	5%	98%
Total sales expenses	437.3	40%	477.4	42%	92%	358.5	51%	122%
Marketing Costs	402.8	37%	430.6	38%	94%	198.1	28%	203%
Support Cost	242.4	22%	239.0	21%	101%	144.3	21%	168%
<b>Total</b>	<b>\$1,082.5</b>	<b>100%</b>	<b>\$1,147.0</b>	<b>100%</b>	<b>94%</b>	<b>\$700.9</b>	<b>100%</b>	<b>154%</b>

- Q96-2 sales, marketing and support costs were \$578 million, 97% of plan and 47% over last year. Product support costs increased 85% primarily due to support related to the launch of Desktop 95.
- Marketing costs, including Broad Reach, were \$218 million, 95% of plan. FYTD marketing costs total \$403 million or 93.5% of plan. Marketing costs are 103% higher than last year.
- Net PSS expenses approximated plan for Q96-2 and increased 85% over the prior year quarter.

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## GENERAL &amp; ADMINISTRATIVE COSTS

(in millions)	Q96-2						
	Actual		Plan		% of Plan	Prior Year	Change
ITG	\$28.9	39%	\$23.8	32%	122%	\$20.1	32% 44%
Finance	13.3	18%	13.0	17%	102%	11.4	18% 17%
Human Resources	7.9	11%	8.3	11%	96%	7.2	12% 10%
MS Services Group	4.7	6%	4.9	7%	96%	4.0	6% 18%
Real Estate	1.5	2%	1.3	2%	115%	0.5	1% 207%
Legal	18.4	25%	22.2	30%	83%	17.3	28% 6%
Other	(0.8)	(1%)	1.5	2%	(57%)	1.4	2% (158%)
<b>Total</b>	<b>\$73.9</b>	<b>100%</b>	<b>\$74.9</b>	<b>100%</b>	<b>99%</b>	<b>\$62.0</b>	<b>100% 19%</b>

	FYTD96						
	Actual		Plan		% of Plan	Prior Year	Change
ITG	\$51.8	38%	\$47.1	32%	110%	\$36.9	33% 40%
Finance	24.0	18%	24.9	17%	96%	20.9	19% 15%
Human Resources	14.8	11%	16.1	11%	92%	13.6	12% 9%
MS Services Group	8.9	6%	9.6	6%	92%	8.7	8% 1%
Real Estate	2.6	2%	2.6	2%	97%	0.9	1% 181%
Legal	37.9	28%	44.6	30%	85%	29.8	26% 27%
Other	(3.4)	(3%)	2.9	2%	(119%)	2.2	2% (255%)
<b>Total</b>	<b>\$136.5</b>	<b>100%</b>	<b>\$147.8</b>	<b>100%</b>	<b>92%</b>	<b>\$113.1</b>	<b>100% 21%</b>

- G&A costs include corporate cost centers that support MS on a worldwide basis. These expenses include IT project development and regional support, corporate finance, legal and corporate affairs, HR services such as employee development, compensation and recruiting, and certain worldwide real estate and administrative support services.
- G&A expenses were as planned in Q96-2, growing 19% over last year. G&A headcount totaled 1,964 at quarter end, a 23% increase over FY95.
- Year-to-date G&A costs are about 3% of net revenue, reflecting year over year growth of 21%. Primary growth drivers are increased ITG spending due to continued increased in application development and operational support, and legal costs due to increased litigation, piracy efforts and dispute resolution.
- ITG costs exceed plan by \$4.7 million year to date primarily due to the timing of certain projects versus plan and approved plan variances for implementation of the SAP financial system. Plans are being developed to reorganize ITG and transfer primary responsibility for project development and costs directly to business unit management. The remaining core ITG organization will be responsible for regional implementation and support, as well as management of infrastructure processes and costs.

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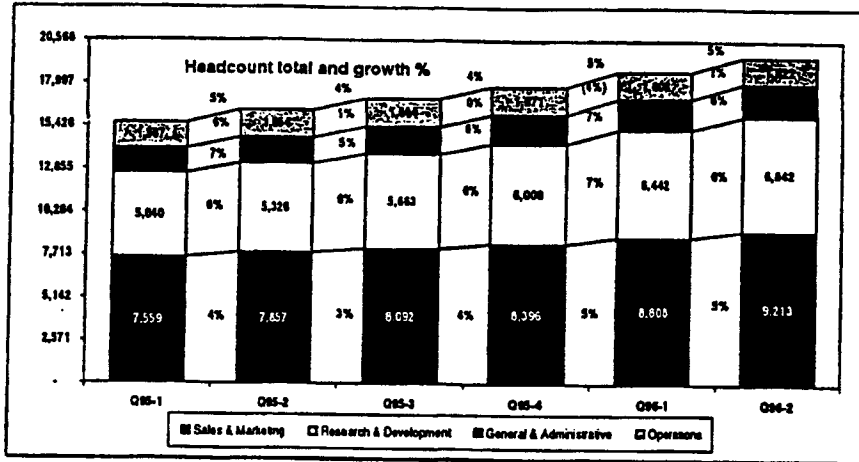
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HEADCOUNT



- Quarter-end headcount of 19,641 is 86% of annual plan. A total of 931 new heads were added during the quarter, a 5% increase over Q96-1. Growth in headcount over the last two quarters has approximated 5% per quarter.
- As shown in the table above, all groups are under planned headcount hiring. Q96-2 decrease in Finance heads reflect transfer of procurement and payable functions to MS Services Group.

	Q96-1		Q96-2		FY96 Plan		
	Actual	Actual	Plan	Growth	Total	Growth	% of Plan
<b>Sales, Marketing &amp; Support</b>							
North America FG	2,135	2,204	2,445	69	2,495	291	88%
Europe FG	1,878	1,751	1,871	73	1,889	138	93%
ICDH FG	687	754	822	87	855	101	88%
Far East FG	388	412	487	24	499	87	83%
<b>Total Finished Goods</b>	<b>4,888</b>	<b>5,121</b>	<b>5,605</b>	<b>233</b>	<b>5,738</b>	<b>617</b>	<b>89%</b>
WW PBS	3,405	3,821	4,069	128	4,228	607	86%
WW OEM	220	227	258	7	261	34	87%
Press	49	54	58	5	57	3	95%
MS Online	21	37	44	18	44	7	84%
AT Sales	135	153	179	18	188	33	82%
<b>Sales, Marketing &amp; Support Total</b>	<b>8,808</b>	<b>9,213</b>	<b>10,209</b>	<b>405</b>	<b>10,514</b>	<b>1,301</b>	<b>88%</b>
<b>Platforms Product Group</b>							
Business Systems	1,100	1,135	1,229	35	1,304	169	87%
Personal Systems	767	776	868	9	870	94	89%
Developer	1,101	1,141	1,237	40	1,289	128	90%
Consumer Systems	593	647	685	54	734	87	88%
Platforms Management	228	254	269	26	500	248	51%
<b>Platforms Total</b>	<b>3,789</b>	<b>3,953</b>	<b>4,288</b>	<b>164</b>	<b>4,677</b>	<b>724</b>	<b>85%</b>
<b>Applications &amp; Content Group</b>							
Desktop Applications	1,173	1,222	1,337	49	1,401	179	87%
Consumer	853	968	1,057	113	1,258	292	77%
Microsoft On-Line	370	418	558	48	605	187	89%
Personal Finance	48	60	81	12	107	47	56%
Research & Management	151	154	178	3	197	43	78%
<b>Applications &amp; Content Total</b>	<b>2,595</b>	<b>2,820</b>	<b>3,211</b>	<b>225</b>	<b>3,568</b>	<b>748</b>	<b>79%</b>
<b>Research &amp; Development Total</b>	<b>6,384</b>	<b>6,773</b>	<b>7,499</b>	<b>389</b>	<b>8,245</b>	<b>1,472</b>	<b>82%</b>
Press	58	68	77	11	78	10	87%
<b>General &amp; Administrative</b>							
ITG	628	683	781	55	815	132	84%
Finance	320	296	326	(24)	345	49	86%
Human Resources	318	321	347	5	350	29	92%
MS Services Group	353	408	453	53	485	59	87%
Real Estate & Construction	31	32	35	1	37	5	86%
Legal & Corporate Affairs	198	219	249	21	252	33	87%
Executive Staff	8	7	6	1	6	(1)	117%
<b>General &amp; Administrative Total</b>	<b>1,852</b>	<b>1,964</b>	<b>2,197</b>	<b>112</b>	<b>2,270</b>	<b>308</b>	<b>87%</b>
<b>Operations</b>	<b>1,609</b>	<b>1,822</b>	<b>1,782</b>	<b>14</b>	<b>1,781</b>	<b>129</b>	<b>83%</b>
<b>GRAND TOTAL</b>	<b>18,710</b>	<b>19,641</b>	<b>21,784</b>	<b>931</b>	<b>22,859</b>	<b>3,218</b>	<b>86%</b>

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Operations

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## KEY PERFORMANCE METRICS

Service & Financial Metrics	North America			Europe			Far East			ICON			Total		
	Goal-96	Q96-2	Q96-1	Goal-96	Q96-2	Q96-1	Goal-96	Q96-2	Q96-1	Goal-96	Q96-2	Q96-1	Goal-96	Q96-2	Q96-1
Package Products															
Lead Time (Average Days)	8	11	12	13	13	11	5	na	na	15	19	17	10	11	10
Fill Rate (%)	95%	81%	77%	80%	61%	67%	80%	na	na	78%	64%	61%	83%	67%	70%
% Accounts Receivable Current	95%	89%	95%	80%	70%	82%	95%	90%	87%	88%	72%	85%	88%	78%	90%
Total DSO	40	91	60	45	59	72	50	49	56	82	163	105	51	77	69
Inventory turnover rate (Per Yr)	12.0	2.3	5.9	8.0	5.5	9.7	8.0	12.3	6.6	8.0	2.7	6.7	9.6	3.8	6.8

- Inventory turns were negatively impacted across all regions due to excess gross inventories of Desktop 95 and hardware products. Inventories of Desktop 95 products continued to increase during Q96-2 due to commitments for product

from outsource vendors in excess of demand and significant channel returns. Hardware inventories have been impacted due to lower than forecasted sales of keyboards.

## SUMMARY OF OPERATING STATISTICS

Packaged Products	North America		Europe		Far East		ICON		Total	
	Q96-2	Q96-1	Q96-2	Q96-1	Q96-2	Q96-1	Q96-2	Q96-1	Q96-2	Q96-1
No. of Bill to Customers	61	58	159	155	92	81	174	186	486	480
No. of Ship to Locations	117	109	163	157	130	116	238	249	648	631
Revenue per Customer (\$000)	-6,558	17,268	2,519	2,319	2,784	1,588	481	931	2,347	3,464
Revenue per Order (\$000)	67	145	68	70	39	18	22	45	51	72
No. of Orders	5,971	6,907	5,891	5,134	6,568	7,147	3,808	3,847	22,238	23,035
No. of SKU's to = 80% of revenue	73	24	274	104	24	39	127	37	335	113
Total SKU's Sold	740	794	2,123	2,089	475	582	1,031	1,129	3,526	3,635
Select Licensing - Select 2.X										
Select Usage Reporting % (cum)	99%	99%	90%	74%	98%	99%	98%	99%	94%	87%
No. of Usage Reports Due (cum in quarter)	1,573	1,626	2,479	2,431	249	243	585	549	4,886	4,849
No. of Usage Reports Processed (cum in quarter)	1,550	1,602	2,226	1,807	244	241	573	545	4,593	4,195
Unbilled Select Revenue (est. \$000)	1,471	1,512	14,559	37,260	60	26	414	114	16,504	38,912
No. of New Master Agreements	(366)	61	137	64	(5)	50	(60)	25	(294)	200
Total No. of Master Agreements	806	1,172	1,128	991	152	157	323	383	2,409	2,703

- During Q96-1, a focused effort was initiated toward rationalizing Select processes through automated reporting and validation tools, improving CD, disk, and document fulfillment capabilities and refining the method for exchanging licensing data with LARs (large account resellers). Those efforts continued during Q96-2. The percent of Select accounts with non-current receivable balances remains at 50%, but the number of unbilled usage reports were dramatically lower for Europe compared to the prior quarter.
- During Q96-2, North America continued implementation of Project Genesis, a process re-engineering effort. The projects include

finalizing evaluation of and selected future supply partners for raw material procurement, and implementing a new process for Central Master Scheduling of manufacturing builds. Continued progress on the Account Forecasting System (AFS) was enhanced with pilot rollouts to key direct resellers. Conversion to new manufacturing cells was completed. Further, in an effort to be more responsive to customers, approximately 40% of all distribution has been outsourced to InterAmerica.

- Select 2.x master agreements have declined in North America, Far East, and ICON as they expired and are replaced with Select 3.0.

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**COST OF REVENUE BY PIPE**  
**Q96-2 Finished Goods Gross Margin Analysis**

(in millions)

	North America		Europe		In East		ICON		Total Fixed Costs	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Net Revenue	1,354.0	1,492.7	1,092.9	1,079.1	375.1	200.8	271.3	268.2	2,994.2	2,992.8
Standard Product Costs	109.1	98.4	96.4	81.9	317.7	262	281	334	2,423	2,870
Other Mfg. Costs/Variations	20.1	27.6	23.7	11.7	78	13	46	33	339	341
Inventory Adjustments	4.9	3.5	12.4	4.7	28	16	44	31	63	169
Pipe Processing	11.7	11.6	6.2	6.8	67	67	27	39	21.3	27.0
Overhead	8.1	6.0	2.3	2.6	10	7	14	16	138	113
Reprints	24.1	24.6	11.8	12.9	33	48	38	41	43	43
<b>Subtotal</b>	<b>282.1</b>	<b>287.2</b>	<b>113.3</b>	<b>123.9</b>	<b>483</b>	<b>312</b>	<b>419</b>	<b>316</b>	<b>491</b>	<b>483</b>
Return Scrap/Rework	4.1	15.5	4.2	0.9	66	0.7	34	1.5	374	318
Legal Processing	8.8	13.0	4.7	7.6	34	4.1	11	0.6	18.0	26.2
Freight	3.7	6.0	11.1	7.9	26	1.7	0.8	0.7	13.7	16.2
<b>Total Cost of Revenue</b>	<b>383.3</b>	<b>362.6</b>	<b>133.3</b>	<b>133.3</b>	<b>549</b>	<b>416</b>	<b>493</b>	<b>333.2</b>	<b>3,502.9</b>	<b>3,029</b>
<b>Gross Margin</b>	<b>1,070.7</b>	<b>1,231.1</b>	<b>959.6</b>	<b>945.8</b>	<b>2,102</b>	<b>1,592</b>	<b>2,139</b>	<b>2,131</b>	<b>2,643.2</b>	<b>2,083</b>
Electric Mfg	42.7%	30.9%	43.7%	54.9%	43.7%	30.7%	60.6%	34.0%	46.3%	44.1%
Field Integrated Product	31.3%	29.1%	34.3%	43.1%	36.3%	27.6%	29.6%	48.0%	33.3%	33.9%
CD ROM Mfg./ly. Division										
Personal Operating Systems	33.3%	26.0%	49.9%	26.6%	73.4%	13.0%	34.4%	12.0%	33.7%	21.1%
Desktop Application	21.8%	10.0%	23.6%	10.0%	74.0%	19.8%	19.3%	11.0%	23.0%	12.7%
Connect (Flow-Header)	78.7%	40.0%	34.9%	60.0%	34.9%	14.0%	77.4%	39.0%	74.6%	33.4%
Developer	71.7%	30.0%	49.8%	30.0%	47.3%	20.0%	42.8%	12.0%	43.8%	24.6%
Business Systems	24.8%	47.0%	33.9%	47.0%	72.8%	47.0%	37.7%	14.0%	30.3%	24.0%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Personal Finance	33.1%	0.0%	44.9%	0.0%	32.8%	0.0%	47.4%	0.0%	29.3%	0.0%
Air Consultant Technology	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Operating Systems	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>33.7%</b>	<b>26.6%</b>	<b>50.0%</b>	<b>27.0%</b>	<b>71.3%</b>	<b>27.0%</b>	<b>41.7%</b>	<b>20.0%</b>	<b>37.1%</b>	<b>28.8%</b>

Other Mfg Costs/Variations consist of Manufacturing variances, Hardware costs, and Program Costs/Other.

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### COST OF REVENUE SUMMARY

- FYTD finished goods cost of revenue was 17.2% of net revenue, unfavorable to plan of 16.8%. This variance resulted primarily from a \$70 million charge for obsolete inventory of Desktop 95 product and a \$20 million charge

related to keyboard inventory. These charges were offset by a substantial decline in product costs. Product costs were 7.9% of net revenue compared to plan of 9.7%.

### Standard Product Costs

- Standard product costs consist of all costs incurred to manufacture and assemble finished goods. These costs include labor, overhead, and material costs stated at standard.
- Total finished goods standard product was \$46 million under plan, or 1.8% favorable as a

percent of net revenue. The favorable variance was due primarily to an increased mix of CD ROM version products, and favorable pricing on Desktop 95 products. The mix of CD ROM products was 53% versus plan of 37%.

### Other Manufacturing Costs & Variances

- Other Manufacturing Costs & Variances includes manufacturing variances, and hardware and program costs. Manufacturing variances represent the differences between actual and standard product costs, and other internal and external manufacturing costs incurred in the assembly of product.
- Manufacturing costs were \$14.1 million favorable to plan (.5% of net revenue) primarily due to lower than plan outsourcing labor (\$8.3 million) and contingency spending (\$12.3 million) in North America. Manufacturing costs were negatively impacted by unfavorable overhead absorption in Europe (\$5 million) and ICON (\$.6 million) as a result of lower than plan in-house production.
- Hardware costs include expenses for hardware tooling as well as the operating expenses of the hardware Operation Service Center.

- Hardware costs were \$3.8 million (.1% of net revenue) unfavorable to plan due to reserves for hardware tooling costs.
- Program Costs/Other includes the material costs and other costs of the programs such as MSDN, Select, MES Courseware, inter-business unit cross charges, and the operating expenses of product release services. Additionally, it includes other costs such as prep charges, cancel fees, blue-line scrap, MS Press storage costs, and MSDN materials costs. Cost recovery programs are charged to Marketing Operations.
- Program Costs/Other were \$8.1 million (.2 % of net revenue) unfavorable to plan. This unfavorable variance is due in part to the unplanned shipping of \$2.2 million new MSDN kits related to Windows 95 products in Europe. In addition, MES Courseware was unfavorable (\$4.4 million) across all regions due to increased activity related to the Desktop 95 launch.

### Inventory Adjustments

- Inventory adjustments include charges for in-house scrap, recost impacts, provisions for inventory obsolescence, and cycle count adjustments.

- Inventory adjustments were \$49 million (1.6% of net revenue) unfavorable to plan due to increased inventory allowances for inventory on hand of obsolete 16-bit office product, excess Desktop 95, and hardware products in North America (\$37 million) and Europe (\$7 million).

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**Returns Scrap/Rework**

- Returns scrap/rework includes material and labor & overhead costs of product scrapped that has been returned and/or reworked. It also includes the operating expenses of the returns department and outsourced labor for rework.
- Returns scrap/rework was \$35.6 million (1.1% of net revenue) unfavorable to plan due to allowances for actual and anticipated returns of Desktop 95 products.

**Local Processing**

- Local processing includes all costs related to fulfillment activities at both international sales locations and the ROSCs. In addition, this line item includes all presale communication, order processing, billing, and collection activities incurred by international sales locations.
- Local processing costs were \$8.2 million (.3% of net revenue) favorable to plan due primarily to lower than anticipated direct fulfillment costs across all regions, particularly in North America (\$4 million) and Europe (\$1.4 million)

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APPLICATIONS & CONTENT

Q96-2 P&L Summary

	Desktop Apps		Consumer		Personal Fin.		Microsoft Online		Mgmt Research		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
(in millions)												
Net Revenue	\$956.8	107%	\$239.7	88%	\$8.0	337%	\$9.1	71%	\$0.0	nm	\$1,213.7	103%
Cost or Revenue	121.5	110%	115.4	120%	2.7	229%	18.0	80%	0.0	nm	257.8	112%
Gross Margin	835.4	106%	124.3	71%	5.3	443%	(8.9)	nm	0.0	nm	956.1	100%
<b>% of Net Revenue</b>	<b>87%</b>		<b>52%</b>		<b>68%</b>		<b>(96%)</b>		<b>nm</b>		<b>79%</b>	
Operating Expenses												
People	28.3	97%	26.0	106%	1.2	77%	11.7	74%	5.6	94%	72.8	94%
Infrastructure	8.8	88%	7.0	86%	0.3	80%	4.2	89%	1.2	85%	21.6	83%
Contingency Staff	2.5	99%	11.5	81%	0.1	nm	4.0	98%	0.2	71%	18.3	87%
Product Development	8.6	107%	18.4	88%	0.1	5%	2.8	113%	0.2	14%	30.1	87%
Marketing	83.1	99%	35.0	97%	3.0	235%	1.6	53%	0.0	15%	122.8	99%
Other	0.1	159%	0.5	253%	0.0	42%	0.7	100%	0.0	17%	1.4	112%
Product Support Services	36.0	95%	8.1	82%	0.8	595%	9.9	147%	0.0	nm	54.6	102%
Tax, Insurance & Settlement	1.2	39%	1.3	72%	0.0	227%	0.1	25%	0.0	32%	2.7	50%
Bad Debt Expense	9.3	137%	2.1	175%	0.0	207%	0.4	199%	0.0	nm	11.8	144%
R&D Shared Resources	9.2	77%	1.7	81%	0.9	326%	0.4	66%	(3.8)	nm	8.6	91%
Total Operating Expenses	187.3	97%	111.6	94%	6.2	119%	35.8	89%	3.8	102%	344.7	95%
Responsibility Margin	648.1	110%	12.7	22%	(0.9)	nm	(44.7)	nm	(3.8)	nm	611.5	103%
<b>% of Net Revenue</b>	<b>68%</b>		<b>5%</b>		<b>(17%)</b>		<b>(481%)</b>		<b>nm</b>		<b>50%</b>	
Corporate Allocations	108.0	92%	55.8	120%	0.6	98%	6.6	87%	0.0	89%	189.1	100%
Contribution Margin	1542.1	114%	(543.1)	nm	(51.5)	nm	(551.3)	nm	(53.8)	nm	5442.3	105%
<b>% of Net Revenue</b>	<b>57%</b>		<b>(18%)</b>		<b>(19%)</b>		<b>(564%)</b>		<b>nm</b>		<b>36%</b>	
% of Prior Year												
Net Revenue	122%		124%		334%		nm		nm		124%	
Gross Margin	122%		96%		469%		197%		nm		118%	
Responsibility Margin	116%		18%		49%		344%		nm		100%	
Contribution Margin	119%		nm		38%		305%		217%		94%	
(\$ per head in thousands)												
Average Headcount	1,257	93%	903	93%	54	75%	413	73%	149	89%	2,776	89%
Net Rev per Head	\$3,045	115%	\$1,062	95%	\$593	449%	\$219	98%	\$0	nm	\$1,749	116%
People & Infrastructure cost per Head	\$118	101%	\$146	108%	\$111	104%	\$154	100%	\$184	104%	\$136	103%
Marketing Exp % of Net Revenue	8.7%	93%	14.6%	110%	38.0%	70%	17.3%	75%	nm	nm	10.1%	96%

FYTD96 P&L Summary

	Desktop Apps		Consumer		Personal Fin.		Microsoft Online		Mgmt Research		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
(in millions)												
Net Revenue	\$1,727.4	108%	\$426.4	101%	\$10.1	194%	\$9.7	76%	\$0.0	nm	\$2,173.5	107%
Cost of Revenue	207.2	97%	189.0	119%	3.8	129%	42.8	112%	0.0	nm	442.8	107%
Gross Margin	1,520.2	110%	237.4	91%	6.3	280%	(33.1)	nm	0.0	nm	1,730.7	107%
<b>% of Net Revenue</b>	<b>88%</b>		<b>56%</b>		<b>62%</b>		<b>(342%)</b>		<b>nm</b>		<b>80%</b>	
Operating Expenses												
People	56.1	95%	47.3	100%	2.1	76%	21.0	74%	10.7	94%	137.2	92%
Infrastructure	17.1	88%	13.0	82%	0.6	77%	7.6	71%	2.4	86%	40.7	82%
Contingency Staff	5.3	117%	22.5	83%	0.2	nm	6.7	100%	0.4	58%	35.2	90%
Product Development	15.8	165%	33.6	83%	0.2	9%	3.4	77%	0.5	15%	53.6	89%
Marketing	146.1	92%	56.9	99%	3.4	132%	3.1	69%	0.0	16%	209.6	93%
Other	0.6	452%	1.2	280%	0.0	100%	0.9	53%	0.4	75%	3.1	113%
Product Support Services	65.5	92%	15.5	93%	1.1	585%	10.9	143%	0.0	nm	93.0	97%
Tax, Insurance & Settlement	4.4	68%	3.0	85%	0.0	180%	0.1	29%	0.0	nm	7.6	73%
Bad Debt Expense	16.8	137%	3.3	150%	0.1	162%	0.4	199%	0.0	nm	20.5	140%
R&D Shared Resources	16.8	73%	4.0	71%	1.2	234%	0.7	63%	(7.9)	nm	14.7	81%
Total Operating Expenses	344.6	92%	200.4	92%	8.9	96%	54.9	83%	6.6	90%	615.3	91%
Responsibility Margin	1,175.6	117%	37.0	84%	(2.6)	nm	(88.0)	nm	(6.6)	nm	1,115.4	118%
<b>% of Net Revenue</b>	<b>68%</b>		<b>9%</b>		<b>(26%)</b>		<b>(90%)</b>		<b>nm</b>		<b>51%</b>	
Corporate Allocations	200.5	86%	92.9	99%	1.1	89%	12.9	86%	0.1	70%	307.6	90%
Contribution Margin	\$975.1	126%	(556.0)	nm	(53.8)	nm	(5100.9)	nm	(56.6)	nm	5807.9	134%
<b>% of Net Revenue</b>	<b>56%</b>		<b>(13%)</b>		<b>(37%)</b>		<b>nm</b>		<b>nm</b>		<b>37%</b>	
% of Prior Year												
Net Revenue	124%		141%		270%		nm		nm		128%	
Gross Margin	126%		118%		379%		594%		nm		123%	
Responsibility Margin	122%		39%		64%		431%		nm		106%	
Contribution Margin	125%		nm		53%		370%		375%		103%	
(\$ per head in thousands)												
Average Headcount	1,233	94%	859	93%	51	75%	378	75%	141	87%	2,682	89%
Net Rev per Head	\$2,802	116%	\$993	109%	\$394	259%	\$51	101%	\$0	nm	\$1,633	120%
People & Infrastructure cost per Head	\$119	50%	\$140	51%	\$107	51%	\$152	49%	\$185	53%	\$134	50%
Marketing Exp % of Net Revenue	8.5%	84%	13.4%	97%	33.8%	68%	31.9%	92%	nm	nm	9.6%	87%

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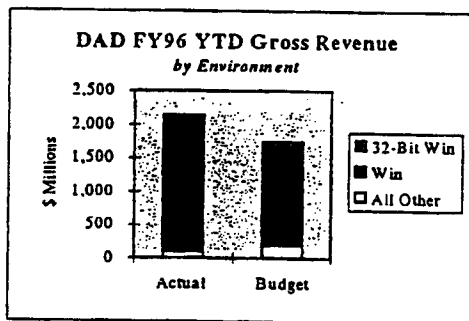
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**Business Results**

- Net revenue for the Applications & Content Group (ACG) totaled \$1,214 million in Q96-2, \$32 million (3%) better than plan and a 24% increase over last year principally on continued growth in Office and Consumer products.

- Desktop Application Division (DAD) revenue increased 22% in Q96-2, although sales of 32-bit applications (Office 95 products) were disappointing after record-breaking sell-in in Q96-1. Sales of 32-bit applications for the quarter were \$141 million, just 45% of plan and 15% of total DAD revenue. However, sales of 16-bit applications continued to be strong totaling \$783 million, an increase of 27% over Q96-1. Year-to-date sales of 16-bit applications total \$1,404 million exceeding plan by over 147%. As shown in the table, sales of 16-bit applications represent 65% of total revenue versus a planned mix of 33%. Worldwide sales of 16-bit applications year to date are nearly equal to that of the same period last year.



	Actual	Budget
32-Bit Win	30%	56%
16-Bit Win	65%	33%
Other	4%	11%
<b>Total</b>	<b>100%</b>	<b>100%</b>

- At 12/31/95, Office 95 channel inventory totaled approximately \$268 million, \$72 million less than at the end of Q96-1 and equal to about four months of sales.

- Q96-2 Consumer division net revenue of \$240 million was 12% below plan. Software revenue trailed plan by 15% as a result of software sales in North America trailing plan by \$42 million. In the United States, this was due to lower than expected sell-in and depth of distribution across top-selling accounts of focused products during the holiday period, returns of older versions of products updated for Windows, returns of old versions of annual-release titles shipped during Q96-1, and returns of Bob.

Sales of input devices were below plan by 5%, with revenue from keyboards only 31% of plan as the channel continued to sell through inventory accumulated during Q96-1, offset by strong initial sales of the Sidewinder Joystick which were 166% over plan. Revenue from input devices grew 26% over last year.

- The Microsoft Online Division (MOS) recorded net revenue of \$9.1 million in Q96-2, 71% of plan. This variance is primarily a result of lower than planned subscription and extended service billings. Subscription billings lag behind plan due primarily to delayed functionality for the billing of charter annual members. Extended revenue was less than plan due to changing content strategy in the online environment.

- Gross margin as a percentage of net revenue for the group declined nearly two percentage points as compared to Q96-1 due primarily to charges taken for excessive Office 95 and keyboard inventory.

- DAD gross margin decreased by two percentage points from Q96-1 due primarily to \$40 million of obsolescence reserves for returned and expected returns of Office 95. Excluding these reserves, FYTD gross margin would have been approximately two percentage points higher than FY95 due to the lower product costs of Office 95 and a higher mix of CD media.

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- MOS cost of revenue was under plan for Q96-2 and 13% over plan FYTD due primarily to \$3.4 million in data center costs related to waiving of monthly server fees for content providers and \$1.4 million of telecom charges resulting from greater than anticipated x.25 usage.
- Total operating costs for ACG were \$16 million less than plan primarily due to lower than planned headcount, but represent a 75% increase over Q95-2. Major investments in the Consumer Division and MOS drive the year-over-year increase. ACG headcount increased by 456 people since FY95 year end, 391 less than plan.
  - DAD added a total of 49 people in Q96-2, 115 fewer than planned. As a result, total people expenses were 3% below plan. Third party product development costs were up 121% from Q95-2, mainly due to localization expenses associated with the Office 95 release this fall. Slips in some localized versions of Office 95 and increased contractor costs may result in budget overruns in product development expense for FY96.
- Consumer Division operating expenses for the quarter trailed plan by 6%, primarily due to lags in external development spending and headcount trailing plan throughout the quarter. Consumer headcount increased by 98 during the quarter to end at 968 versus a budget of 1,057.
- Operating expenses for MOS were 10% below plan for Q96-2 and 17% below plan FYTD. Although MSN added 58 people during the quarter, total headcount is 140 people under budget, resulting in a headcount-related expense variance of 26% under plan. This favorable variance of \$10.9 million was partially offset by \$5.3 million in higher than anticipated product support costs.

#### Outlook

- Acceptance of 32-bit Office products has been slower than anticipated primarily due to slow adoption by corporate accounts. This trend is not expected to change before the end of FY96 and the release of Office 97, although 16-bit versions of Office are expected to continue to sell well.
- The Consumer Division will ship fewer titles during the next six months, with the largest revenue impact expected from Bookshelf 96 and the next release in the Magic School Bus series—Geology. Given the number of new product releases and expected post-holiday sell-through rates as the channel reduces inventory levels, we anticipate worldwide sell-in during the second half of the fiscal year to be approximately \$321 million. As a result, the current forecast for FY96 gross revenue is \$801 million, or 9% below plan.
- MSN's new account growth remains strong and the customer cancellations remain low. Based on trends experienced to date, and a variety of marketing and customer retention plans soon to be launched, subscriber numbers are expected to be close to plan in Q96-3. Extended services revenue will continue to be below plan due to the changing content strategy.

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## Desktop Applications Review

### Investments & Product Highlights

- The next major release of Office is code complete, and scheduled to ship in Q97-1. Office 97 will be the most significant Office upgrade since Office 4.2, released in October 1993. Some of the primary product strategies for Office 97 will be to exploit current and future 32-bit Windows operating system capabilities, extend 'IntelliSense' features making the product easier to use, add Internet enabling features, and add specific innovations in each of the Office component categories (word processors, spreadsheets etc.). The Desktop Division is finalizing its three-year product plan which was presented to executive management on January 9.
- Jon Reingold succeeded Lewis Levin as Excel Product Unit Manager. Jon has headed the Project Product Unit for the last three years.



Lewis Levin moved on to become the General Manager of the new Desktop Finance Division.

- There have been no significant changes since last quarter for two of DAD's three primary investment areas—'Outlook' (previously code named Ren) and Team Manager, both of which are planned to RTM with Office 97. In the area of Natural Language Processing, negotiations are continuing for a planned acquisition of assets from SoftArt. A non-exclusive licensing agreement is a possible alternative strategy.
- DAD signed amendments to two existing agreements with INSO corporation (formerly InfoSoft, and formerly a division of Houghton Mifflin). The amendments provide for rights to the American Heritage Dictionary for use in Office, broad rights to proofing tools technology such as spell checking, hyphenation and thesaurus, and the establishment of fixed royalty payments for use of INSO's grammar checking technology in existing Office products.

### Competition

- Lotus received good reviews on its new version of SmartSuite, which was made available in late December. The suite includes new 32-bit versions of WordPro, Freelance and Approach, but 32-bit versions of 1-2-3 and Organizer have been delayed until late spring. Upgrade pricing for SmartSuite is \$199, compared to \$349 for the MS OfficePro95 upgrade. IBM also approved funding for a media blitz targeting WordPerfect users in an attempt to capitalize on Novell's plan to sell WordPerfect. In an effort to bolster Notes, Lotus highlighted its plans to build SmartSuite components directly into Notes. A more comprehensive components announcement is expected later this quarter. Lotus has also shipped Internotes Web Publisher release 2.0, software that enables organizations to extend Notes information and applications to the millions of customers using the Internet or private intranets.
  - Recent rumors suggest Bain Capital as the most likely buyer of the WordPerfect business from Novell. Bain will reportedly pay \$100 million to purchase 80% of the WordPerfect business;
- Novell will retain a 20% financial stake to maintain access to certain WordPerfect technologies. 32-bit PerfectOffice 7.0 is not expected to ship until spring, as development and beta testing have stalled amidst the general confusion surrounding the planned sale. Novell has laid off 420 employees and there are rumors of more QuattroPro developers leaving. GroupWise, the only piece of the WordPerfect business Novell will keep, has doubled its installed base over the past year. Current estimates put the number of users at 5 million.
- Star Division has yet to deliver to the US market. In spite of an announcement in early December that Star Office 3.0 would be ported to Windows 95, Windows 3.x, OS/2, Macintosh, and Unix, there is still no English version of StarOffice available, though it is likely a Mac version will be announced as early as this month at MacWorld. Star Division plans to sell StarOffice via the World Wide Web and through hardware vendors, although currently there is no evidence of a distribution or support structure in the US.

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## Consumer Review

### Investments & Product Highlights

- In Q96-2, 3D Movie Maker, Car Source, and Golf 2.0 CD shipped as planned. Localization teams in Ireland, Redmond, and the Far East released 71 localized products during the quarter, bringing the total number of local-language version Consumer titles brought to market in FY96 to over 130.
- The holiday promotion included offering our top ten reseller partners customized bundles of top MS consumer products. The bundles gave each key account the opportunity to differentiate themselves from the competition. When we bundled high-value best-selling software together, the results were excellent, but when the bundled product was a lower perceived value premium, sales were poor. Examples of best-selling bundles were CompUSA Fury3 with Space Simulator for \$49 (surpassing expectations by 86%) and Egghead's Encarta Encyclopedia with Encarta World Atlas at \$49 (beating expectations by nearly 200%). An example of a poor-selling bundle was Egghead's \$49, which sold only 14% of plan. As a result of this promotion, reseller-driven advertising for MS consumer products increased 22% from prior year helping us to attain greater visibility among customers during this key buying period. In addition, many top accounts saw significant sales growth over the prior year for top MS titles.
- MS announced price cuts on twelve of the best-selling and new consumer titles, including Encarta, Fury3, and 3D Movie Maker on October 2. This strategy allows MS to simplify and reduce its pricing structure to 3 basic tiers: \$29, \$39, and \$49. Preliminary results of this action indicate an overall unit share growth of Consumer products from 5.6% in Q96-1 to 7% at the end of November. Further evaluation of this pricing strategy will be made pending additional information.
- In August 1995, an investment code named "Cityscape" was approved. Cityscape is intended to be an on-line local information provider. Currently, 25 people are dedicated to the Cityscape project and field deployment is expected to begin in Q96-3 with recruiting, training, and production operations planned for 20 major cities, both domestically and internationally, by fiscal year end. Cityscape is targeting 50 additional cities for deployment in FY97, with more cities and potential "franchises" in smaller markets thereafter.
- MS acquired the Bruce Artwick Organization (BAO), authors of Flight Simulator, for approximately \$41 million. MS had been paying royalties to BAO that totaled 20% of gross sales for Flight Simulator. Under the terms of the agreement, Artwick will consult with MS in the design and development of new titles. We also successfully recruited 16 key developers from BAO. The first title expected as a result of the acquisition will be Flight Simulator for Windows 95.
- Blue Ribbon Soundworks was acquired for \$6.5 million. Blue Ribbon's code base will be used to develop soundtracks for games, as part of authoring tools, and to build our Kids music creation product. In addition, the wavetable component of their technology will be used in future versions of Windows.
- Several Consumer titles have been singled out for product quality recognition. At the Fall COMDEX show, MS's Publisher and Natural Keyboard products earned top honors: both products received the Merisel 1995 Hot List Award, while Publisher CD Deluxe for Windows 95 received the PC/Computing MVP award in Desktop Publishing. Business Week named 3D Movie Maker as one of three 'CD's of the Year.' Four Consumer products have reached the finalist category for the SPA Codie Awards. They are: Publisher CD Deluxe, Encarta 96 Encyclopedia, 3D Movie Maker, and Bob.



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Competition

- SoftKey International, publisher of such consumer software titles as Calendar Creator, BodyWorks 4.0, and the American Heritage Talking Dictionary, made three significant moves to expand its consumer market presence. In October, SoftKey announced it had entered a merger agreement with Minnesota Educational Computing Corporation (MECC), in a move to expand SoftKey's share of the educational software market. MECC's software titles include The Oregon Trail, Word Munchers, Number Munchers, and Storybook Weaver. The merger is a stock-for-stock transaction valued at approximately \$370 million. Second, SoftKey moved to expand its position in the French market by acquiring 100% of Personal Soft, which develops and markets personal interest products such as wine, cooking, and dog guides. This company will become the French headquarters for SoftKey. Finally, in late December, SoftKey moved to further expand its position in the U.S. educational market by acquiring the Learning Company, Compton's NewMedia, Inc., and

Compton's Learning Company from the Tribune Company. All three companies are now wholly owned subsidiaries of SoftKey. As of the Q96-1 Board report submission date, it had appeared that Broderbund would be acquiring the Learning Company. However, SoftKey subsequently outbid Broderbund and acquired the Learning Company in December.

- Sierra On-Line and Collier announced that they have formed a joint venture to develop and publish a multimedia general reference encyclopedia which will utilize Sierra's technology to offer interactive simulations of some of the concepts included in the text. The new product is expected to be released in Spring 1997. Sierra also announced this quarter that it had acquired the flight simulation software business of SubLogic Inc. Through this combination, Sierra intends to release a series of civilian aviation simulations that will represent the "first serious alternative to MS's Flight Simulator," according to Sierra CEO Ken Williams.

Desktop Finance ReviewInvestments & Product Highlights

- Lewis Levin, formerly General Manager of Excel, was named GM of Desktop Finance Division during the quarter and will be developing strategies and business plans for future products, content, invoicing, investing and Money enhancements.
- The special introductory Money promotion concluded on October 31, 1995. Approximately 450,000 units were downloaded or ordered in North America, and more than 100,000 units for Germany, Switzerland and the UK.

Competition

- Intuit shipped Quicken 5.0, Quicken 5.0 Deluxe and Quicken Financial Office in October and announced online banking services using America Online or the World Wide Web.
- In November, Fleet Financial Group, First Bank System and Royal Bank of Canada announced they had joined BankAmerica and NationsBank as co-owners of Meca Software, maker of

- North American, French, German and British versions of Money for Windows 95 were made available in retail channels during Q96-2.
- During the quarter, 21 financial institutions began promoting Money online banking services. In addition, MS and Visa reached an agreement in principle for online banking and bill payment services.
- In addition to Packard Bell and Gateway, five additional OEMs agreed to pre-install Money, with three of these dropping Quicken.

Managing Your Money. NationsBank has told MS, however, that they do not plan to work exclusively with Meca.

- Computer Associates announced plans for a new version of Simply Money with online banking services to ship in the first calendar quarter of 1996.

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**MS Online Review**

Investments & Product Highlights

- The Microsoft Network (MSN) active user count reached 682,000 by the end of Q96-2. The initial performance milestone of 500,000 subscribers was reached in mid-November and MSN determined that the service was performing well enough that a planned delay in additional sign-ups was not required.



- MSN is currently receiving approximately 350,000 connections per day representing 70,000 hours of connect time. On a daily basis,

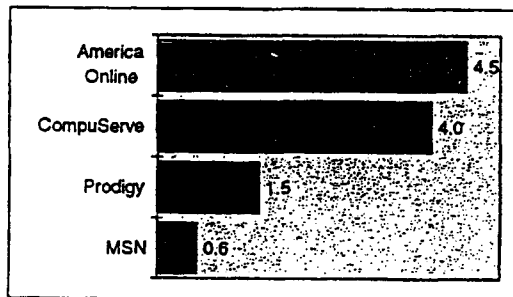
11,000 customer service calls are being handled and 800 forums are now active on MSN.

- Michael Kinsley joined MSN to create an online magazine.
- NBC and MS announced plans to create MSNBC, a 24-hour news and information cable network and interactive online service.
- Server upgrade version 1.2 went live on December 12. The Client upgrade is scheduled for January.



Competition

- Subscriber counts (in millions) at December 31, 1995, for the major online services was as follows:



- CompuServe and MS agreed to cooperate on Web browser technology, and CompuServe has agreed to license the Internet Explorer.
- Warner Brothers signed a one-year deal with America Online to extend and broaden their existing content relationship.
- America Online chairman, James Kimsey, left the company, and CompuServe's head, Barry Berkov, was forced to resign.
- Europe Online announced they will hook up with Deutsche Telekom's T-Online service.

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**PLATFORMS**

**Q96-2 P&L Summary**

(in millions)

	Business Systems		Pers Oper. Sys		Developer		Consumer Sys		OOS/Platform Mgmt		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	231.0	176%	748.1	119%	128.6	136%	7.4	73%	12.2	200%	1,176.3	132%
Cost of Revenue	22.8	96%	56.0	128%	18.1	130%	1.6	53%	1.1	108%	99.6	116%
Gross Margin	258.3	193%	692.1	118%	110.5	137%	5.7	81%	11.1	334%	1,076.7	133%
% of Net Revenue	91.9%		92.9%		85.9%		78.9%		91.0%		91.6%	
Operating Expenses												
People	30.8	99%	18.8	91%	22.4	95%	16.7	97%	10.4	109%	99.1	97%
Infrastructure	10.1	95%	5.7	94%	6.4	94%	5.2	88%	3.2	98%	30.6	83%
Contingency Staff	8.4	136%	3.4	87%	2.5	98%	2.5	70%	0.9	86%	17.6	103%
Product Development	3.1	55%	3.3	77%	5.6	166%	2.3	91%	2.3	79%	16.6	89%
Marketing	27.1	68%	54.1	108%	11.6	61%	2.7	66%	0.0	0%	95.5	84%
Other	0.3	156%	(0.5)	nm	0.9	nm	0.4	102%	0.2	145%	1.3	206%
Product Support Services	16.1	87%	47.2	119%	16.6	97%	0.7	55%	(0.0)	nm	80.8	105%
Tax, Insurance & Settlement	1.2	180%	11.4	125%	(1.9)	nm	0.1	459%	0.3	160%	11.2	108%
Bad Debt Expense	1.3	130%	6.8	95%	0.5	100%	0.1	112%	0.1	nm	8.8	101%
R&D Shared Resources	4.3	142%	3.9	83%	(0.9)	nm	0.8	99%	(16.7)	nm	(8.6)	nm
Total Operating Expenses	102.7	88%	154.1	106%	63.6	88%	31.6	88%	0.8	111%	352.9	95%
Responsibility Margin	155.6	804%	539.0	123%	46.3	577%	(25.7)	nm	10.3	394%	726.1	166%
% of Net Revenue	55.4%		72.0%		36.5%		(34.4%)		8.4%		61.6%	
Allocations	25.8	92%	86.4	89%	19.5	93%	14.2	91%	0.7	126%	146.7	91%
Contribution Margin	129.7	nm	452.6	132%	27.4	nm	(39.9)	nm	9.7	442%	579.3	210%
% of Net Revenue	48.2%		60.4%		21.3%		(33.9%)		7.9%		49.2%	
% of Prior Year												
Net Revenue	229%		194%		180%		93%		228%		197%	
Gross Margin	235%		191%		193%		106%		383%		201%	
Responsibility Margin	562%		186%		750%		192%		1245%		233%	
Contribution Margin	nm		182%		nm		164%		2852%		307%	
(\$ per head in thousands)												
Average Headcount	1,200	96%	769	89%	882	93%	629	95%	339	85%	3,820	83%
Net Revenue per Employee	\$937	745%	\$3,887	533%	\$583	588%	\$47	306%	\$144	1309%	\$1,234	568%
People & Infrastructure cost per Head	\$137	102%	\$127	102%	\$130	103%	\$139	99%	\$161	124%	\$136	104%
Marketing Exp % of Net Revenue	9.6%	38%	7.2%	91%	9.0%	45%	36.9%	91%	0.0%	0%	8.1%	64%

**FYTD96 P&L Summary**

(in millions)

	Business Systems		Pers Oper. Sys		Developer		Consumer Sys		OOS/Platform Mgmt		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	461.0	154%	1,481.0	106%	199.0	121%	15.4	82%	19.9	212%	2,176.4	116%
Cost of Revenue	45.2	96%	117.4	115%	33.7	124%	3.7	70%	2.2	103%	202.2	110%
Gross Margin	415.8	170%	1,363.6	105%	165.3	120%	11.7	88%	17.8	244%	1,974.2	116%
% of Net Revenue	90.2%		92.1%		83.0%		75.8%		89.2%		90.7%	
Operating Expenses												
People	59.7	99%	36.3	92%	43.6	96%	31.4	96%	19.4	104%	192.4	97%
Infrastructure	19.3	83%	11.0	94%	12.2	93%	10.1	90%	5.3	85%	58.0	92%
Contingency Staff	15.0	121%	7.8	80%	5.4	106%	5.2	72%	1.8	87%	35.2	99%
Product Development	5.8	34%	7.9	77%	9.8	117%	3.6	61%	2.9	51%	29.9	63%
Marketing	43.0	58%	100.2	105%	20.4	56%	4.8	65%	(0.0)	nm	168.3	78%
Other	0.8	219%	(0.4)	nm	1.9	nm	1.0	122%	0.5	263%	3.8	307%
Product Support Services	31.9	93%	85.1	115%	31.3	96%	1.5	57%	(0.1)	nm	149.7	105%
Tax, Insurance & Settlement	2.2	175%	20.2	118%	0.4	71%	0.1	306%	0.7	185%	23.7	122%
Bad Debt Expense	3.0	164%	15.0	114%	1.2	128%	0.1	76%	0.2	nm	19.5	122%
R&D Shared Resources	8.1	147%	7.3	77%	(2.1)	nm	1.7	115%	(29.8)	nm	(14.7)	nm
Total Operating Expenses	186.9	83%	292.5	104%	123.9	89%	59.5	86%	1.0	70%	665.8	92%
Responsibility Margin	226.9	1335%	1,071.1	106%	41.4	nm	(47.8)	nm	16.8	285%	1,308.4	134%
% of Net Revenue	49.2%		72.3%		20.8%		(31.1%)		8.4%		60.1%	
Allocations	49.2	87%	198.5	102%	38.9	88%	26.9	87%	0.8	73%	312.3	96%
Contribution Margin	177.7	nm	872.6	107%	4.5	nm	(74.7)	nm	16.0	332%	996.1	153%
% of Net Revenue	38.5%		58.9%		2.2%		(48.2%)		8.0%		45.8%	
% of Prior Year												
Net Revenue	237%		201%		155%		97%		156%		200%	
Gross Margin	250%		195%		167%		105%		228%		201%	
Responsibility Margin	1102%		191%		448%		164%		415%		231%	
Contribution Margin	nm		177%		nm		152%		496%		284%	
(\$ per head in thousands)												
Average Headcount	1,167	94%	759	90%	867	95%	597	93%	323	84%	3,713	92%
Net Revenue per Employee	\$790	334%	\$3,903	237%	\$459	255%	\$52	177%	\$123	505%	\$1,172	251%
People & Infrastructure cost per Head	\$135	52%	\$130	51%	\$129	50%	\$139	51%	\$153	59%	\$135	52%
Marketing Exp % of Net Revenue	9.3%	37%	6.8%	99%	10.2%	47%	31.0%	79%	0.0%	nm	7.7%	68%

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### Business Results

- Total Q96-2 Platforms Group net revenue of \$1,179 million was 32% ahead of plan and 97% ahead of Q95-2 due to strong growth across all product divisions. For the year, Platforms net revenue is \$300 million ahead of plan (16%), roughly double the same period in FY95.
- Personal Systems Division (PSD) net revenue adjusted for channel sell through of Windows 95 and MS Plus! products totaled \$749 million for the quarter, exceeding plan by 19%. Of this, approximately \$216 million was sold through the OEM channel. Returns of Windows 95 and MS Plus! product during the quarter totaled \$240 million, and approximately \$519 million of inventory remains in the distribution channel at December 31, 1995. FYTD PSD net revenue is 6% ahead of plan.
- Business Systems Division (BSD) net revenue of \$281 million was \$123 million over plan (78%) for the quarter, and \$153 million (120%) over Q95-1. During the first half of FY96, shipments of Windows NT Servers have almost tripled to 170,000 as compared to 57,000 during the same period last year.
- Developer Division recorded a \$34 million, or 36%, favorable net revenue variance to plan in Q96-2, mainly fueled by strong sales of Visual Basic (VB) VB sales for the quarter totaled \$61 million, 137% over plan and 315% ahead of the same period last year.
- Platform Group gross margin was 91.6% of net revenue versus plan of 90.4% in Q96-2. BSD and Developer both showed improved gross margins during the quarter primarily due to increased CD ROM mix and Select sales. PSD margins were about one-half percentage point below plan primarily due to lower than planned finished goods revenue in the quarter and charges taken for excess Windows 95 product remaining in MS inventory.
- Operating expenses were \$353 million for the quarter, although \$19 million (5%) below plan primarily due to below plan staffing levels and delays in external development plans. FYTD operating expenses were \$58 million below plan.
- Q96-2 responsibility margin of 62% was a 12 percentage point improvement over plan, mainly driven by a lower BSD cost of revenue percentage and worldwide marketing spending being \$18 million below plan for the quarter. FYTD responsibility margin of 60% is an eight percentage point improvement over plan, impacted by the same items influencing the quarter, along with lower than planned head-count related expenses.

### Outlook

- PSD will release Windows 95 Service Pack 1.0 in January. The Service Pack will provide corporate customers with updated drivers and networking technology. PSD will also re-release the Windows 95 OPK in January to include Internet Explorer version 2.0
- BSD is planning a busy Q96-3 with releases of both the Internet Information Server and Exchange by quarter's end. BSD products continue to gain acceptance within both small and large organizations. License revenue under the Select volume purchase plan increased by 57% between the first and second quarters, with Windows NT Server and Workstation each more than doubling in revenue. Overall, the market for server operating systems continues to grow dramatically. IDC estimates an annual growth rate between 20% and 30% for the foreseeable future, with Windows NT Server continuing to grow its percentage of the total. Likewise, IDC predicts 26% growth for messaging servers between CY95 and CY96, providing a strong opportunity for the launch of MS Exchange in Q96-3.
- Developer is expecting continued strong growth driven by sales of Visual Basic and Visual C++, particularly in the Far East.

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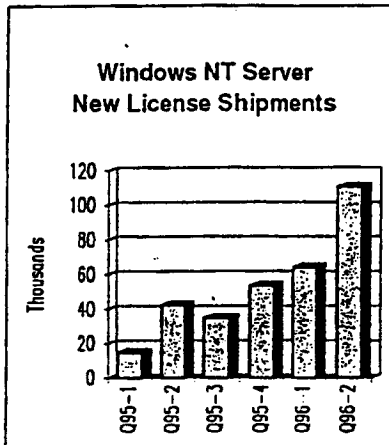
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## Business Systems Review

### Investments & Product Highlights



- Internet Information Server (IIS) beta 2 shipped in November to over 15,000 customers. IIS provides a high-performance, reliable, and secure platform for WorldWide Web publishing and application development. The product, expected to RTM in February 1996, will be bundled with Windows NT Server. The Internet Access Server beta 2 released in December, with the final version planned for Q96-4.
- Exchange Release Candidate 1 began shipping on December 1 to over 15,000 customers. Exchange continues to be on track for a Q96-3 release.
- Directory Service Manager for NetWare (DSMN) released in early November. DSMN is a utility which makes it easier to manage mixed Windows NT and NetWare networks through shared directory information.
- Microsoft announced the SNA Open Gateway Architecture in early December. SOGA is a scaleable framework for integrating branch offices with SNA hosts via LAN internetworks.
- BSD announced plans to deliver clustering technology for Windows NT Server in two phases. The first release will allow one server to automatically fail over to another, while the second release will enable multiple servers to be connected together for higher performance and availability. The first release is planned for the first half of 1996.
- BSD products continue to make strong inroads into the financial services industry. Seven of the top 10 US securities firms and 11 of the top 15 banks are actively deploying applications based on Windows NT and BackOffice server software for projects such as branch automation, ATMs, commercial lending, retail brokerage, and trader workstations.
- A pre-release version of MS SQL Server 6.5 set a database industry price/performance record by recording \$196/tpmC (transactions per minute) on a DEC AlphaServer. Total throughput was 3,194 tpmC, which is the highest recorded on an open systems platform costing less than \$1 million.
- Microsoft announced a collaborative agreement with seven telecommunications companies to work together to embrace and enhance Internet standards for commercial networking services, ensuring compatibility and integration of the Windows OS family with the Internet and corporate and private networks.
- BSD announced the BackOffice logo program, targeted at providing customers and Solution Providers with a seal which clearly identifies a product has been tested and integrated with the BackOffice family of server products.
- In October, Wang announced shipment of its workflow and imaging software for Windows NT server and Microsoft BackOffice.

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Competition

- Jim Manzi resigned as head of Lotus and was replaced by an Office of the President consisting of Mike Zisman and Jeff Papows. A number of other high-ranking Lotus executives also left the company during the quarter.
- Lotus released InterNotes Web Publisher 2.0, which can automatically publish information from a Notes database to the Internet.
- In late October, IBM and Lotus detailed their Internet strategy, focusing on greater integration of Notes version 4 with the Internet, and on offering an integrated product line. One integrated offering will include a Lotus Notes server, IBM's Internet server software, and InterNotes, Lotus' web browser.
- Lotus announced the following price changes:
  - Notes Mail available for \$55
  - Notes Desktop reduced from \$155 to \$69
  - Full Notes Client unchanged at \$275
  - Notes Server increased from \$275 to \$495
  - Notes Server for multi-processor for \$2,295
  - InterNotes Web Publisher available for free
 The Notes clients will also include the InterNotes Web browser.
- Notes 4.0, which offers integrated Web browsing and publishing capabilities, better messaging, and improved administration, released to manufacturing in early January.
- Lotus announced the availability of NotesSuite 2.0, which includes Smartsuite, Notes, and a set of application templates.
- In October, IBM announced new releases of its NetFinity software for managing systems and assets, and ServerGuide, its CD ROM package for installing network operating systems on IBM PC Servers.
- In November, IBM released DB2 v2 relational database management system for Windows NT at \$1,499 for five users. IBM is bundling it with Lotus' Approach database during the first three months of availability.
- IBM has been discussing Project Eagle, its response to BackOffice. Eagle will comprise six or seven cross-platform application, communication, and processing servers. A World Wide Web server and a transaction-processing server are likely to be the first available, planned in mid-1996.
- IBM licensed Sun's Java programming language in December and plans to include the technology in multiple products, including Lotus Notes. In addition, IBM intends to port the language to OS/2, AIX, and Windows 3.1.
- IBM shipped the OS/2 Warp Server beta 2 in December and is planning general release for March 1996.
- Netscape announced a messaging server in November based on software licensed from Software.com. It will support standard industry protocols including SMTP and MIME, and can be used with the mail client in Navigator 2.0.
- Netscape agreed to acquire Collabra Software for 1.85 million shares of stock in late September. Collabra Share's workgroup and messaging features will be incorporated into Netscape's products.
- Novell shipped NetWare Web Server in December for \$995, hoping to expand its presence as a World Wide Web platform.
- Novell slipped GroupWise XTD's release to late spring 1996 and indicated its intention to bundle it with NetWare 4.1.
- Novell ManageWise 2.0 began shipping in late October, offering remote control, virus protection, and SNMP support.
- Oracle announced its InterOffice suite of applications, which will include database and Web servers, as well as tools, clients, and data management applications. InterOffice will compete with BackOffice in supporting branch offices.

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## Personal Operating Systems Review

### Investments & Product Highlights

- Windows 3.x life-to-date new user shipments exceed 117 million at December 31, 1995. Windows 95 life-to-date users are estimated at 17 million, with an additional 2.4 million of customers holding maintenance contracts entitling them to upgrade to Windows 95.
- Windows 95 won PC Computing's Product of the Year award at Fall Comdex. In addition, Brad Silverberg and the Windows 95 Team won PC Magazine's "Person of the Year Award," and PC Laptop Magazine named Windows 95 its "Laptop Software Product of the Year".
- The Japanese version of Windows 95 was launched on November 24 in both NEC and PC/AT compatible versions.
- The simplified Chinese version of Windows 95 was released to manufacturing in the Peoples Republic of China during December. To date,



Windows 95 has been localized in 28 languages and MS-Plus!, the Windows 95 add-on, has been localized in 15 languages.

- Beta versions of the Internet Explorer version 1.5, a new browser for the Windows 3.1 and Macintosh platforms, were released in December. These versions include many of the same features already found in the 32-bit Internet Explorer version 2.0 designed for the Windows 95 operating system.
- Internet Explorer version 2.0 was shipped in November. Internet Explorer 2.0 enhances version 1.0 features while adding support for secure transactions, tables, multimedia and 3-D graphics.
- Spyglass Inc. will expand its support for the Windows-based Internet platform. Under an agreement with Microsoft, Spyglass will enhance its Mosaic Web browser with support for OLE Controls, Visual Basic Script, and the latest World Wide Web Consortium (W3C) HTML extensions.



### Competition

- Netscape is offering a subscription service for its Navigator browser. By paying an additional \$17 over the \$39 Navigator price, customers are entitled to all major and minor browser upgrades. Netscape is becoming more focused on charging for its products and product support while trying to lock customers into its technology.
- In November, Netscape Navigator Personal Edition reached number one on Ingram Micro Devices' communications software bestseller list. Personal Edition has been distributed to approximately 8,000 retail stores in the US. More than 100 Internet service providers are authorized to provide Netscape Navigator to their customers.
- OS/2 for the Power PC will not be released as a retail product but will be available as a special order item. IBM stated it did not believe demand was sufficient to warrant the retail release. The current version does not offer network components.
- IBM plans to enhance its OS/2 Warp client in an upcoming release, code-named Merlin, with an easier and more intuitive user interface. The Merlin interface will be network aware, enabling connections automatically as the user needs them. In addition, Merlin will offer improved multimedia and game capabilities, enhanced plug-and-play features, updated BonusPak features, and a simplified installation process.

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- The corporate version of Merlin will offer C-2 security, improved input/output queue performance, and software enabling developers to write Windows 95 and OS/2 Warp applications simultaneously.
- Apple will likely report a Q2 operating loss in its earnings release on January 17. Business Week reports Apple is down to \$200 million in cash and is planning layoffs of 1,000 - 2,000.
- Apple is expected to unveil its Internet strategy showcasing Cyberdog, the code name for its Internet browsing software, at MacWorld in January. Apple will also demonstrate a new, high-performance version of QuickDraw 3D for games, and faster PCI-based x86 cards for Windows execution on Macs.

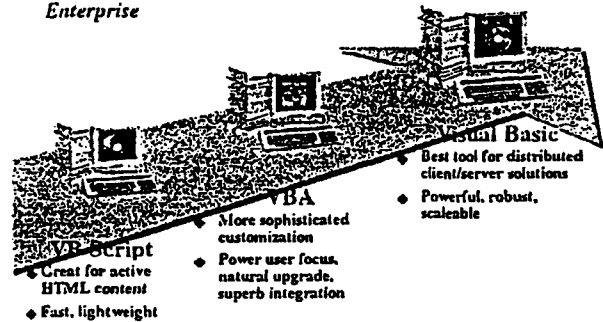
## Developer Review

### Investments & Product Highlights

- To meet the growing needs of enterprise customers deploying BackOffice, MS acquired the assets of Netwise Inc., a firm specializing in application and data interoperability solutions. Netwise products provide high-performance middleware for integrating mainframe and client-server environments. The Netwise TransAccess technology will be integrated with MS SQL Server, MS Visual Tools products, and OLE technologies.
- MS announced two Internet kits which provide software developers and channel organizations with tools, support, and training to build Internet products. The online Internet SDK will allow content providers and Web masters to create both content and Web sites. The Internet Business Development Kit will be targeted to the more than 20,000 channel organizations, including MS Solution Providers, resellers and system integrators, who deliver solutions using the Internet.
- MS signed a software licensing and joint development agreement with NetManage, Inc. The two companies will be working together on OLE controls supporting Internet protocols which will make it very simple for developers working with OLE development tools to add Internet access and protocols to their existing applications. The controls will operate in all OLE control containers, including MS Visual Basic, Visual FoxPro, Visual C++ and Access, as well as third party products.

### Microsoft Visual Basic

*Scaleable Development for the Internet and the Enterprise*



- Visual Basic 4.0 (VB4) won the 1995 PC Computing Magazine MVP Award in the Application Development Tool category, beating out both Borland's Delphi and Borland's C++ 4.5, and winning this award for the second year in a row. VB4 was highlighted as a tool that makes Windows development easy and is now capable of enterprise application development on 32-bit Windows platforms.
- MS and Sun Microsystems signed a letter of intent for a Java technology source code license. Java is Sun's object-oriented programming language. MS has also agreed, in principle, to work with Sun to provide a reference implementation of Java for Win32.

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- Visual Basic Script was announced and will be licensed at no cost to application, browser, and tool vendors creating Internet solutions. VB Script is a high-performance, VB-based scripting language designed to create active, online content for the World Wide Web, allowing developers to link and automate objects in Web pages, including OLE objects and Java "applets."
- Visual FoxPro won the Reader's Choice Award in the Xbase Language category. The FoxPro family of products consists of rapid application database development tools that provide object-oriented programming and integrated client/server features, including the ability to connect to multiple backend data sources through ODBC.
- Visual C++ development system version 4.0 for the Windows 95 and Windows NT operating systems began shipping in November. Visual C++ 4.0 provides a new approach to code reuse, enabling developers to reuse components of recent projects or to build up a library of reusable components, which can save weeks or months of work.

### Competition

- Netscape and Sun Microsystems announced JavaScript, an open, cross-platform object scripting language for application creation and customization on enterprise networks and the Internet. JavaScript is an easy-to-use object scripting language designed for creating live online applications that link together objects and resources on both clients and servers. While Java is used by programmers to create new objects and applets, JavaScript is designed for use by HTML page authors and enterprise application developers to dynamically script the behavior of objects running on either the client or the server. Twenty-eight companies have endorsed Java Script and intend to provide it in future products.
- Borland International announced Delphi Client/Server Suite 2.0, a new 32-bit version of Delphi Client/Server for Windows 95 and NT. Delphi and Delphi Client/Server is touted as having a combination of the power of the world's fastest optimizing native-code compiler, the rapid application development benefits of a visual two-way development environment, an object-oriented component-based architecture, and scaleable database technology. Client/Server Suite 2.0 offers better performance than the current version, more object-oriented capabilities, and a suite of client and server tools.
- Oracle Corporation announced that for the second quarter of its fiscal year 1996, revenue increased 44% to a record \$967 million from \$670 million in the same period last year. Net income for the period was reported at \$137 million, or \$0.31 per share, compared to net income of \$94 million, or \$0.21 per share, in the second quarter of 1995. Oracle's second quarter license sales (Server, Tools, Applications) grew by 41% year-to-year (39% when combined with Other revenues). Oracle Applications led overall product revenue growth, with licenses increasing 104%. Database license revenue grew 44%.

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## Consumer Systems

### Authoring Tools

- MS announced SoftImage's 3D NT will be commercially available on the Windows NT platform during the first quarter of 1996.
- SGI extended MS's ability to resell its hardware through the end of January 1996. The SGI relationship is ending due to SGI's purchase of Alias and Wavefront, both of which compete directly with the SoftImage product line.
- MS announced development of a new technology to bring interactive 3-D multimedia animation to the Internet. Called Active Virtual Reality Modeling Language (ActiveVRML), the new technology employs an innovative approach to media integration that adds value to existing formats and is practical at typical modem speeds while taking advantage of the power of today's multimedia hardware. With ActiveVRML, consumers will be able to interact with World Wide Web pages that come alive with interactive 3-D animation and 2-D cell animation, accompanied by synchronized sound effects.
- ActiveVRML is expected to be used broadly in advertising, entertainment, education and related applications, such as animated product catalogs, interactive 3-D games and online training.
- MS acquired Blue Ribbon SoundWorks (BRS), a leader in Windows-based interactive music-authoring products, in October. The company also developed OEM music-software products, and the production and design of multimedia presentations, soundtracks and musical scores. Current operations are winding down in Atlanta; the BRS technology is expected to be introduced in several Consumer and Consumer Systems Division products and toolkits.

### Public Network Services

- MS outlined its strategy to support online banking, including plans to provide secure payment technologies embedded in its Internet offerings.
- MS proposed an Internet digital signature initiative which provides a safer environment for executable code on the Internet. This technology will enable users to verify a program's integrity and will be an open specification available to the entire Internet community.
- Lockheed Martin and AT&T have joined a growing collection of firms offering high-capacity Internet access and video conferencing services using two-foot diameter satellite dishes at the home or office. Prices would be competitive with those of similar services now being offered or planned by land-based telephone and cable television companies.
- AT&T, Deutsche Telekom, NTT, Telstra, and Unisource announced that they plan to offer new business networking services that utilize directory technology from Novell. These services will enable customers around the world to better manage and integrate complex, geographically-dispersed enterprises. Applications hosted on the new services will allow users to conduct secure business transactions, communicate worldwide using a variety of multimedia applications, and leverage the World Wide Web and the Internet.
- MITV trial feedback from Texas, Washington, and Japan have been encouraging. During 1996, Microsoft and its Insight partners plan to develop MITV test markets in an additional dozen or so cities with communications companies planning to deploy this technology commercially during 1997.

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LOCALIZATION

(in thousands)	Desktop Apps		Developer		Consumer		Personal Systems		Business Systems		Other		Total	
	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan	FYTD96 Actual	FY96 Plan
<b>Period-end Headcount</b>														
Japan	49	69	32	31	19	30	16	18	34	39	39	61	189	248
Redmond	77	84	19	23	5	4	49	61	18	16	69	74	237	262
Korea	16	21	8	11	4	6	3	4	8	11	2	2	41	55
Taiwan	16	22	4	4	0	2	4	3	8	8	3	2	35	40
China	3	14	3	6	0	0	3	3	3	5	2	1	19	29
Ireland	103	110	34	34	46	64	62	62	60	66	59	61	364	397
<b>Total</b>	<b>259</b>	<b>320</b>	<b>100</b>	<b>109</b>	<b>74</b>	<b>106</b>	<b>137</b>	<b>150</b>	<b>131</b>	<b>145</b>	<b>174</b>	<b>201</b>	<b>885</b>	<b>1,031</b>
<b>External Cost</b>														
Japan	\$ 4,253	\$ 5,593	\$ 519	\$ 4,147	\$ 1,100	\$ 2,493	\$ 1,843	\$ 6,265	\$ 3,225	\$ 8,789	\$ 965	\$ 2,431	\$ 11,905	\$ 30,718
Redmond	3,843	7,285	1,871	2,443	8,523	5,128	2,306	6,653	751	3,873	468	1,497	17,762	26,879
Korea	40	429	48	525	33	360	26	283	50	540	-	-	197	2,137
Taiwan	550	816	209	310	67	99	217	322	342	507	-	-	1,384	2,054
China	53	393	23	168	-	-	28	191	29	217	-	-	131	969
Ireland	6,434	6,838	4,153	6,986	6,072	26,731	2,902	5,732	1,981	4,830	1,062	2,280	22,604	53,397
<b>Total</b>	<b>\$ 15,173</b>	<b>\$ 21,354</b>	<b>\$ 6,823</b>	<b>\$ 14,579</b>	<b>\$ 15,795</b>	<b>\$ 35,811</b>	<b>\$ 7,320</b>	<b>\$ 19,446</b>	<b>\$ 6,378</b>	<b>\$ 18,756</b>	<b>\$ 2,385</b>	<b>\$ 6,208</b>	<b>\$ 53,683</b>	<b>\$ 116,154</b>
<b>Internal Cost</b>														
Japan	\$ 4,339	\$ 12,951	\$ 2,678	\$ 5,819	\$ 2,196	\$ 5,908	\$ 2,198	\$ 5,666	\$ 4,215	\$ 8,850	\$ 4,165	\$ 13,207	\$ 19,791	\$ 52,201
Redmond	4,736	10,497	1,169	2,840	308	988	3,014	7,533	1,107	1,976	4,244	8,027	14,576	31,861
Korea	621	1,543	311	801	155	437	116	291	311	801	78	190	1,592	4,064
Taiwan	802	1,866	151	347	-	174	151	217	301	651	113	96	1,317	3,351
China	482	850	187	364	-	-	187	182	187	303	125	103	1,169	1,802
Ireland	4,391	8,694	1,764	3,253	3,175	6,644	3,304	6,607	3,202	6,909	4,771	6,320	20,607	38,437
<b>Total</b>	<b>\$ 15,171</b>	<b>\$ 36,401</b>	<b>\$ 6,259</b>	<b>\$ 13,435</b>	<b>\$ 5,834</b>	<b>\$ 14,151</b>	<b>\$ 8,970</b>	<b>\$ 20,497</b>	<b>\$ 9,323</b>	<b>\$ 19,290</b>	<b>\$ 13,495</b>	<b>\$ 27,943</b>	<b>\$ 59,052</b>	<b>\$ 131,717</b>
<b>Total Localization Cost</b>														
Japan	8,592	18,544	3,197	9,966	3,296	9,401	4,041	11,931	7,440	17,439	5,030	15,638	31,596	82,919
Redmond	8,579	17,782	3,040	5,284	8,831	6,116	5,320	14,186	1,858	5,849	4,712	9,524	32,338	58,740
Korea	661	1,972	359	1,328	189	797	143	574	360	1,341	78	190	1,789	5,201
Taiwan	1,152	2,882	359	657	67	273	367	539	643	1,156	113	96	2,701	5,405
China	535	1,243	210	532	-	-	213	373	217	520	125	103	1,300	2,771
Ireland	10,825	15,532	5,917	10,249	9,247	33,375	6,208	12,339	5,183	11,739	5,833	8,600	43,211	81,834
<b>Total</b>	<b>\$ 30,344</b>	<b>\$ 57,755</b>	<b>\$ 13,082</b>	<b>\$ 28,014</b>	<b>\$ 21,629</b>	<b>\$ 49,962</b>	<b>\$ 16,290</b>	<b>\$ 39,943</b>	<b>\$ 15,701</b>	<b>\$ 38,046</b>	<b>\$ 15,890</b>	<b>\$ 34,151</b>	<b>\$ 112,835</b>	<b>\$ 247,871</b>

NOTE: 1) Redmond Internal Cost is estimated based on period end headcount multiplied by the budgeted average cost per head for a Redmond R&D employee.  
 2) Other includes: ACG, MOS/MSN, CSD, PPG, WPG

Localization Costs

- MS plans to spend over \$248 million in FY96 to localize over 600 products. The table above summarizes headcount, and actual and planned spending by product division and development location. External costs include third party product development and contingent staff, and internal costs include people and infrastructure.
- Some of the more significant projects completed or in progress during the first half of FY96 include:
  - Desktop Applications released 20 language versions of Office 95.
  - Developer released nine language versions of Access 95 and worked on another ten versions due for release in Q96-3.
  - Consumer released 16 language versions of Works 95, is working on 5 localized versions of Encarta and released over 60 other localized versions of other titles.
  - Personal Systems released 26 language versions of Windows including Japanese, Korean and Chinese.
  - Business Systems released six language versions of NT Server 3.51 and ten language versions of NT Workstation 3.51 and plans to release Japanese, Korean and Chinese versions in the second half of FY96.

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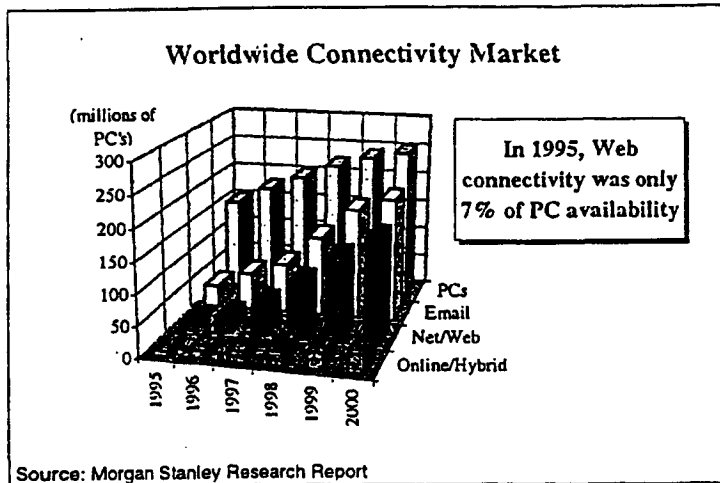
## FEATURE SECTION

### Microsoft Internet Strategy

- Synopsis of Internet Strategy Day -

#### Introduction

On December 7, 1995, Microsoft publicly announced its strategy for pursuing business opportunities presented by the Internet. The Internet provides an amazing opportunity in both personal and professional areas to acquire information, conduct commerce, communicate with others, and deliver new forms of entertainment. There is tremendous potential to add value for end users. But before we can reasonably expect the Internet to be successfully woven into a typical end user's interaction with their computer, there is much to be accomplished. In one sense, the Internet has not yet reached the stage of critical mass. The volume and breadth of users has not reached the level at which we would describe the Internet phenomenon as pervasive. Over 80% of the PCs worldwide still are not using software to connect to the Internet.<sup>1</sup> The degree to which Microsoft's efforts draws this community of new users online will be a measure of our success.



The growth of the Internet is rapid, and a critical stage is approaching between the number of users and the depth of content. New and richer content begets more users, and more users will drive increasingly rich content and applications to the Internet. This is a casebook example of the positive spiral that supports new business ventures. Microsoft is uniquely poised to deliver tools and services that aid people using and creating content. This will increase the amount of rich and interesting information on the Web, which will draw new users to the Internet and ultimately create widespread value.

#### The Effort

To reach this next stage of growth, where access to the Internet is simply a common element of all computing, four aspects of the Internet require refinement. We will invest in aspects of each to maximize the potential value the Internet offers.

The four areas in which we will invest our resources are as follows:

1. Leverage the connectivity of the Internet, thereby ensuring that all of our applications can work over the Internet.
2. Adopt and enhance key Internet standards, such as TCP/IP, HTML, HTTP, and DNS.
3. Integrate those standards into Windows.
4. Work with the industry to openly improve the Internet and the combined PC-Internet experience for users and developers.

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Source: Morgan Stanley Research Estimates

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Microsoft will work to ensure that users and developers don't find themselves in a situation where there are two disjointed worlds; we will meld the Internet and the desktop PC into a unified, consistent experience for users and for people developing solutions. The methods for using, publishing on, and developing for the Internet will be extensions of the methods, tools, and techniques people use today. No one should have to fear a need to reinvent or relearn everything in order to take advantage of the Internet. Microsoft will deliver an integrated platform founded on the important standards from both the PC and the Internet. Together these standards will be integrated into a useful and coherent platform. Thus, the user experience on the Internet will be optimal, and developers, organizations, and content providers can expand current systems to take advantage of the new communications capabilities the Internet offers.

### Microsoft Product Focus

The opportunities presented by the Internet permeate the thinking of all of our product planning and product development efforts. This work is occurring in the context of our current organizational structure, with efforts divided between Platforms and Applications.

### Platforms

*Windows Internet Platform*—One of the primary efforts is to continue to simplify the end user interaction with the computer. Our focus on Windows causes it to continue its evolution and leadership as the best platform for browsing information. In future versions, browsing will occur independent of the location of the files sought by the user. Some files may be on the hard drive, some on the network, and some on the Internet. The first step in this evolution will be the Internet add-on. Later in 1996, the first implementation of the Windows Internet Platform will ship for Windows 95 and Windows NT as the Internet add-on. The Windows Internet Platform will:

- Unify folders and Web pages.
- Publish dynamically extensible pages using OLE controls. All of the OLE components work in this environment, so all of the OCX controls can move to the Internet and extend the capabilities of supporting browsers.
- Improve collaboration over the Internet, allowing users to cooperatively edit documents or spreadsheets.
- Have Internet telephony which will simplify connectivity by hiding the complexity of attaching to the Internet behind a single mouse click.

Versions of Internet Explorer for Windows 3.11, Windows for Workgroups, and Windows NT will ship in the first half of 1996. A version of Internet Explorer for the Macintosh is in Beta now. We will also add our proposed standard for 3-D navigation—Active VRML, to Windows. Active VRML helps developers and content producers deliver extremely rich graphics over the Internet.

*Server Integration*—Microsoft will integrate the Internet Information Server (IIS) into Windows NT Server in the first quarter of the 1996. The IIS feature set spans the requirements of small web sites, organizational "Intranets,"<sup>2</sup> high-volume corporate "presence" sites, and Internet Service Providers with "Web Farms." Key features will include: ease of use, demonstrably fastest performance, rich development platform, and integration with the BackOffice products.

Other aspects of server integration will include:

- IIS product positioning focusing on the internal corporate Web, or Intranet, marketplace. Local area network protocol features, such as the ability to share Web documents from Web servers over IPX-based LANs will come later in 1996.

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<sup>2</sup> The term Intranet depicts the use of Internet technology, such HTTP servers and HTML browsers (i.e., the "Web") to improve internal communications and information publishing.

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- Fast Find searching capabilities will be added to IIS later in 1996.
- New editions of Microsoft BackOffice which will have new Internet features (Exchange, SQL Server).
- A proxy server, code-named "Catapult," designed for desktop access to the Internet and MSN.
- A video/audio server code-name "Bengal" for sending audio and video across the Internet.
- A merchant server for safely and securely transacting business across the Internet, including order capture and processing as well as access to legacy financial systems.
- Tools and extensions for content and site management.

*Developer Tools*—Developers will see that we are offering a path to the Internet that allows them to extend the learning they've gained writing applications for Win32. We will accomplish this objective by offering a suite of options from which developers (and users) can select the optimal choice for their requirements. Some will choose tools, such as Visual C++ or Visual Basic for the greatest possible range of capability. Others will opt for tools such as Visual Basic Script or Internet Studio (previously know as Blackbird).

Visual Basic Script is the means whereby roughly three million people who develop in Visual Basic today will be able to take that knowledge and reapply it to writing scripts, not only in general purpose applications, but more particularly in terms of Web pages on the Internet. Visual Basic Script is a fast, portable implementation of Visual Basic that will appear as a reference implementation and will be available as source code on the Internet—free of charge.

There is a tool of emerging interest that is closely associated with the Internet, called "Java," that Microsoft will support. Java, developed by Sun Workstations, attempts to address some of the challenges of developing for a distributed computing environment. Essentially, Java is a dialect of C++. It is a tool that has garnered sufficient attention that Microsoft will ensure that applications written in Java will run well in Windows. Microsoft is not using Java to develop its own tools, the enhancements to our developer products described above offer a more complete solution and will frame the basis of our distributed computing strategy.

### Applications

Browsing is an important aspect of what people will do on the Internet. But users also need to find the information they seek, and create original information that they will be able to edit, analyze, and then be able to present the results of their efforts to others. Today, Office delivers a full-featured set of tools to perform these tasks. In 1996, these products will be extended to capitalize on the opportunities presented by the Internet.

*Microsoft Office*—will be extended to allow end users to perform their productivity tasks in the tools they know today. Some of the new features will be:

- The Office applications will be enhanced to allow users to navigate with Internet-style methods (forward, back, and history) and to use collaboration for creating and editing files.
- Office will also help users to save their work in HTML format for Web-based publishing.
- Viewers will be released so that rich Office documents can be shared on the Internet with users who are not running Microsoft Office.
- Fast Find will be enhanced to run on the Internet Information Server to make locating documents on the Web easier.
- All Microsoft tools, for example Microsoft Publisher, will enhance their technologies with features, such as Wizards, to help users automatically create Web pages from their work.
- Microsoft Money will act as an online financial consolidation tool for the customer. It will help them to manage their bank account, investments, bill paying, and credit card accounts.

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*Connectivity*

To help draw the next several million users to the Internet, MSN will simplify the process of connecting to the Internet and offer basic Internet services such as e-mail, bulletin boards, and chat. MSN will also enhance the manner in which information is located and offer a unique collection of high value content. One hundred days since launch, MSN has approximately 600,000 users. In 1996 MSN will:

- Improve the performance of its system.
- Move away from proprietary protocols and viewers and adopt an open Internet approach.
- Increase its presence and accessibility around the world.
- Add a wide variety of new content ranging from multimedia titles from NBC or DreamWorks to a new magazine offering from Michael Kinsley.
- Adopt an advertising and co-marketing revenue model.

Summary

By targeting our planning, development, and marketing efforts on platforms, tools, applications, and connectivity Microsoft will simplify access to the Internet for millions of end users. We will also help developers and publishers create the content these new users demand. Microsoft is poised to establish a leadership position on the Internet with these exciting new products.

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KEY PRODUCTS RELEASE SCHEDULE

Business Unit / Product:	RTM Date		Business Unit / Product:	RTM Date	
	Act/Fcst	Plan		Act/Fcst	Plan
<b>Business Systems:</b>			<b>Consumer:</b>		
Systems Management Server 1.1	Aug-95	Jul-95	Automap Streets	Jun-95	Jun-95
File & Print Service for NetWare	Sep-95	Apr-95	Bookshelf 95	Jul-95	Jun-95
BackOffice 1.5	Sep-95	Sep-95	Win Works 95	Jul-95	Jun-95
Dir Svcs Manager for NetWare	Nov-95	Oct-95	Creative Writer/Fine Artist Toolbox	Jul-95	Jun-95
Internet Web Server 1.0	Feb-96	Feb-96	Oceans	Jul-95	Jul-95
MS Exchange Server 4.0	Feb-96	Jun-95	Sidewinder Joystick	Aug-95	Aug-95
BackOffice 2.0	Mar-96	Mar-96	Fury3	Aug-95	Aug-95
Internet Access Server 1.0	May-96	Apr-96	EasyBall	Aug-95	Aug-95
Win NT Workstation "SUR"	Jul-96	Jul-96	Win Publisher 3.0	Aug-95	Aug-95
Windows NT Server "SUR"	Jul-96	Jul-96	Win Encarta 96	Aug-95	Aug-95
Systems Mgmt Server 1.2	Jun-96	Jun-96	Win Encarta World Atlas	Sep-95	Sep-95
SNA Server 3.0	Sep-96	Sep-96	MSB Oceans	Sep-95	Sep-95
			World of Flight	Sep-95	Sep-95
<b>Consumer Systems Division:</b>			Cinemania 96	Sep-95	Oct-95
Toonz Irix 4.0	Apr-96	Apr-96	Music Central	Sep-95	Nov-95
Digital Studio NT 1.0	Oct-96	May-96	3D Movie Maker	Oct-95	Sep-95
SoftImage 3D 3.0 NT	Jan-96	Mar-96	Golf 2.0 CD	Oct-95	Jan-96
SoftImage 3D 3.5 Irix	Apr-96	Apr-96	Car Source On-line	Oct-95	Sep-95
			Mac Encarta 96	Nov-95	Nov-95
<b>Developer:</b>			Return of Arcade	Feb-96	Nov-95
FoxPro 3.0	Jun-95	Sep-94	Workshop	Feb-96	Jan-96
Visual Basic 4.0	Sep-95	Oct-94	Home Health On-line	Feb-96	Oct-95
Visual C++ 4.0	Oct-95	May-95	MSB - Geology	Feb-96	Nov-95
Visual SourceSafe 4.0	Sep-95	Jul-95	Bookshelf 96	Mar-95	Feb-96
			Soccer	May-96	Jan-96
<b>Personal Operating Systems:</b>			Close Combat	May-96	N/A
Windows 95 (US)	Jul-95	Feb-95	Summit (Mt. Climbing game)	Sep-95	Nov-95
Windows 95 (Japanese)	Oct-95	May-95	Magellan 3D Zoom Mouse	Jun-96	Jun-96
			<b>Desktop Applications:</b>		
			Win Office 95	Jul-95	Jul-95
			Win OfficePro 95	Oct-95	Oct-95
			Access 7.0	Oct-95	Oct-95
			Team Manager	Apr-96	Apr-96
			Office 97	Jul-96	Jun-96
			REN	Jul-96	Jun-96
			<b>Desktop Finance:</b>		
			Money 4.0	Aug-95	Aug-95
			Money 5.0	Jul-96	Jul-96

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## SALES, MARKETING &amp; SUPPORT

## Q96-2 Finished Goods Summary

(in millions)

	North America		Europe		ICON		Far East		Total WW FG	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Gross Revenue	\$350.7	45%	\$641.1	100%	\$130.6	81%	\$294.9	251%	\$1,417.3	83%
Wing5/Office 95 adjustment	406.3	nm	12.8	nm	10.0	nm	(62.9)	nm	366.2	nm
Revenue Adjustments	(81.7)	nm	(29.0)	nm	(11.9)	nm	(15.8)	nm	(138.3)	107%
Net Revenue	675.3	98%	624.8	101%	128.6	85%	216.5	191%	1,645.2	105%
Cost of Revenue	161.5	127%	78.7	95%	21.7	74%	31.9	134%	293.9	112%
Gross Margin	513.7	92%	546.1	102%	107.0	88%	184.5	207%	1,351.3	103%
% of Net Revenue	76%	81%	87%	87%	83%	81%	85%	79%	82%	83%
Controllable Expenses										
People	42.7	92%	39.8	98%	14.7	100%	12.2	90%	109.5	95%
Infrastructure	14.1	87%	12.4	109%	5.0	94%	4.3	91%	35.8	95%
Other Misc Expenses	3.6	39%	4.7	96%	6.6	178%	1.9	192%	16.8	90%
Marketing	103.2	84%	78.7	106%	13.2	93%	29.1	96%	224.1	93%
Marketing Recovery	(7.0)	nm	(9.0)	nm	(1.6)	nm	(4.4)	nm	(22.0)	nm
Direct Expenses	156.6	85%	126.6	98%	37.9	103%	43.2	92%	364.3	92%
Distributions:										
MCS Costs	21.6	100%	9.1	120%	2.7	91%	0.9	51%	34.3	101%
MCS Revenue	(27.7)	nm	(9.4)	130%	(2.3)	nm	(0.3)	nm	(39.7)	nm
G&A Costs	0.8	100%	10.3	80%	2.2	86%	2.0	78%	15.3	82%
PSS Costs	95.3	106%	37.3	92%	5.2	82%	13.7	83%	151.6	99%
PSS Revenue	(15.0)	nm	(9.4)	nm	(1.5)	nm	(1.3)	nm	(27.2)	nm
Distributions	74.9	115%	37.9	85%	6.4	80%	15.0	89%	134.2	100%
Total Controllable Expenses	231.5	93%	164.5	95%	44.3	99%	58.2	91%	498.5	94%
Responsibility Margin	282.2	91%	381.6	105%	62.6	81%	126.3	499%	852.8	110%
% of Net Revenue	42%	45%	61%	59%	49%	51%	58%	22%	52%	49%
Shared Resources	38.2	105%	25.4	116%	2.1	80%	2.3	32%	68.1	100%
Corporate Allocations	107.1	94%	84.0	95%	23.9	95%	30.7	95%	245.7	95%
Contribution Margin	\$136.9	86%	\$272.2	108%	\$36.7	74%	\$93.3	nm	\$539.1	121%
% of Net Revenue	20%	23%	44%	41%	28%	33%	43%	(13%)	33%	28%
% of Prior Year										
Gross Revenue	60%		135%		120%		265%		111%	
Net Revenue	131%		136%		124%		201%		139%	
Gross Margin	124%		137%		127%		207%		137%	
Responsibility Margin	105%		138%		119%		227%		130%	
Contribution Margin	85%		139%		107%		236%		125%	
\$ per head in thousands										
Average Sales Headcount	1,761	1,994	1,235	1,343	559	617	301	344	3,855	4,297
Net Revenue per Head	\$1,534	\$1,375	\$2,024	\$1,843	\$921	\$980	\$2,876	\$1,316	\$1,707	\$1,460
People and Infrastructure cost per head	\$129	\$126	\$169	\$156	\$141	\$130	\$220	\$214	\$151	\$143
Marketing Exp % of Net Revenue	14%	16%	11%	12%	9%	9%	11%	24%	12%	14%

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## FYTD96 Finished Goods Summary

(in millions)

	North America		Europe		ICON		Far East		Total WW FG	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Gross Revenue	\$1,843.6	112%	\$1,345.9	126%	\$330.6	115%	\$458.4	220%	\$3,978.5	124%
Win95/Office 95 adjustment	(344.7)	nm	(196.8)	nm	(38.1)	nm	(62.9)	nm	(642.5)	nm
Revenue Adjustments	(144.9)	nm	(55.1)	nm	(21.2)	nm	(20.5)	nm	(241.7)	nm
Net Revenue	1,354.0	91%	1,093.9	106%	271.3	101%	375.1	187%	3,094.2	103%
Cost of Revenue	283.3	108%	143.3	100%	49.3	89%	54.9	132%	530.9	106%
Gross Margin	1,070.7	87%	950.6	107%	221.9	104%	320.2	201%	2,563.4	103%
% of Net Revenue	79%	82%	87%	86%	82%	79%	85%	79%	83%	83%
Controllable Expenses										
People	81.0	85%	79.0	95%	27.6	94%	24.0	88%	211.6	90%
Infrastructure	26.7	83%	22.6	100%	9.2	89%	8.8	85%	67.2	89%
Other Misc Expenses	17.5	93%	10.1	123%	10.1	155%	3.2	166%	40.9	115%
Marketing	199.0	84%	134.4	103%	30.9	100%	43.9	87%	408.3	91%
Marketing Recovery	(16.5)	nm	(15.1)	nm	(3.0)	nm	(8.0)	nm	(42.6)	nm
Direct Expenses	307.7	85%	231.0	97%	74.9	99%	71.9	84%	685.5	90%
Distributions:										
MCS Costs	42.0	102%	15.5	108%	5.1	91%	1.7	51%	64.4	100%
MCS Revenue	(51.9)	nm	(15.3)	nm	(4.2)	nm	(0.6)	nm	(71.9)	nm
G&A Costs	1.5	98%	22.4	87%	4.5	88%	4.2	80%	32.8	87%
PSS Costs	163.1	96%	69.4	90%	10.6	84%	24.1	60%	267.1	92%
PSS Revenue	(26.3)	nm	(18.0)	nm	(2.2)	nm	(2.8)	nm	(49.3)	nm
Distributions	128.5	105%	74.0	86%	13.9	89%	26.7	85%	243.1	95%
Total Controllable Expenses	436.2	50%	305.0	94%	88.8	97%	98.6	84%	928.6	91%
Responsibility Margin	634.5	85%	645.5	115%	133.2	109%	221.6	523%	1,634.8	111%
% of Net Revenue	47%	50%	59%	54%	49%	45%	59%	21%	53%	49%
Shared Resources	70.9	99%	44.0	101%	4.2	84%	14.5	101%	133.6	99%
Corporate Allocations	204.7	91%	160.5	91%	45.5	91%	58.5	91%	469.1	91%
Contribution Margin	\$358.9	80%	\$441.1	130%	\$83.4	125%	\$148.6	nm	\$1,032.1	126%
% of Net Revenue	27%	30%	40%	33%	31%	25%	40%	(18%)	33%	27%
% of Prior Year										
Gross Revenue	173%		163%		164%		219%		180%	
Net Revenue	142%		154%		141%		184%		150%	
Gross Margin	139%		155%		141%		195%		150%	
Responsibility Margin	129%		162%		136%		207%		149%	
Contribution Margin	117%		170%		129%		195%		146%	
\$ per head in thousands										
Average Sales Headcount	1,738	1,981	1,212	1,321	533	595	291	331	3,774	4,228
Net Revenue per Head	\$1,558	\$1,508	\$1,805	\$1,558	\$1,018	\$902	\$2,578	\$1,214	\$1,640	\$1,415
People and Infrastructure cost per head	\$124	\$129	\$168	\$160	\$138	\$134	\$225	\$227	\$148	\$147
Marketing Exp % of Net Revenue	13%	15%	11%	12%	10%	11%	10%	23%	12%	14%

## Results Summary

- Q96-2 gross Finished Goods (FG) revenue (sell-in, less returns) of \$1,417 million was 83% of plan. The shortfall from plan was primarily due to higher than planned North America sell-in in Q96-1, combined with significant product returns in Q96-2.
- Q96-2 net FG revenue exceeded plan by 5%. Net revenue includes \$366 million of channel reserves reversed during the quarter reflecting channel sell through and returns of Desktop 95 product. Accounting for this channel reserve is more fully described below. North America and ICON regions were below plan for the quarter, and Europe and Far East regions exceeded plan.
- FYTD gross FG revenue of \$3,979 million is 124% of plan reflecting strong sell-in of Desktop 95 products, offset by \$643 million for channel reserves. Net revenue FYTD is 3% ahead of plan, with North America under plan by 9% offset by positive plan variances in Far East (87%), Europe (6%), and ICON (1%).

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### Q96-2 Gross Revenue Highlights

- Desktop Applications products sales totaled \$916 million. \$40 million short of plan. FYTD Desktop Application revenue was 22% above plan and comprised 52% of worldwide gross FG revenue.
- Consumer product sales totaled \$185 million, 21% under plan. Consumer revenue exceeded plan only in Europe. FYTD growth in revenue from Consumer products was 27% compared to H95-1.
- Windows 95 returns of \$243 million exceeded sell-in revenue of \$238 million resulting in "negative" gross revenue of \$5 million for PSD products in Q96-2.
- BSD product sell-in was \$223 million, 82% over plan. The year over year growth rate for BSD products for Q96-2 was 114%, and the FYTD growth rate was 133. Windows NT and BackOffice are gaining momentum across all geographies.
- Developer Division product sales were \$129 million, exceeding plan by 32%. FYTD revenue from Developer products was 116% of plan. The release of Visual Basic 4 in Q96-2 drove the positive sales variance both in the quarter and year to date.
- Gross margin from finished goods during Q96-2 was 82% versus plan of 83%. This decline was primarily due to a \$70 million charge in North America for excess Desktop 95 inventory. Additionally, a \$20 million charge was taken during the quarter for excess inventories and future purchase commitments for keyboards. The inventory charges were partially offset by lower product costs due to a shift in mix to license programs and CD media from full packaged product.
- Controllable expenses were 6% below plan for the quarter, due to lower than planned headcount and outsourcing costs. People and infrastructure costs grew 23% and 21%, respectively, over the prior year, well below net revenue growth of 37%.
- Marketing expenses totaled just over \$200 million, 90% of plan. Marketing grew 82% over Q95-2. As a percent of net revenue, marketing spend is 12% year to date versus plan of 14%.
- Net PSS expenses were \$9 million over plan during the quarter due to a shortfall in paid support. As a percent of net finished goods revenue, PSS expenses were under plan at 9.2% versus 9.8%. Net PSS costs have increased 65% from H95-1 net spend of \$131.7 million.

### Sales Returns

- Customers may return product in accordance with distribution contract terms. These terms vary by country, but typically allow returns for a percentage of the previous quarter's purchases, and for stock rotation associated with new product releases. Returns are processed against gross FG shipments.
- In Q96-2, returns totaling \$449 million were accepted primarily for Windows 95, MS Plus! and Office 95 related to inventory accumulated during the launch and channel fill in Q96-1. Additional returns of up to \$230 million of Desktop 95 products are anticipated in Q96-3.
- Year-to-date returns percentages by region are summarized in the following table:

	Returns as a % of Gross Revenue				
	N. America	Europe	ICON	Far East	WW Total
Desktop Applications	14.1%	2.9%	5.8%	2.5%	8.2%
Consumer	9.6%	4.2%	7.4%	6.0%	7.8%
Personal Finance	11.1%	3.6%	1.3%	0.0%	7.1%
Personal Systems	26.8%	12.0%	10.8%	2.0%	19.3%
Business Systems	4.5%	6.5%	10.8%	6.0%	5.8%
Developer	3.5%	3.4%	7.7%	5.8%	4.1%
Total	16.8%	5.8%	8.2%	3.4%	11.2%

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## Channel Inventory Reserve

(in millions)	FYTD96		Channel		Estimated	
	Shipments	Returns	Reserves	Sell Through*		
<b>Windows 95 &amp; MS Plus!</b>						
North America	\$ 623	\$ (191)	\$ (204)	\$ 227	36%	
Europe	337	(44)	(115)	178	53%	
ICON	87	(10)	(21)	56	64%	
Far East	93	(2)	(34)	57	61%	
	1,141	(247)	(375)	519	45%	
<b>Office 95 &amp; Office Pro 95</b>						
North America	379	(120)	(140)	118	31%	
Europe	219	(7)	(82)	129	59%	
ICON	55	(3)	(17)	35	64%	
Far East	73	(0)	(29)	44	60%	
	726	(131)	(268)	327	45%	
Total	\$ 1,867	\$ (379)	\$ (643)	\$ 846	45%	

\* as a percent of shipments

- For internal management reporting purposes, revenue from Desktop 95 is recognized as product is sold through the distribution channel. As shown in the table, sales through the distribution channel total \$846 million FYTD, with an estimated \$643 million remaining as channel inventory. Channel inventory is down from just over \$1 billion at the end of Q96-1.
- Q96-2 Desktop 95 sell-through is estimated to be \$370 million, compared to \$476 million in Q96-1. The majority of remaining channel inventory is expected to be sold through or returned in Q96-3.

## Sales to Top Fifteen MS Purchasing Accounts

Top Fifteen Customers Worldwide (Sell-In)  
(in millions)

	Q96-2		Q96-1		Q95-4		Q95-3	
Ingram	\$125	9%	\$792	31%	\$171	14%	\$167	15%
Computer 2000	122	9%	130	5%	59	5%	86	7%
Merisel	96	7%	476	19%	143	12%	155	13%
Stream International	77	5%	60	2%	69	6%	58	5%
Soft Bank	73	5%	31	1%	35	3%	26	2%
Software Spectrum	43	3%	34	1%	33	3%	35	3%
Tech Data	42	3%	60	2%	18	2%	13	1%
Softman	36	3%	37	1%	26	2%	20	2%
Olivetti	28	2%	39	2%	16	1%	27	2%
Catena	26	2%	9	0%	13	1%	9	1%
Tech Pacific	24	2%	53	2%	29	2%	19	2%
Software Japan	21	1%	11	0%	16	1%	13	1%
Scitbona	20	1%	18	1%	8	1%	15	1%
Fujitsu	18	1%	20	1%	16	1%	11	1%
Macrotron	17	1%	20	1%	7	1%	12	1%
Other	649	46%	771	30%	530	45%	486	42%
Total	\$1,417	100%	\$2,561	100%	\$1,189	100%	\$1,152	100%

- With the launch of the localized versions of Windows 95, MS Plus! and Desktop 95 in the Far East, several Japanese customers made the top customer list this quarter. Sales to Catena, Japan's third largest distributor, nearly tripled from Q96-1 to Q96-2 and sales to Softbank more than doubled from the previous quarter.

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## NORTH AMERICA FINISHED GOODS REVIEW

## Region Highlights

- Net revenue totaled \$675 million during the quarter, falling short of plan by \$10 million due to lower than expected sales of Desktop 95 and Consumer products partially offset by strong sales of Business Systems Division products. Net revenue during Q96-2 grew 31% over the same quarter of the previous year (Q95-2) and grew 42% FYTD compared to the same period in FY95.

Net Revenue (millions)	FYTD96		Prior	Yr/Yr
	Actual	Plan	Actual	Growth
United States	\$1,259.7	\$1,376.1	882	43%
Canada	94.4	117.5	73	29%
NA Total	\$1,354.0	\$1,493.7	954	42%

- Desktop 95 packaged product inventory remaining in the North America channel totaled \$345 million as of December 31, 1995. Returns were \$312 million and sell-through was \$147 million during the quarter. This inventory represents between six and seven months of supply based on estimated sell-through rates going forward. For the year, approximately one third of Desktop 95 product sold into the channel has been returned, one third has sold through and one third remains in the channel. Future product returns are expected to occur as distributors and resellers continue to reduce their inventory to "normal" levels which could result in additional returns of up to \$200 million assuming a normal supply of six weeks.
- Select and other license type sales of Desktop 95 product are only \$16 million or 10% of plan FYTD due to slower than planned corporate migration to 32-bit applications.
- Gross sell-in of DAD products, principally Office and Office Pro, totaled \$236 million for the quarter falling short of plan by \$162 million or 41%. Adjusting for channel sell-through of Office 95, net revenue was \$274 million or 69% of plan during the quarter and \$730 million or 93% of plan FYTD. Sales of 16-bit products have remained strong as packaged product sales of Office, Office Pro, Word and Excel exceeded plan by \$28 million or 44% during the quarter and \$42 million or 34% FYTD. Select and other license type sales of DAD exceeded plan by \$49 million or 188% during the quarter and \$95 million or 186% FYTD. Macintosh products continue to perform poorly against plan with revenue \$14 million (35%) under plan for the quarter mainly due to slower than expected sales of Mac Office. DAD product revenue on a sell-in basis declined 26% over Q95-2 due to the high volume of Desktop 95 returns. On a sell-through basis, FYTD revenue grew \$94 million or 15% compared to the same period in FY95.
- Gross sales from PSD products were a negative \$122 million during the quarter as Windows 95 and MS Plus! returns totaled \$191 million offset by \$69 million in new shipments. Revenue from PSD products for the year on a sell-through basis totaled \$325 million or 75% of plan as only 54% of Windows 95 packaged product remaining in the channel has sold through and license sales of these products are only \$10 million or 15% of plan. Partially offsetting this were continued strong sales of MS DOS and Windows 3.x which exceeded plan by \$48 million for the quarter and \$82 million FYTD.
- Gross revenue from Consumer products totaled \$90 million for the quarter falling short of plan by \$56 million (39%) with substantially all product categories under plan. The New Business or "Titles" category was 46% under plan during Q96-2 and 32% under plan FYTD with lower than expected sales of key products such as Bob, Encarta, Bookshelf and Golf. The Established Business and Hardware categories were 40% and 27%, under plan for the quarter but over plan FYTD by 4% and 12%, respectively. Compared to last year, total Consumer product revenue declined 16% for the quarter, and FYTD revenue grew \$28 million or 16%. FYTD hardware revenue grew \$31 million or 51%, while software revenue actually declined \$3 million or 3%.

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- Gross revenue from BSD products totaled \$112 million during the quarter, exceeding plan by \$63 million (127%) due to strong sales of Windows NT (Workstation, Servers and Client licenses) and the BackOffice bundle products. Improvements in overall client/server ratios (over both budget and prior year) also contributed to the positive variance versus plan. On a FYTD basis, BSD revenue exceeded plan by \$87 million or 92%. BSD revenue during Q96-2 grew 115% compared to the same quarter last year and \$102 million or 127% compared to the same FYTD period last year.
- The Enterprise Customer Unit (ECU) has made significant progress in securing favorable first time press coverage of MS as a committed enterprise supplier of BackOffice technology and services. Coverage in recent weeks included eight case study feature stories in top trade publications (Information Week, Computerworld, PC Week), and three feature articles on MS's improving enterprise business strategy (Computerworld, PC Week, Datamation). ECU also manages the MS-wide program which provides a knowledge center for top-tier industry analysts who influence enterprise customer buying decisions. The Analyst Relations program is recognized as contributing to the changing attitudes of one-time MS skeptics at the Gartner Group, Forrester Research, and Meta, and the second annual MS Analyst Summit in February 1996 will provide a platform to further shape positive perceptions.
- The Organization Customer Unit (OCU) is responsible for sales and marketing activities focused on customers classified as small- and medium-sized organizations. These customers typically purchase BSD products through a channel comprised of thousands of Value Added Resellers (VARs). A key objective of OCU, therefore, is to expand the breadth (the number of resellers who sell BSD products on a regular basis) and depth (the volume of BSD products sold by top VARs) of this channel. To address breadth, OCU has launched the Net Results program, which included a seminar given to VARs across the country, and a special "Action Pack" provided as part of the seminar. These Action Packs included a copy of Windows NT Server, coupons redeemable for Win NTS training at Authorized Technical Education Centers, ten call incidents with PSS, and various other items. Through December, 12,000 people had attended the seminars and 2,700 Action Packs were reported to have sold through the channel. The goal is to reach 15,000 people and put 7,500 Action Packs in the hands of VARs by the end of FY96. The Special Forces program addresses depth by selecting 106 top VARs and providing them monetary incentives to achieve particular sales goals for Windows NT Server.
- Gross profit margin during Q96-2 was 76% of net revenue compared to plan of 82% reflecting a \$70 million charge for excess Desktop 95 inventory, and a \$7 million charge related to excess keyboard inventories and purchase commitments.
- Controllable expenses were under plan in all significant categories during Q96-2. People expenses were less than budget reflecting lower than planned headcount and outsourcing costs. Infrastructure expenses were less than plan due mainly to lower buildings and grounds distributions as a result of lower than planned headcount as well as less than planned depreciation and telecommunications charges.
- Q96-2 marketing expense of \$96 million was \$16 million (15%) less than plan. On an actual plus committed basis, marketing spending totaled \$241 million or 63% of the FY96 budget. Q96-2 broad reach costs totaled \$31 million or 4% of net revenue and exceeded plan by \$4 million.
- Q96-2 PSS costs (net of revenue recovery) totaled approximately \$80 million or 12% of net revenue and exceeded plan by \$14 million.

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## EUROPE FINISHED GOODS REVIEW

### Region Highlights

- An estimated 5.3% of the Windows installed base in Europe has been upgraded to Windows 95. Corporate adoption of Windows 95 has been particularly weak but is expected to improve in Q96-3 as specific promotions targeted to large accounts are launched in major European countries.
- The Christmas season for consumer products was successful across Europe except in France where strikes hampered all retail commerce. A series of sales promotions have begun in France to improve consumer sell-through.
- Eastern Europe showed continued strong growth with FYTD sales up 119% over the prior year. A sales office is to be opened in Kiev in Q96-3 and new subsidiaries are planned for Romania, Croatia and Estonia in Q97-2. Eastern Europe regional headquarters have been established in Munich headed by Bob Clough.
- Net revenue approximated plan for Q96-2 and exceeded FYTD plan. Compared to the previous year, net revenue increased 36% over Q95-2 and 53% over the same year-to-date period. Approximately 5% of the quarterly increase is attributed to favorable exchange rates.
- Desktop 95 channel inventory totaled \$197 million at year end, a \$13 million decrease over Q96-1. Total sell-through for the quarter was \$119 million. Windows 95 sell-through decreased significantly from \$122 million in Q96-1 to \$56 million in Q96-2. Windows 95 sell-through in Germany and England decreased the most while that of France, Nordic, and Southern Europe were generally unchanged. Office 95 sell-through decreased slightly from \$66 million in Q96-1 to \$63 million in Q96-2 due to increases in Nordic, Benelux, and Southern Europe, offset by a decrease in Germany and England.

Net Revenue (in millions)	FYTD96		Yr/Yr Growth
	Actual	Plan	
Eastern Europe	\$57.8	\$32.7	119%
Denmark	28.0	24.8	78%
Germany	262.3	239.5	76%
Finland	18.4	12.8	76%
Italy	81.4	68.0	74%
Spain	26.8	23.7	69%
Switzerland	69.2	61.8	66%
Portugal	12.7	9.4	65%
Benelux	75.9	70.9	57%
Norway	24.4	19.2	51%
Austria	23.9	21.9	47%
England	201.4	211.6	37%
Sweden	54.7	54.7	25%
France	157.0	178.3	19%
Europe Total	\$1,093.9	\$1,029.1	53%

- DAD revenue surpassed plan by 8%, but sales of Office 95 to corporate accounts through the Select program were particularly weak during the quarter.
- Revenue from BSD products was 70% over plan for the quarter due to strong sales of Windows NT and BackOffice products. Corporate accounts are increasingly upgrading to Windows NT for their desktop operating systems. BSD products showed strong gains in Southern Europe (Spain, Portugal, and Italy) growing 142% over Q96-1 to \$8.1 million.
- Consumer products were widely available during the holiday buying season resulting in a 58% growth over Q95-2, 24% over plan. In France, sell-in of Consumer products increased 118% versus the same quarter last year; however, due to the recent transportation strikes, sell-through has been low and France has recorded a sales returns reserve of \$10 million against Q96-2 sales of \$20 million.
- Benelux signed a worldwide MELP agreement with Shell for implementation of Win NT, Office and BackOffice worth approximately \$15 million over two years.
- UK is proceeding with building a new facility and is finalizing negotiations on sale and leaseback of MS Place. Loss on the sale is estimated to be \$16.5 million.

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- Revenue from Developer Division products grew 82% as compared to the same quarter last year, 20% over plan, mainly due to the introduction of localized versions of Visual Basic. Sales of Visual Basic were strong throughout Europe and increased to \$18 million during the quarter after averaging \$3 million over the previous two quarters.
- Cost of goods sold as a percent of net revenue was almost 1% point better than plan (12.6% actual) primarily due to a higher than plan CD-ROM mix. Lower than plan material costs more than offset increased costs (provisions for obsolescence and scrap) resulting high levels of returns.
- Controllable expenses approximated plan for the quarter. People costs were below plan due to slower than planned increases in headcount. Marketing costs were about as planned.
- G&A costs for the quarter were 1.6% of net revenue compared to plan of 2.1% primarily due to accounting restatements to conform to MS accounting policy.
- PSS costs were 4.5% of net finished goods revenue versus plan of 5.1% due to lower outsourcing costs and lighter Windows 95 call volumes than planned. Net MCS costs were below plan for the quarter and FYTD. All major practices (UK, France and Germany) were above plan with UK billing a Ministry of Finance project for more than \$1 million.
- On a year-to-date basis, contribution margin of 40.3% is well ahead of plan of 33.0%. Contributing factors include above plan revenues, savings on product costs from the shift in mix more toward CD-ROM, and below plan headcount and corporate allocations. Contribution margin as a percentage of net revenue was over plan in all subsidiaries with the exception of France (4.6% below plan), Belgium (1.0% below plan), and the UK (.4% below plan).

## ICON FINISHED GOODS REVIEW

### Region Highlights

- MS received formal Presidential approval to form PT MS Indonesia, a wholly owned subsidiary. Andy Khoo was named General Manager.
- Applications to form a Representative Office in the Peoples Republic of Vietnam were completed and a business development manager has been hired.
- Plans for establishing Representative Offices in Saudi Arabia and in Egypt have begun. These offices will become distinct from the current sales location, MS Middle East, which will be renamed MS Gulf Region.
- Latin America territorial expansion plans are 95% complete. MS Latin America has local presence in 12 countries with 10 subsidiaries and 9 branch offices. Guatemala will begin operating in Q96-3.
- Anti-piracy activities continue to be successful across the region. In Thailand, formal anti-piracy legislation signed in March, 1995 continues to drive revenue growth in the country. In Latin America, major piracy raids at both end user and reseller levels were conducted in each country. In AIME, piracy legislation was introduced in most countries, but the challenge of empowering authorities to bring charges against offenders remains.
- Greece, Turkey, and Morocco began transitioning manufacturing needs from Redmond to EOC. This brings the product closer to the market and should allow these subsidiaries to be able to react to market needs more quickly.
- Strong revenue growth over FY95 has characterized ICON's results this fiscal year. Eleven of 24 subsidiaries achieved growth rates of 50% or higher. Thailand continues to benefit from anti-piracy legislation. Peru and Ecuador have achieved strong growth rates as well, despite political uncertainties and border disputes between the two countries. On the down side in Latin America, Mexico has outperformed

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plan but sales remain significantly lower than in FY95 before the currency crisis. Brazil's market has been hurt by the distribution channel problems caused by a lack of liquidity of several distributors and near bankruptcy of their main distributor.

Net Revenue (millions)	FYTD96		Yr/YR Growth
	Actual	Plan	
Thailand	\$ 9.0	\$ 5.2	-252%
Peru	3.9	2.7	186%
Turkey	5.1	2.5	185%
Ecuador	1.7	1.2	139%
India	8.2	5.8	123%
Greece	3.8	2.5	104%
Caribbean	6.0	5.2	100%
Singapore	13.3	12.2	94%
Malaysia	7.4	6.0	87%
New Zealand	17.7	15.6	72%
South Africa	22.5	19.5	50%
Australia	77.9	83.6	43%
Venezuela	4.4	3.6	13%
Brazil	27.4	46.9	(4%)
Mexico	18.1	12.5	(26%)
All Others	45.1	43.3	48%
ICON Total	\$ 271.3	\$ 268.3	41%

- Revenue from DAD products was under plan for the quarter mainly due to the high sell-in of 32-bit apps in Q96-1. For the year, DAD revenue is 108% of plan and comprises 55% of the region's total revenue. Channel inventory related to Office 95 of just under \$17 million as of December 31, 1995, is expected to sell through in Q96-3.
- Consumer Division products were well under plan ending at just 79% of plan. The main weakness was centered in Entertainment and Reference products as well as keyboards and mouse. The release of the Sidewinder joystick was positive with sales ending 175% over plan.
- Gross revenue from Personal Systems products was 76% below plan for the quarter as returns of Windows 95 exceeded shipments. Sales of Windows 3.x, WFW, and MS DOS continued to be strong.
- Business Systems sales continued to outperform plan. With strong sales of SQL Server, Windows NT and BackOffice, gross revenue from BSD products has more than doubled to \$16 million in Q96-2.
- Desktop 95 channel inventory reserve balance was \$38 million at December 31, 1995. This is down just under \$10 million from Q96-1. Several subsidiaries increased their reserve estimates during Q96-2 as better information about sell-through became available during the quarter. The reserve is expected to reverse fully during Q96-3 and the majority of returns exposure has already been realized in the region.
- Bad debt reserves of \$4 million were recorded in Q96-2 to recognize probable collections exposure on balances due from Compucenter in Brazil which declared the local equivalent of Chapter 11 bankruptcy in November. This was the main factor in direct expenses being over plan.

## FAR EAST FINISHED GOODS REVIEW

### Region Highlights

- The Japanese language versions of Windows 95, MS Plus!, Office 95, and Works 95 were launched at midnight on November 23. The actual launch event was at Akihabara (electronics district in Tokyo) and the reception of MS Japan's new products was very similar to that of the US: thousands of people lined up to buy the first copies of Windows 95, TV crews, spot lights, and the related excitement. Approximately 200,000 units of Japanese Windows 95 were sold during the first four days of the product's launch. In Q96-2, 633,000 copies (licenses) of Japanese Windows 95 have been sold into the sales channel. The stand-alone versions of Japanese Word, Excel, and Project were shipped on December 8 and PowerPoint shipped December 15.
- The launches of the Hangeul versions of Windows 95 and Desktop 95 in Korea and the traditional Chinese versions in Taiwan and Hong Kong were also held in late November. In Q96-2, 50,000 copies of Hangeul Windows 95 were sold into the sales channel in Korea. In Taiwan,

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- 47,000 copies of Traditional Chinese Windows 95 were sold. The shipment date of the Simplified Chinese versions of Windows 95 and Desktop 95 in the PRC is scheduled for Q96-3.
- PC sales in Japan have soared in 1995. This growth was driven by lower PC and software prices and easier to use systems. In October 1996, Dataquest released revised estimates indicating that PCs sales in Japan increased to 5.3 million units in 1995, 58% growth over 1994.
  - Apple Computer's share of the PC market in Japan is declining as a result of the aggressive price war launched by Fujitsu and the adoption of Windows 95.
  - MS Japan has a significant majority of the market share for office suites in Japan. Lotus Office and Ichitaro Office for Windows are the second and third leading suite products. MS Excel is the leading spreadsheet, but faces competition from Sanshiro for Windows and Lotus 1-2-3 for Windows. Ichitaro for Windows is the leading word processing program. MS's market share of application products in Japan is expected to increase as a result of the recent launches of Desktop 95 products and planned OEM bundling.
  - MS Japan's strategy is to aggressively pursue the bundling of Windows 32-bit Excel and Word with all OEMs in Japan. At present, approximately 45% to 50% of all PCs shipped within Japan are bundled with some word processing or spreadsheet software and this percentage is expected to increase in H96-2. In Q96-2, MS Japan's FG revenue for these bundles was \$14 million, increasing from \$5 million in the previous quarter. Revenue from bundling these applications with OEMs represented 58% of the revenue from stand-alone Excel and Word (new user) sales in Japan.
  - The US Dollar continues to strengthen relative to the Japanese Yen. In Q96-2, the average exchange rate was 100.8 Yen for each US\$ in comparison with an average rate of 93.4 for the previous quarter. The budgeted exchange rate for FY96 is 90.
  - MS's application to establish a wholly-owned subsidiary in China was approved by the Chinese government on November 1. MS is investing in both sales and marketing and operations infrastructure in China. MS has engaged a Chinese company to manufacture Simplified Chinese language products in Shanghai. MS is installing a financial accounting and billing system in Beijing. In addition, MS is opening sales and marketing offices in both Shanghai and Guangzhou.
  - With the launch of the localized versions of Windows 95 and Desktop 95, Q96-2 gross FG revenue for the region was \$295 million, an 80% increase over Q96-1 and a 165% increase over Q95-2. Q96-2 net revenue of \$216 million was 91% above plan and 100% above Q95-2. H96-1 net revenue was \$375 million, 87% above plan and 84% growth over H95-1.
  - Net revenue reflects a reserve of \$63 million for Desktop 95 inventory remaining in the channel at December 31, 1995. Subsidiaries in the Far East took a conservative approach with respect to the initial orders for the Windows 95 and Desktop 95 launches, with the objective of no excess inventory in the channel. At the present time, no significant product returns are expected.
  - The favorable gross revenue variance of \$177 million in Q96-2 was principally due to the launch of Windows 95 and the continued success of Office and Office Pro. The region's FY96 financial plan was prepared under the conservative assumption that launches of the localized versions of Windows 95 and Desktop 95 products would be delayed until Q96-3 and that only 17% of the FY96 revenue stream would be realized in Q96-2.

Net Revenue (millions)	FYTDs		Yr/Yr Growth
	Actual	Plan	
China	\$2.7	\$2.6	121%
Japan	319.4	157.5	91%
Hong Kong	16.8	12.7	61%
Korea	23.4	17.3	59%
Taiwan	12.7	10.7	22%
FE Total	\$375.1	\$200.8	84%

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- Q96-2 Windows 95 revenue of \$74 million represented 25% of the gross FG revenue for the region. Office and Office Pro revenue represented 41% of the total gross revenue and was \$85 million over plan for the quarter. Revenue from DAD was \$151 million. \$98 million over plan.
  - Consumer products revenue was \$6 million under plan, principally as a result of shortfalls in Entertainment products (\$3.6 million below plan), Works (\$1.3 million below plan), and Kids products (\$1.6 million below plan).
  - Total revenue from Business Systems products was \$21 million (26% over plan). Developer revenue was \$20 million, \$13 million over plan. This favorable variance was due principally to the release of the localized version of Visual Basic 4 in Japan.
  - In spite of high software piracy, MS's net revenue in China in Q96-2 was \$1.5 million (120% of plan).
  - Gross FG revenue in Taiwan increased in Q96-2 to \$10 million, 52% over plan, as a result of the launch of Desktop 95. Gross FG revenue from Windows 95 in Q96-2 was \$4 million.
- Management of MS Taiwan is concerned about the impact of slowing economic conditions and the unstable political environment in Taiwan.
- Cost of goods sold for Q96-2 was 14.8% of net revenue versus a plan of 21.1%. This variance resulted from a shift in media mix to CD and an increase in Select and MLP/MOLP licenses as a percent of revenue.
  - People expenses were just over \$1 million below plan in Q96-2 because of delays in hiring new heads. PSS costs were \$3 million below plan because of delays in hiring, particularly support engineers for Business Systems products. MCS costs were \$1 million below plan as a result of delays in hiring consultants.
  - Net marketing expenses were \$3 million below plan as a result of delays in spending of advertising and reseller marketing funds in Japan and increased recovery income of \$2 million.
  - Contribution margin for Q96-2 was \$93 million (43% of net revenue) versus a planned loss of \$14 million (-13% of net revenue), principally from the increased gross profit margin of \$95 million.

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## OEM REVIEW

## P&amp;L Summary

(in millions)

	Q96-2			FYTD96		
	Actual	% Plan	% Prior	Actual	% Plan	% Prior
Gross Revenue	\$715.2	147%	191%	\$1,234.4	138%	181%
Revenue Adjustments	(42.5)	nm	nm	(54.0)	nm	nm
Net Revenue	672.7	138%	175%	1,180.4	132%	161%
Cost of Revenue	37.4	141%	172%	61.0	122%	165%
Gross Margin	635.3	138%	175%	1,119.5	133%	161%
% of Net Revenue	94%	95%	94%	95%	94%	95%
Controllable Expenses						
People	7.3	93%	122%	13.9	90%	122%
Infrastructure	1.7	97%	138%	3.2	91%	134%
Other Misc Expenses	22.0	142%	171%	37.0	132%	146%
Marketing	2.7	55%	134%	4.8	49%	243%
Marketing Recovery	0.0	nm	nm	0.1	nm	nm
Direct Expenses	33.6	113%	153%	59.0	104%	144%
Distributions:						
G&A Costs	0.7	74%	144%	1.5	86%	157%
Net PSS	3.2	108%	3533%	6.5	107%	6802%
Distributions	3.9	100%	697%	8.0	102%	743%
Total Controllable Expenses	37.5	111%	166%	67.0	103%	160%
Responsibility Margin	597.8	140%	175%	1,052.5	135%	161%
% of Net Revenue	89%	88%	88%	89%	87%	89%
Shared Resources	0.1	67%	3%	0.2	67%	3%
Corporate Allocations	104.9	95%	113%	199.7	91%	113%
Contribution Margin	\$492.9	155%	201%	\$852.6	153%	181%
% of Net Revenue	73%	65%	64%	72%	63%	64%
\$ per head in thousands						
Average Headcount	227	256	206	222	252	206
Net Revenue per Employee	\$11,854	\$7,621	\$7,478	\$10,634	\$7,078	\$7,121
People and Infrastructure cost per head	\$158	\$149	\$139	\$154	\$150	\$134

## Business Highlights

- Windows 95 and processor growth drove OEM net revenue to a record quarter of \$673 million, and put the channel on track for \$2.5 billion in FY96 revenue. Q96-2 gross revenue was greater than plan across all regions, for an overall positive variance of \$227 million (47%). FYTD96 gross revenue of \$1.2 billion was 38% over plan and 81% over prior year.
- Authorized Replicator reports showed a 55/45% mix of Windows 95 to MS DOS. An estimated 11.5 million units of Windows 95 were sold through the OEM channel to end users.
- Shipments for some OEMs may slow because of shortages in hard drives and monitors throughout the world due to the continued rapid growth in the PC industry.
- The Japanese and Korean Windows 95 launches were both highly successful. In Japan, NEC, Fujitsu, and Hitachi all reported sharp increases in shipments. In Korea, the top five OEMs are preinstalling Hangeul Windows 95.
- Multinational PC companies continued to gain market share worldwide, generally at the expense of local middle-tier companies. Compaq, Dell, and Gateway 2000 all have a significant presence in Europe and the Far East.
- Cost of revenue includes a \$7 million charge related to an oversupply of keyboards held in inventory at December 31, 1995. Plans are being made to aggressively sell this inventory through the OEM channel in Q96-3.

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- Marketing expense was below budget due to delayed implementation of some marketing plans and delayed receipt of invoices from some joint marketing partners.
- Bad debt expense and revenue taxes (other miscellaneous expenses) for the quarter were driven by higher than budgeted revenue.

### Significant Customers

	Q96-2			YTD			Growth from 1H FY95
	Actual	Plan	Variance	Actual	Plan	Variance	
Top 10 Multi-National							
NEC	\$ 56.0	\$ 19.8	\$ (7.5)	\$ 77.3	\$ 31.0	\$ 46.3	\$ 61.1
Packard Bell	44.0	30.9	13.1	54.1	47.2	6.9	28.0
Compaq	42.9	41.1	1.8	85.6	91.3	(5.7)	11.4
IBM	40.9	23.1	17.8	81.2	39.5	41.7	51.5
Gateway 2000	36.5	34.6	10.6	62.8	66.9	(4.1)	15.8
Dell	34.4	16.4	18.0	58.4	30.3	28.1	37.2
Hewlett Packard	26.7	16.2	10.5	41.5	27.0	14.5	16.5
Toshiba	26.1	16.4	9.7	39.8	24.1	15.7	13.2
Acer	21.6	14.0	7.6	45.2	23.5	21.7	31.8
Digital	20.7	12.5	8.2	31.3	28.8	2.5	3.0
Vobis	16.8	5.9	10.9	19.6	10.7	8.9	14.6
Other Multi-National	84.9	60.9	24.0	168.4	122.8	45.6	84.8
Total Multi-National	451.5	291.8	159.7	765.2	543.1	222.1	368.9
DSP Accounts	82.9	53.6	29.3	137.2	90.0	47.2	62.7
Named Accounts	180.8	142.4	38.4	332.0	258.7	73.3	118.9
Gross Revenue	715.2	487.8	227.4	1,234.4	891.8	342.6	550.5
Revenue Adjustments	(42.5)	-	(42.5)	(54.0)	-	(54.0)	(103.6)
Net Revenue	\$ 672.7	\$ 487.8	\$ 184.9	\$ 1,180.4	\$ 891.8	\$ 288.6	\$ 446.9

- During the holiday season, Compaq, Hewlett Packard, NEC, and Acer fared especially well at the expense of IBM, Apple, AST, and Packard Bell.
- Delivery Service Partner (DSP) channel revenue of \$83 million in Q96-2 demonstrates strong growth in this distribution channel due to the lack of counterfeit Windows 95, availability of keyboards, and the shift of some lower-tier OEMs from the licensing channel.
- NEC reported record revenue, largely the result of Kanji Windows 95 and Windows 95 upgrades. NEC released 36 PC models pre-installed with Windows 95 on launch date.
- Packard Bell, whose pricing strategy has always included thin margins, further reduced its margin by reducing the price of its Pentium 75 PCs by 30% shortly before the holidays. The narrowing margins plus slightly eroding market share appear to be causing some financial difficulties. MS is closely monitoring our credit exposure and requiring frequent payments in order to continue doing business. Amounts due from Packard Bell are fully reserved. See *Accounts Receivable* section for additional information.
- An audit of Escom revealed significant under-reporting and lack of internal controls. Despite shipping large numbers of PCs, Escom's financial situation appears to be very unhealthy.

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## ADVANCED TECHNOLOGY REVIEW

## P&amp;L Summary

(in millions)	Q96-2						FYTD95					
	SoftImage		Other AT		Total WWAT		SoftImage		Other AT		Total WWAT	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$7.3	72%	\$0.0	0%	\$7.3	72%	\$15.3	82%	\$0.0	0%	\$15.3	82%
Cost of Revenue	1.8	62%	0.0	0%	1.8	62%	3.9	76%	0.0	0%	3.9	76%
Gross Margin	5.5	75%	0.0	0%	5.6	76%	11.4	84%	0.0	0%	11.4	84%
% of Net Revenue	76%		100%		76%		75%		0%		75%	
Controllable Expenses												
People	2.6	87%	1.9	87%	4.4	87%	5.2	85%	3.8	96%	8.9	89%
Infrastructure	0.6	80%	0.3	75%	0.9	78%	1.1	75%	0.7	78%	1.8	76%
Other Misc Expenses	0.2	113%	0.1	68%	0.3	94%	0.3	70%	0.1	47%	0.4	61%
Marketing	1.5	84%	0.9	37%	2.4	57%	3.1	86%	1.9	49%	5.0	67%
Marketing Recovery	0.4	nm	0.0	nm	0.4	nm	0.0	nm	0.0	nm	0.0	nm
Broad Reach	0.0	nm	0.0	nm	0.0	nm	0.0	nm	0.0	nm	0.0	nm
Direct Expenses	5.2	93%	3.2	62%	8.5	78%	9.6	84%	6.5	72%	16.1	79%
Distributions:												
MCS Costs	0.2	nm	0.0	nm	0.2	0%	0.2	nm	0.0	nm	0.2	nm
MCS Revenue	(0.2)	nm	0.0	nm	(0.2)	0%	(0.2)	nm	0.0	nm	(0.2)	nm
G&A Costs	0.0	13%	(0.0)	nm	0.0	11%	0.3	59%	0.1	nm	0.4	70%
PSS Costs	0.4	28%	0.1	0%	0.4	33%	1.1	41%	0.2	0%	1.2	47%
Distributions	0.4	22%	0.1	1656%	0.4	26%	1.3	42%	0.2	2609%	1.5	49%
Total Controllable Expenses	5.6	78%	3.3	63%	8.9	72%	10.9	75%	6.7	74%	17.6	75%
Responsibility Margin	(0.0)	nm	(3.3)	nm	(3.3)	nm	0.5	nm	(6.7)	nm	(6.1)	nm
Shared Resources	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%
Corporate Allocations	9.3	95%	0.0	0%	9.3	95%	17.4	91%	0.0	0%	17.4	91%
Contribution Margin	(\$9.4)	nm	(\$3.3)	nm	(\$12.7)	nm	(\$16.9)	nm	(\$6.7)	nm	(\$23.6)	nm

## SoftImage Highlights

- SoftImage net revenue for the quarter was \$7.3 million versus a plan of \$10.2 million. The shortfall in revenue was due to lackluster performance of two products: Toonz IRIX and 3D IRIX. The 3D NT product, planned for release in September, did not ship until the end of the quarter and generated only \$29,000 in sales versus plan of \$1.9 million.
- Silicon Graphics (SGI), Wavefront and Alias continued to impact 3D sales with an effective tactic of converting SGI hardware leads into

Wavefront/Alias software sales. In addition, SGI was able to create uncertainty regarding SoftImage's future on SGI hardware with their traditional customers and encouraged dealers not to support 3D NT sales. Cambridge Computer's Amino product also presented competition for Toonz as SoftImage reconsidered its long-term commitment to the product.

- Gross margin was unfavorable due to a higher than planned percentage of hardware in the sales mix.

## AT Sales Highlights

- ISDN license agreements with Bell Canada and US West were signed which will pay MS a \$30-40 access fee for each customer ordering ISDN through the MS Win 95 ISDN wizard.
- AT Sales gained approval for a new selling strategy named WOIF (Windows Open Internet Framework) leveraging MS's existing products focused on the Internet and aimed at network operators. A Customer Preview Event was held December 14-15 with a select group of high-level accounts with extremely positive feedback.

- Under the MiTV Lab Release Program, the first two systems were shipped to Korea Telecom and Rogers Cablesystems in Canada. These customers are now able to test and demonstrate MiTV at their site. In addition, six new agreements were signed under the Program, raising the number of network operators signed to fifteen. In support of MiTV, a conference was held in Seattle for OEM partners, attracting more than 150 attendees and resulting in more than 20 OEM MiTV marketing agreements.
- Q96-2 marked the first MSN Access deal outside the US with NTT. Revenue is expected in H96-2.

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resulting in more than 20 OEM MiTV marketing agreements.

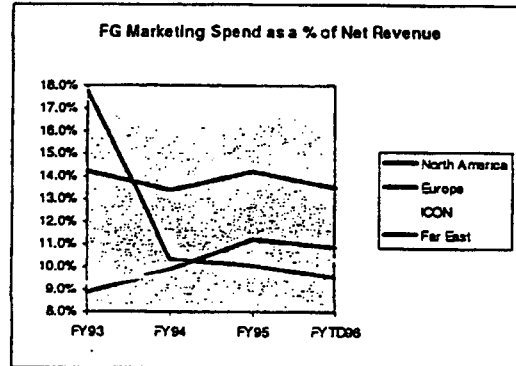
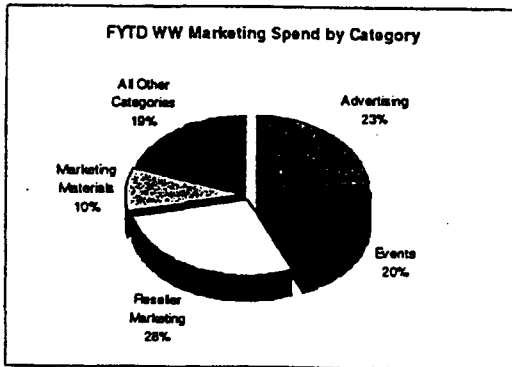
- Q96-2 marked the first MSN Access deal outside the US with NTT. Revenue is expected in H96-2.

**MARKETING REVIEW**

**FYTD96 Expenses by Channel**

(in thousands)

Division	North				Total			Total
	America	Europe	ICON	Far East	FG	OEM	Other	
Desktop Applications	\$59.0	\$25.2	\$5.6	\$9.9	\$99.6	\$0.0	\$13.2	\$112.8
Consumer Division	33.4	12.6	2.0	2.5	50.5	0.3	18.7	69.5
Personal Finance	3.3	0.0	0.0	0.0	3.3	0.0	0.0	3.3
Microsoft OnLine	0.0	0.0	0.0	0.0	0.0	0.0	3.1	3.1
Apps/Content Mgmt/Research	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business Systems Division	22.5	5.8	1.8	2.2	32.2	0.2	0.0	32.4
Personal Operating Systems	47.2	21.2	6.9	6.9	82.2	3.2	66.6	152.0
Developer Division	12.4	2.1	0.5	1.0	16.2	0.0	0.0	16.2
Consumer Systems	0.0	0.0	0.0	0.0	0.0	0.0	4.8	4.8
Other Operating Systems	0.0	(0.0)	0.0	0.0	(0.0)	0.0	0.0	(0.0)
Platform Management	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OPG Other	4.8	52.3	11.2	13.3	81.7	1.2	16.3	99.1
<b>Total</b>	<b>\$182.6</b>	<b>\$119.3</b>	<b>\$28.0</b>	<b>\$35.9</b>	<b>\$365.7</b>	<b>\$4.9</b>	<b>\$122.6</b>	<b>\$493.2</b>



- Q96-2 marketing spend increased 37% over prior quarter due to sustained marketing for Windows 95 and Office 95, Q96-2 Windows 95 launch in Japan, and holiday season reseller and consumer marketing campaigns.

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## MICROSOFT CONSULTING SERVICES REVIEW

## Results of Operations

(in millions)

	Q96-2			Q95-2		FYTD96		
	Actual	Plan	Var	Actual	Growth	Actual	Plan	Var
Net Revenues	\$39.7	\$33.9	\$5.8	\$20.9	90%	\$71.9	\$61.3	\$10.6
People	20.6	23.6	3.0	13.3	54%	38.8	44.6	5.8
Infrastructure	4.0	4.6	0.6	2.5	57%	7.6	9.0	1.4
Other	9.7	5.7	(4.0)	4.1	135%	17.9	11.0	(6.9)
Expenses	34.2	33.9	(0.3)	19.9	71%	64.3	64.6	0.3
Responsibility Margin	5.5	0.0	(5.5)	1.0	452%	7.7	(3.3)	(11.0)
Headquarter Allocations	1.2	1.9	0.7	0.9	31%	2.6	3.9	1.3
Contribution Margin	\$4.2	(\$1.8)	\$6.0	\$0.1	73%	\$5.0	(\$7.2)	\$12.2
Headcount	768	867	99	494	55%	768	867	99
Consultant Revenue/Head (a)	\$33	\$31	\$3	\$32	40%	\$61	\$56	\$5
Consultant Expenses/Head (b)	\$33	\$33	\$1	\$33	20%	\$63	\$64	\$0
Average Utilization	52%	53%		52%		53%	54%	

(a) \$ in thousands and excludes subcontractor revenue.

(b) \$ in thousands and excludes subcontractor expenses.

Note: Coris (acquired in FY96) has been excluded for comparative purposes.

## Business Results

- Q96-2 revenue exceeded plan by \$5.8 million due to strong demand for MCS services. FYTD MCS revenue totals \$72 million compared to planned revenue of \$61 million. FYTD MCS revenue increased 98% over the same period in FY95.
- Q96-2 consultant revenue was \$1.1 million below plan primarily due to below plan headcount and utilization.
- Subcontractor revenue was \$5.8 million above plan, growing 160% over Q95-2. Related subcontractor expenses exceeded plan by 85%. MCS utilizes subcontractors to meet business objectives and demand that cannot be fulfilled with existing resources.
- Worldwide MCS headcount was 11% below plan, mostly due to difficulties in hiring qualified candidates. As a result, people and infrastructure expenses were well below plan. Headcount grew 55% over Q95-2.
- Q96-2 corporate headquarters allocations were 32% below plan due to a combination of below plan headcount, product and program spending for MS Solutions Framework, and below plan practice review and development costs.
- Q96-2 and FYTD contribution margin exceeded plan by \$6.0 million and \$12.2 million, respectively. Above plan revenue and contribution margin were achieved through above plan subcontractor revenue and cost control efforts.

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## WORLDWIDE PSS

### Worldwide Gross PSS Cost and PSS Revenue for Finished Goods Channel

(in millions)	Q96-2						FYTD96					
	Actual			Plan			Actual			Plan		
	PSS Cost	PSS Rev	Recov %	PSS Cost	PSS Rev	Recov %	PSS Cost	PSS Rev	Recov %	PSS Cost	PSS Rev	Recov %
North America FG	\$96.0	\$15.0	16%	\$90.4	\$24.1	27%	\$164.5	\$26.3	16%	\$171.3	\$48.3	28%
Europe FG	38.9	9.4	24%	42.6	9.3	22%	72.3	18.0	25%	81.1	18.1	22%
ICDN FG	5.5	1.5	28%	8.8	1.2	18%	11.1	2.2	20%	13.2	2.4	18%
Far East FG	14.2	1.3	9%	17.1	3.0	18%	25.2	2.8	11%	31.6	5.8	18%
Total FG	\$154.6	\$27.2	18%	\$158.9	\$37.6	24%	\$273.1	\$49.3	18%	\$297.2	\$74.6	25%

### Worldwide Net PSS Cost as a Percentage of Finished Goods Channel Revenue

(in millions)	Q96-2				FYTD96			
	Actual		Plan		Actual		Plan	
	PSS Cost	Cost/Rev %	PSS Cost	Cost/Rev %	PSS Cost	Cost/Rev %	PSS Cost	Cost/Rev %
Consumer	\$7.7	6%	\$6.4	4%	\$12.4	6%	\$11.3	5%
Desktop (1)	35.6	4%	37.0	4%	64.2	4%	69.1	4%
POS (1)	51.3	18%	40.3	12%	84.1	11%	76.1	9%
Developer	16.6	13%	17.0	17%	31.3	15%	31.9	18%
BSD	16.2	6%	18.6	12%	31.8	8%	34.2	12%
Total Cost by Cluster	\$127.4	7%	\$119.3	7%	\$223.8	7%	\$222.6	7%

(1) Revenue adjusted for Desktop 95 channel inventory reserves.

### Business Highlights

- Worldwide net PSS costs for the Finished Goods (FG) channel were \$224 million, or 6.7% of FG revenue, and approximated plan on an FYTD basis. Gross PSS costs of \$273 million were 8% under plan largely due to below plan headcount as support incidents continue below plan. PSS revenue for the FG channel of \$49 million was 34% below plan primarily due to lower than plan fee-based incidents particularly in the US and Japan.
- PSS plans to announce enhancements to its support framework in the US in Q96-3. These enhancements are designed to help improve the cost recovery of fee-based support, meet FY96 and FY97 cost objectives, and introduce new fee-based support options that meet customer requirements. Worldwide roll-out will follow within a six-month timeframe based on customer requirements.
- Domestic customer satisfaction ratings on Desktop applications support services reached an all-time high of 75% "very satisfied" in Q96-2. The upward trend in the Desktop rating over the past three quarters was driven by increases in ratings for support delivered by both internal MS personnel and outsource partners.
- PSS Online/Internet Services improved its World Wide Web Support Online site by adding advanced graphical download and access features, a password-protected information area for annual support to contract customers, including a beta of the new Web-based tool for incident submission, and more efficient search tools.
- Domestic PSS launched full mission critical support for the Exchange beta release. This is the first time MS has provided full production level support for a pre-release product.
- PSS extended its standard, no-charge support hours for MS Home products and Windows 95 during the December 25 through January 1 holiday in the US.
- Responding to increased international sales of TechNet, PSS released a separate international TechNet CD devoted solely to content provided by MS subsidiaries.
- MS Support signed Intel Corporation as its third Premier Global contract.
- Staffing and employee training at the new PSS Tucson, Arizona, site is on target to begin receiving customer support calls in mid-January.

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## Q96-2 Average Daily Call Volume - Domestic

Product	Average	Daily # of Calls		Handled	Average
	Duration (min)	Offered	Handled	Ratio	Delay (min)
Windows 95	31	9,039	8,967	99 %	0.4
WinWord	13	4,636	4,575	99	0.4
Access	14	3,986	3,952	99	0.2
WinExcel	12	3,131	3,071	98	0.4
Windows	18	814	774	95	2.0
MacWord	13	911	896	98	0.5
Windows for Workgroups	20	631	609	97	1.8
MS-DOS	19	449	423	94	2.0
Fox Pro	18	436	428	98	0.6
Windows NT	27	352	337	96	1.3
Other	nm	18,945	18,628	98	nm
PSS Weighted Average	20	32,291	31,693	98	0.6

The *handled ratio* is the percentage of customer calls that reach a support engineer; the remainder of the customers abandon prior to reaching an engineer. *Average delay* is the length of time that a customer spends in the queue waiting to reach a support engineer.

- Overall handled ratios are up and average delays down because PSS effectively handled incident demand generated from recent product releases including Windows 95, Office 95 and Visual Basic 4.
- Average call duration increased from 15 to 20 minutes during Q96-2. This increase reflects an increase in the total number of Windows 95 calls handled during the quarter even though the Windows 95 call time dropped from 37 to 31 minutes.

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## GENERAL &amp; ADMINISTRATIVE

	Q96-2							
	Actual		Plan		% of Plan	Prior Year		Change
ITG	\$60.5	36%	\$55.7	33%	109%	\$42.4	34%	43%
Finance	13.3	8%	13.0	8%	102%	11.4	9%	17%
Human Resources	32.7	20%	32.8	19%	100%	23.1	19%	42%
MS Services Group	13.9	8%	15.8	9%	88%	9.5	8%	46%
Real Estate	20.0	12%	25.8	15%	77%	15.2	12%	32%
Legal	18.4	11%	22.2	13%	83%	17.3	14%	6%
Executive and Other	7.4	4%	5.7	3%	130%	5.8	5%	27%
Total G&A	166.1	100%	170.8	100%	97%	124.7	100%	33%
Distributions to domestic departments	(92.2)	(56%)	(95.9)	(56%)	96%	(62.7)	(50%)	47%
Total	\$73.9	44%	\$74.9	44%	99%	\$62.0	50%	19%

	FYTD 96							
	Actual		Plan		% of Plan	Prior Year		Change
ITG	\$109.7	35%	\$108.9	33%	101%	\$79.8	33%	37%
Finance	24.0	8%	24.9	7%	96%	20.9	9%	15%
Human Resources	61.4	20%	65.2	20%	94%	47.1	19%	30%
MS Services Group	28.9	9%	32.5	10%	89%	21.1	9%	37%
Real Estate	38.7	12%	46.8	14%	83%	31.1	13%	24%
Legal	37.9	12%	44.6	13%	85%	29.8	12%	27%
Executive and Other	11.6	4%	11.1	3%	105%	12.9	5%	(10%)
Total G&A	312.1	100%	334.0	100%	93%	242.8	100%	29%
Distributions to domestic departments	(175.7)	(56%)	(186.2)	(56%)	94%	(129.7)	(53%)	35%
Total	\$136.5	44%	\$147.8	44%	92%	\$113.1	47%	21%

- Total general and administrative costs include functional corporate cost centers that support MS on a worldwide basis such as legal services, corporate finance, and IT project development, and certain expenses to support domestic headcount departments such as employee benefits, facilities costs, infrastructure operation, and administrative services.
- For financial reporting, the latter costs are distributed to domestic product, sales, and administrative groups and included in people and infrastructure expenses as general, building, and grounds costs. For internal channel and product management reports, net corporate G&A costs are allocated as a portion of corporate allocations.
- ITG costs include application development, regional support, and distributed infrastructure costs. These costs are driven primarily by demand from supported organizations for new technology and tools, support of existing systems, and increased demands on the corporate network.
- Human Resources includes functional support such as recruiting, employee development, payroll, and stock administration as well as distributed employee benefit costs including health insurance, 401(k) match, and health club dues. These costs are primarily driven by increases in domestic headcount.
- MS Services groups provide administrative support including building services, library services, mail, food and beverage, administrative procurement, travel services, and copy centers.
- Real Estate & Construction costs include functional costs related to facilities planning and development, and direct facilities infrastructure costs such as building depreciation, rent, utilities, and maintenance. These costs are also driven primarily by increases in domestic headcount.
- Finance, legal, and executive costs are corporate functional groups supporting MS on a worldwide basis.

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## INFORMATION TECHNOLOGY

- ITG development costs were \$5.1 million over plan in Q96-2 primarily due to consulting costs in excess of plan, and approved variances on certain projects like SAP. Infrastructure costs approximated plan. FYTD ITG development costs are \$4.7 over plan, offset by underplan infrastructure costs of about \$3.9 million.
- The company is in the process implementing a plan to distribute development responsibility and resources to the business units allowing them to directly manage development projects and to assume P&L responsibility for application development costs.

## Major Development Projects

Project	FYTD	Plan	Beta Date	Comments
MS Product	\$1,828	\$3,000	N/A	Product released; v1.1 update underway
Net SR	1,380	2,885	Nov-95	Beta 1 released; follow-on beta's on schedule
Compass	1,709	1,900	Jan-96	Beta release on schedule
OEM Forecasting 3.0	1,025	900	Nov-95	Release imminent; cost complete
MS Manager	2,036	1,910	Oct-95	Version 3.2 releasing now
MS Sales ++	1,209	1,037	Dec-95	Early Beta release; support until 2/5/96
SAP	2,071	2,400	Mar-96	Phase 1 testing and delivery underway
Genesis	1,536	2,800	N/A	Outsourced Distr. Ph. 1 completed

- MS Product completes the roll-out of this project that began in FY95. This project incorporates OEM products, MS Press, Marketing parts, FE products, and MSN into the system. This phase also integrates this system with other systems such as Infobase.
- Net SR provides corporate and end-users an electronic means for requesting service via MSN. Also includes customer front-end tools for MSN, billing interfaces to MSN and issue router functionality to escalate or transfer issues between sites.
- Compass is a new support tool for the Corporate Support and Premier segments of the PSS business replacing the current SR/Man tool. The new system will enhance product support service delivery from a quality and efficiency standpoint for major Microsoft customers.
- OEM Forecasting v3.0 is a reporting and forecasting system. It provides the functionality necessary to implement forecasting with monthly frequency required to predict revenue in absence of min-commit contracts.
- MS Manager is a cross-functional application that is distributed across North America, ICON, FE, and Europe. It supports PSS, account management, and direct marketing activities in the subsidiaries in which it is deployed. Manager centralizes a significant portion of customer data in a central data warehouse.
- MS Sales ++ is expected to provide an integrated view of worldwide channel data, including purchases, sales, and inventory of Microsoft's channel partners, giving users the ability to analyze the effectiveness of sales and marketing programs, representatives, and channel activity.
- SAP project will implement SAP financial software on NT and SQL Server worldwide to replace the current ROSS, subsidiary MacPac, and Platinum Systems with a central corporate general ledger, and provide a worldwide, integrated administrative procurement system and fixed asset ledger. FY96 costs are expected to exceed plan by approximately \$5 million primarily due to the acceleration of this project.
- Genesis is a tool to re-engineer the North American Supply Chain by moving CPC from a "push" model to a "pull" model for replenishment and just-in-time production through better forecasting and coordination of suppliers and distribution channels.

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**REAL ESTATE & CONSTRUCTION**

**Worldwide Facility Distribution & Capital Spending**

(\$ in millions, square feet in thousands)

Location	Facilities Distribution		Q96-2 Capital Spend			FYTD96 Capital Spend			FY96
	Square Feet	Mix	Actual	Plan	Variance	Actual	Plan	Variance	Plan
Puget Sound	3,840	54%	\$46.6	\$82.8	\$36.2	\$115.1	\$192.0	\$77.0	\$293.9
Other Domestic	1,106	16%	3.0	7.7	4.7	4.0	12.1	8.2	19.1
International	2,078	30%	18.0	5.8	(12.3)	33.2	30.1	(3.1)	33.0
	<u>7,026</u>	<u>100%</u>	<u>\$67.6</u>	<u>\$96.3</u>	<u>\$28.6</u>	<u>\$152.3</u>	<u>\$234.2</u>	<u>\$82.0</u>	<u>\$346.0</u>

- Worldwide space capacity is now over 7 million square feet. In December, MS completed two additional buildings at the Redmond West Campus adding over 250,000 square feet to the portfolio. The final building is scheduled for opening in March. Building 27 on the main Campus was completed in December and is scheduled for occupancy in early January. This building will add 208,000 square feet to the portfolio.
- During December, MS received approval from the City of Redmond to clear a site for Buildings 30, 31, and 32 on the northeast corner of the Campus. We expect the building permit will be approved in Q96-4 and building completion is estimated in Q97-3. When completed, these buildings will add 365,000 square feet to the portfolio and capacity for 1,500 people. The total cost of this project is \$116 million, with the majority of the spending to occur in FY97.
- The first phase of the WPGI building in Ireland has been completed and the Desktop Product Group moved in during late December. The remaining buildings are expected to be finished in Q96-3. Upon completion this project will add 80,000 square feet to the portfolio at a total cost of \$19 million.
- MS signed a five-year lease for a 32,000 square foot building in the Canyon Park area. The facility will be used as a backup ITG data center. The tenant improvements are expected to begin in Q96-4 with completion during Q97-2.

**Puget Sound Capital Spending**

	YTD		Variance	FY96
	Actual	Budget		Budget
Committed Projects	\$89.2	\$119.7	\$30.5	\$138.6
Tenant Improvements	16.4	40.6	24.2	70.6
Furniture & Fixtures	5.3	8.8	3.5	15.2
New Construction	1.6	9.2	7.6	46.6
All Other	2.6	13.7	11.1	22.9
	<u>\$115.1</u>	<u>\$192.0</u>	<u>\$76.9</u>	<u>\$293.9</u>

- FYTD capital spending is below plan due to timing differences between actual and plan, but is expected to approximate plan by year end.
- The FY96 capital budget for the Puget Sound region consists primarily of spending on committed projects (like Redmond West and Building 27), tenant improvements on new sites and existing buildings (like remodeling of buildings 1-6 and the ITG data center) and new construction.
- New construction represents Campus projects expected to occur through FY98. When completed, these buildings will add over 1.5 million square feet to the existing Campus portfolio. As noted above, construction on the first set of buildings is expected to begin in Q96-4. If building permits are approved, the remaining projects will start in FY97 subject to executive approval and space needs. Total capital spending on these projects is estimated at \$500 million over the next three years.

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**SUMMARY OF DISTRIBUTED G&A COSTS**

(in millions)

	Q96-2			FYTD96		
	Actual	Plan	% of Plan	Actual	Plan	% of Plan
<b>ITG</b>						
Depreciation	\$8.7 27%	\$10.9 34%	80%	\$16.6 29%	\$20.9 34%	80%
Maintenance & Repairs	\$3.4 11%	\$2.4 7%	141%	\$5.1 9%	\$4.8 8%	107%
Telecommunications	6.7 21%	6.2 19%	109%	12.7 22%	11.7 19%	109%
Contract & temporary labor	6.8 21%	5.4 17%	125%	12.2 21%	10.9 18%	112%
Payroll & taxes	3.7 12%	4.2 13%	89%	7.1 12%	8.0 13%	89%
Other	2.3 7%	2.8 9%	82%	4.1 7%	5.6 9%	73%
	<u>31.6 100%</u>	<u>31.9 100%</u>	99%	<u>57.9 100%</u>	<u>61.8 100%</u>	94%
<b>Human Resources</b>						
Health benefits	13.3 53%	14.0 57%	94%	25.4 55%	27.3 56%	93%
401(k) match	3.4 14%	3.6 15%	94%	7.5 16%	8.2 17%	91%
Health clubs	1.5 6%	1.3 5%	111%	2.9 6%	2.5 5%	112%
Other	6.6 27%	5.5 23%	120%	10.7 23%	10.9 22%	98%
	<u>24.8 100%</u>	<u>24.5 100%</u>	101%	<u>46.5 100%</u>	<u>49.1 100%</u>	95%
<b>MS Services Group</b>						
Copy Center	2.6 28%	2.8 25%	93%	5.6 28%	5.5 24%	102%
Information/Support Services	2.0 22%	2.6 24%	78%	4.7 24%	5.1 22%	93%
Food & Beverages	2.5 28%	2.1 20%	118%	4.9 24%	4.2 18%	115%
Mail Center	1.9 21%	2.3 21%	84%	4.0 20%	4.5 20%	88%
Media Services	2.1 23%	1.6 15%	126%	3.8 18%	3.2 14%	110%
Corporate Events/Store	(0.4) (4%)	(0.4) (4%)	87%	(0.6) (3%)	0.6 3%	(91%)
Travel Services	(1.6) (18%)	(0.1) (1%)	nm	(2.1) (10%)	(0.2) (1%)	nm
	<u>9.1 100%</u>	<u>10.8 100%</u>	84%	<u>20.0 100%</u>	<u>22.9 100%</u>	87%
<b>Real Estate</b>						
Rent & Utilities	4.6 25%	7.1 29%	64%	11.1 31%	14.1 32%	79%
Depreciation	6.6 36%	7.9 32%	84%	12.9 36%	14.6 33%	88%
Maintenance & Repairs	1.8 10%	1.7 7%	109%	3.1 9%	3.3 8%	93%
Other	5.4 29%	7.8 32%	69%	9.0 25%	12.1 27%	74%
	<u>18.4 100%</u>	<u>24.5 100%</u>	75%	<u>36.1 100%</u>	<u>44.2 100%</u>	82%
<b>Other</b>	8.2	4.2	196%	15.1	8.2	183%
<b>Total</b>	<u>\$92.2</u>	<u>\$95.9</u>	96%	<u>\$175.7</u>	<u>\$186.2</u>	94%

- Distribution costs are categorized as service costs to the company where the distributing group controls the unit cost and the receiving business unit drives unit consumption. For example, Human Resources manages benefit costs per person, but increases in company headcount drive total benefit costs.
- Distributed ITG infrastructure expenses are under plan Q96-2 and FYTD primarily due to a positive variance in depreciation and amortization as a result of actual purchases lagging plan. FYTD telecommunications expense are approximately \$1.0 million over plan primarily due to higher than anticipated usage, while rates remain within budget. Contract labor is over plan due to a lower than planned conversion of contractors to employee status.
- Distributed HR costs approximated budget in Q96-2 and under plan for the year primarily due to below plan domestic headcount.
- Distributed MSG costs are below plan for Q96-2 and FYTD, with food and beverages costs and media center expenses over plan primarily due to unanticipated usage.
- Distributed real estate costs are below plan in Q96-2 and FYTD primarily due to lower housed headcount than planned, depreciation costs related to lower than planned capital spending which should catch up by year end, and lease income from Cascade Place not anticipated in the FY96 plan. Additionally, utility costs were lower than plan due to lower than expected headcount and below normal water usage on the sports fields as a result of the Windows 95 launch.

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## COMPARATIVE BALANCE SHEET AND CASH FLOW

## Balance Sheet

(in millions)

	Q96-2		Q96-1		Change
<b>Assets</b>					
<b>Current assets:</b>					
Cash and short-term investments	\$6,017	66%	\$5,064	62%	\$953
Accounts receivable - net	771	8	1,052	13	(281)
Inventories	108	1	125	2	(17)
Other	207	2	176	2	31
Total current assets	7,103	78	6,417	79	686
Property, plant and equipment, net	1,297	14	1,265	16	32
Other assets	706	8	478	6	228
<b>Total assets</b>	<b>\$9,106</b>	<b>100%</b>	<b>\$8,160</b>	<b>100%</b>	<b>\$946</b>
<b>Liabilities and stockholders' equity</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 651	7%	\$ 621	8%	\$ 30
Accrued compensation	148	2	103	1	45
Unearned revenue	509	6	307	4	202
Income taxes payable	680	7	522	6	158
Other	253	3	206	3	47
Total current liabilities	2,241	25	1,759	22	482
Minority interest	125	1	125	2	0
Put warrants	560	6	537	7	23
<b>Stockholders' equity:</b>					
Common stock and paid-in capital	2,285	26	2,172	28	113
Retained earnings	3,895	43	3,567	44	328
Total stockholders' equity	6,180	69	5,739	71	441
<b>Total liabilities and stockholders' equity</b>	<b>\$9,106</b>	<b>100%</b>	<b>\$8,160</b>	<b>100%</b>	<b>\$946</b>

- Cash and short-term investments grew nearly \$1 billion during the quarter and exceed \$6 billion at December 31, 1995.
- Accounts receivable declined during the quarter reflecting payments and returns related to Q96-1 sell-in of Windows 95 and Office 95.
- Inventories decreased to more normal levels in Q96-2 after the build-up of product related to the release of Windows 95 in Q96-1. Inventories of Desktop 95 and keyboards considered to be in excess of demand have been fully reserved.
- Other long-term assets grew during the quarter primarily due to significant increases in the market value of publicly traded investments held by MS, particularly UUNet, which are required by GAAP to be "marked to market" (i.e., adjusted up or down to market value with resulting change charged to retained earnings). In addition, MS acquired intellectual property totaling \$67 million during the quarter and sold its position in Dorling Kindersley.
- Unearned revenue relates primarily to revenue deferred on 16-bit versions of Office pending coupon upgrade to Office 95 and unearned Windows 95 revenue recognized over the life cycle of the product.
- Stockholders' equity was \$6.2 billion at December 31, 1995. This \$441 million increase during the quarter reflects earnings and a \$150 million increase in the market value of other assets, net of stock repurchases totaling \$373 million.

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**Cash Flow Summary**

(in millions)

	Q96-2	Q96-1	Change
Beginning cash and short-term investments	\$ 5,064	\$ 4,750	\$ 314
Net income	575	499	76
Depreciation and amortization	78	69	9
Change in accounts receivable	275	(467)	742
Change in inventories	17	(37)	54
Change in other assets	(32)	26	(58)
Change in liabilities	484	410	74
Cash flow from operations	1,397	500	897
Cash provided from stock issued, net of buyback	(255)	27	(282)
Cash used for purchase of property and equipment	(83)	(116)	33
Cash used for long-term investments	(105)	(98)	(7)
Effect of exchange rates on cash	(1)	1	(2)
Ending cash and short-term investments	\$ 6,017	\$ 5,064	\$ 953

- Cash from operations benefited from strong operating results, collection of accounts receivable related to Windows 95, and a significant increase in current liabilities, consisting mainly accrued taxes and unearned revenue.
- During Q96-2, Microsoft bought back 4 million shares of stock for \$373 million.

**CAPITAL MARKET ACTIVITIES****Portfolio Management - Family of Funds**

	Cash & Money Mkt	Enhanced Money Mkt	Short Term	Intermediate	Opportunity	Total
<b>Portfolio Allocation:</b>						
Q96-1	26%	24%	28%	21%	2%	100%
Q96-2	31%	23%	24%	19%	2%	100%
<b>Balances (in millions):</b>						
Q96-1	1,231	1,160	1,331	1,015	90	4,828
Q96-2	1,795	1,331	1,388	1,051	114	5,678
<b>Total Rate of Return (Pre-tax) %:</b>						
Q96-1	6.22%	6.39%	8.20%	8.24%	19.25%	7.27%
Q96-2	6.05%	6.89%	11.33%	14.89%	2.83%	9.22%

\* Annualized data is provided for illustrative purposes. Past performance is not meant for use as a predictor of future results.

- Relative to Q96-1, the Q96-2 allocation of cash balances across the Family of Funds was adjusted slightly to emphasize shorter-term funds.
- Total portfolio returns increased significantly over the prior quarter's performance primarily due to the increase in market value associated with declining interest rate environments.

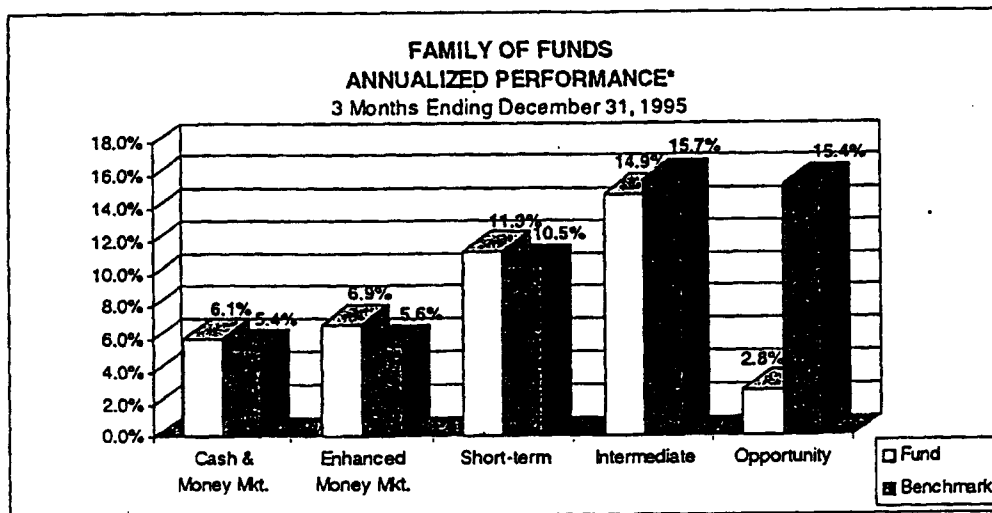
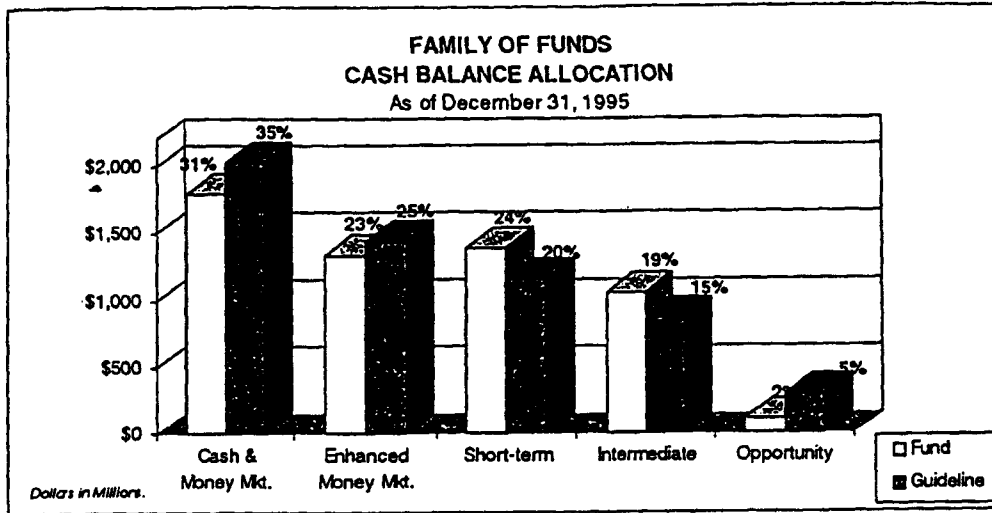
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- During Q96-2, the Federal Reserve cut short-term interest rates one quarter percentage point to 5.5%. Year-over-year CPI inflation of 2.5% provided the primary justification for this Federal Reserve policy action.
- Market interest rates matching the maturities of the MS Family of Funds fell during the quarter. Specifically, three month US Treasury Bill yields fell 30 basis points to 5.1% and five year US T-Note yields fell 60 basis points to 5.4%. These declines in interest rates led to security price appreciation.
- Due to the expectation of price appreciation and the positive slope of the yield curve, the longer maturity Funds were positioned to have slightly larger cash allocations than guidelines.
- Annualized quarterly returns for the Short-term and Intermediate Funds, representing 44% of the portfolio, exceeded 11%. These returns were 4.4% to 8.8% above the returns of the Cash and Enhanced Money Market fund\*

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**ACCOUNTS RECEIVABLE**

**Worldwide Accounts Receivable**

(in millions)

	DSO				Aging Summary				
	Q95-3	Q95-4	Q96-1	Q96-2	Total	Current	1-30	31-60	60+
Finished Goods									
North America	36	35	60	91	\$323	\$284	\$22	\$2	\$16
Europe	60	49	72	69	507	359	108	23	17
Far East	66	46	56	49	161	146	10	4	1
AIME	76	78	85	108	24	19	3	2	0
APAC	72	78	91	180	109	88	10	8	3
Latin America	136	144	132	158	81	49	16	4	12
Total Finished Goods	56	46	69	77	1,205	945	169	43	49
OEM	30	27	29	26	172	74	82	5	11
MSN					1	1	0	0	0
Other					61	23	8	12	17
Total accounts receivable	48	42	60	61	1,439	\$1,043	\$259	\$60	\$77
Reserves for sales returns					(987)				
Allowance for doubtful accounts					(175)				
Reseller rebates					(28)				
Customer deposits					(21)				
Earned, unbilled revenues					543				
Accounts receivable-net					\$771				

- Worldwide total accounts receivable declined from \$2 billion at the end of Q96-1 to \$1.4 billion due to a combination of major payment receipts within revised terms and returns credits for Desktop 95 products.
- Europe's accounts receivable balance declined from \$586 million at the end of Q96-1 to \$507 million at the end of Q96-2 due to terms extended to EOC customers requiring 65% of Windows 95 invoices to be paid by end of December. By contrast, North America's accounts receivable dropped from \$960 million to \$323 million.
- Worldwide DSO increased from 60 to 61 days with improvements from Q96-1 in Europe, OEM, and the Far East, offset by significant increases in Latin America, APAC, AIME, and North America due to extended terms on sales of Desktop 95.
- Select and MOLP revenue increased from 8% of total net revenue at the end of Q96-1 to 18% at the end of Q96-2. Select and MOLP related accounts receivable included above total \$270 million, 50% of which is non-current due to continuing billing problems and pricing disputes.
- Reserves for sales returns decreased from \$1.3 billion to under \$1 billion as unusually high accounts receivable balances related to sell-in of Desktop 95 in Q96-1 were reduced through payments and return credits.
- Desktop 95 product returns credits for major US customers totaled \$329 million in FYTD with an additional \$101 million to be processed. Negotiations are in progress for additional returns by major customers in Europe and sales returns reserves appear adequate to cover amounts being discussed.

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## Accounts Receivable of the Ten Largest Customers Worldwide

(in millions)

	Total		Aging Summary			
	Balance	Percent	Current	1-30	31-60	Over 60
Ingram	\$237	16%	\$206	\$20	\$9	\$2
Merisel	127	9%	118	8	0	1
Computer 2000	62	4%	47	12	2	1
Tech Pacific	49	3%	41	4	3	1
GT Interactive Software	43	3%	44	(1)	0	0
Packard Bell	35	2%	14	21	0	0
Hewlett Packard	24	2%	0	23	1	0
Catena	23	2%	23	0	0	0
CHS Electronics	23	2%	18	4	0	1
Olivetti	22	2%	12	8	1	1
<b>Total ten largest</b>	<b>645</b>	<b>45%</b>	<b>523</b>	<b>99</b>	<b>16</b>	<b>7</b>
Other	794	55%	520	160	44	70
<b>Total Q96-2</b>	<b>\$1,439</b>	<b>100%</b>	<b>\$1,043</b>	<b>\$259</b>	<b>\$60</b>	<b>\$77</b>
<b>Total Q96-1</b>	<b>\$2,038</b>		<b>\$1,750</b>	<b>\$159</b>	<b>\$57</b>	<b>\$72</b>

Aging mix of top ten	81%	15%	3%	1%
Aging mix of total	73%	18%	4%	5%
Aging mix of Q96-1 (total)	86%	8%	3%	3%

- Among major customers, Packard Bell owes MS a total of \$35 million, of which \$21.5 million was delinquent as of December 31, 1995. Negotiations are under way to develop a payment plan to moderate risk from this account. Including November and December usage reports that have not yet been received, total exposure exceeds \$50 million.
- Total accounts receivable for the top ten worldwide customers accounted for 45% of the total at December 31, 1995, down from 65% at the end of Q96-1. This decrease reflects receivable payments and returns credits related to Desktop 95 products from these major customers.

## INVENTORY

(in millions)

	Inventory Balances						
	Q96-2					Q96-1	Change
	North America	Europe	ICON	Far East	Total		
Raw Materials	\$44	\$12	\$7	\$2	\$65	\$60	\$6
Work in Process	5	1	0	0	6	4	3
Finished Goods	103	19	11	6	139	97	42
Gross Inventory	153	32	18	9	211	160	51
Reserves for obsolescence	(77)	(14)	(8)	(4)	(103)	(36)	(67)
Net finished goods inventory	\$76	\$18	\$10	\$5	\$108	\$125	\$(17)

- Gross inventories increased \$51 million during the quarter primarily due to the combination of returns and over supply of Desktop 95 products and increased keyboard inventories, primarily in North America. Obsolete inventory reserves were increased by \$67 million during the quarter to offset this increase as supply for these products significantly exceeds current demand.

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## PROPERTY, PLANT, &amp; EQUIPMENT

(in millions)

	Q96-2	Q96-1	Increase
Land	\$206	\$206	\$0
Buildings	\$720	\$673	\$47
Leasehold Improvements	\$156	\$147	\$9
Furniture and Equipment	\$261	\$247	\$14
Computer Equipment	\$737	\$671	\$66
	<u>\$2,080</u>	<u>\$1,944</u>	<u>\$136</u>
Accumulated Depreciation	(\$783)	(\$679)	(\$104)
Total	<u>\$1,297</u>	<u>\$1,265</u>	<u>\$32</u>

- Increases in buildings primarily reflect construction of Redmond West and Building 27. For additional details, see the Real Estate and Construction section.

## OTHER ASSETS

(in millions)

	Cost			Market Value(if public)		
	Q96-2	Q96-1	Change	Q96-2	Q96-1	Change
<b>Financial assets</b>						
TCI (MOSP J.V.)	\$125	\$125	\$0	\$148 (a)	\$134 (a)	\$13
Wang	84	84	-	-	-	-
Stac Inc.	38	38	-	64	-	64
Mtel	30	30	-	37 (b)	54 (b)	(17)
Santa Cruz Operation	20	20	-	26	35	(9)
Dorling Kindersley	-	19	(19)	-	99	(99)
UUNet	16	16	-	262	193	70
MicroUnity	15	15	-	-	-	-
Individual	11	-	11	-	-	-
Lightspan	10	10	-	-	-	-
Metricom	6	6	-	3	5	(2)
Academic Systems	4	4	-	-	-	-
On Australia (Telecom JV)	3	3	-	-	-	-
Monotype	3	3	-	-	-	-
DreamWorks Interactive	-	2	(2)	-	-	-
DreamWorks	2	2	-	-	-	-
Citrix Systems	2	2	-	-	-	-
ASCII NT	1	1	-	-	-	-
	<u>370</u>	<u>380</u>	<u>(10)</u>	<u>\$541</u>	<u>\$520</u>	<u>\$21</u>
Valuation allowance	(77)	(73)	(4)			
Mark to market	150	-	150			
<b>Net financial assets</b>	<u>443</u>	<u>307</u>	<u>(14)</u>			
Intellectual property rights	207	140	67			
Accumulated amortization	(81)	(61)	(20)			
<b>Net intellectual property rights</b>	<u>126</u>	<u>79</u>	<u>47</u>			
L/T Loans & Other	137	92	45			
<b>Total other assets</b>	<u>\$706</u>	<u>\$478</u>	<u>\$78</u>			

- a) Valuation includes 1,388,888 shares of Liberty Media.  
b) Excludes MS's 1.4 million warrants in Mtel, 1.1 million of which have certain performance requirements, with an estimated current market value in excess of \$5 million.

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- Total financial assets include equity and equity-related investments. MS maintains allowances to cover operating losses and declines in the estimated value of non-public investments and mark to market adjustments for publicly traded investments.
- Market values of investments in public companies increased by \$21 million during the quarter, primarily due to a significant increase in the per share value of UUNet related to "Internet hype" in the public markets. This increase was offset by the sale of Dorling Kindersley.
- Intellectual property rights represent purchased code or other intellectual property and rights. IPR costs in excess of \$1 million are capitalized and amortized as a product development cost over periods of up to five years. IPR increased \$67 million in Q96-2 including acquisitions related to the Bruce Artwick Organization (\$34 million), Funk & Wagnalls (\$15 million), Netwise (\$13 million), and Blue Ribbon Soundworks (\$5 million).
- Long-term loans and other increased due to additional loans of \$5 million to UUNet, and a tax-related investment in Credit Commercial de France.

#### Highlights of Current Investments

(See Appendix for additional details)

- Stac Electronics, Inc changed its name to Stac, Inc. On November 9, 1995, preferred stock held by MS was converted into 4,458,746 shares of publicly traded common stock.
- SCO completed the acquisition of Unixware from Novell on 12/6/95, but faces strong competition from HP to hire "desired Unixware personnel." SCO delayed its FY95 earnings by three weeks due to additional work required in their European Operations and posted a loss in the 4th quarter resulting in their stock dropping from \$8 to \$6½ per share. MS is currently negotiating the sale of its investment and a buy-out of the Unix royalty agreement with SCO.
- On November 15, UUNet acquired 90% of the outstanding shares off Unipalm Group PLC, the largest provider of Internet services in Europe and the largest Internet access provider in the United Kingdom, for \$154 million in stock. UUNet also announced its intention to acquire 40% of EUNET Germany, another of Europe's leading Internet providers, with 30 POPs.
- First chips were produced by MicroUnity in December 1995, but yields are still far from target. Current cash will last until March 1996. MicroUnity is seeking to raise between \$60 and \$120 million in the first quarter of 1996.
- Individual, Inc. has 90,000 users of its news services and offers content from over 600 news sources. It is considering filing an IPO in the near future.
- Lightspan expects to raise more financing mid-1996. Products going into production after December 1, 1995 are simultaneously programmed for the Windows, Macintosh and PlayStation platforms.
- The "On Australia" Telecom JV is refocusing and realigning with MS' MSN/Internet strategy, and will exist solely as a provider of Internet related services exclusively using MS software and APIs. Seven to nine employees are likely to be transferred to MS or terminated within three months.
- In November 1995, MS concluded a restructure of its \$2.8 million investment in Monotype. The restructured agreement provides for the long-term maintenance of the font library by Monotype in return for a plan that allows Monotype to increase its ownership over a 16-year vesting schedule.
- Vanstar, as of November 30, 1995, had hired 124 software engineers of which 35 achieved the MS Certified System Engineer status. Vanstar filed a Form S-1 Registration Statement and plans to go public mid-February.

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**New Deals****Bruce Artwick Organization, Ltd.**

- On November 4, 1995, MS acquired the non-financial assets of the Bruce Artwick Organization, Ltd. (BAO), the creator of Flight Simulator and Space Simulator. Consideration will total up to \$41 million as follows: \$34 million paid on 1/2/96; \$2 million over three years for the consulting services of Bruce Artwick; and \$5 million in contingent payments tied to performance of the next three years.
- The acquisition terminates our 20% royalty on Flight Simulator and Space Simulator and implies a royalty savings of over \$6.5 million per year. The acquisition is also expected to enable MS to create a broader family of
- Out of 18 offers, we hired 16 BAO developers, all of whom will be relocating to Redmond to join the Consumer Division under Tony Garcia.

**Netwise, Inc.**

- On October 27, 1995, MS acquired the intellectual property assets of Netwise, Inc. for \$12.5 million in cash, plus the assumption of \$500,000 of wind-down expenses.
- Netwise is a Boulder, CO based developer of mainframe gateway/connectivity products that integrate mainframe (MVS) legacy systems, including both applications and data, directly into new client-server systems. It employed 51 people, 27 of whom have become MS employees.
- The acquisition is intended to bolster our BackOffice strategy by enabling integration with IBM mainframe transaction processing applications. The approach will be two pronged. First, MS will offer a shrink-wrapped version of Netwise's TransAccess that requires no MS/Netwise code on the mainframe. Second, MS will exploit the technology to give SQL Server the ability to communicate with CICS or IMS transactions as OLE Transaction objects. Netwise's products also give MS Consulting Services a toolset for projects requiring client-server to mainframe integration.
- In calendar 1994, Netwise had revenue of \$4 million and a net loss of \$3.4 million. For the nine months ended September 30, 1995, revenue was \$2.6 million, with a loss of \$2.4 million.

**Funk & Wagnalls**

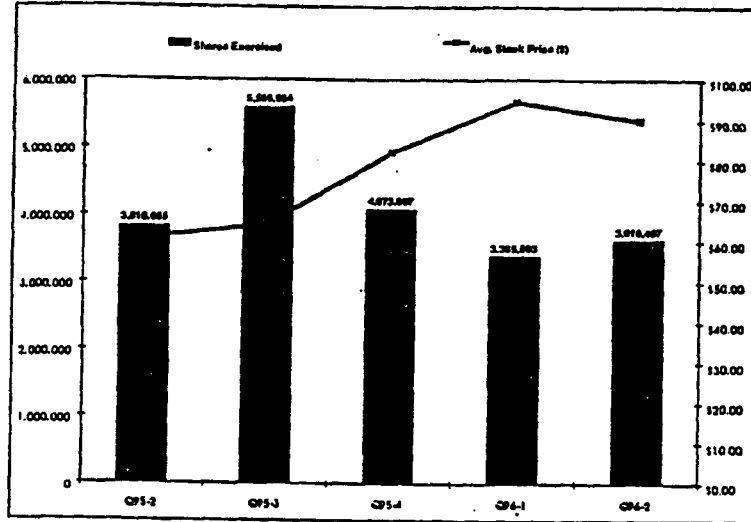
- On October 10, 1995, MS purchased a license to the Funk & Wagnalls Encyclopedia database used in Encarta for \$15 million. This license gives MS perpetual rights to exploit the F&W database in any electronic format without additional royalty or attribution.
- Prior to this transaction, MS had been paying royalties for this content ranging from \$1.50 to \$4.00 per unit, totaling \$5.3 million in the trailing four quarters, or 13% of Encarta revenue.
- MS's level of investment in this database—both in terms of enhancing it for the English versions and investing heavily in foreign language translations—made it very difficult to consider replacing the F&W text.

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**RISK MANAGEMENT & HEDGING ACTIVITIES**

**Stock Options Grants and Exercises**



- MS stock traded at an average price of \$91.41 during Q96-2 with a high of \$102.75 and low of \$83.125.
- Q96-2 stock option exercises totaled 4,858, a 70% increase over the same period in FY95. A total of 3.6 million shares was exercised during the quarter, a 5.2% decrease over Q95-2.
- During Q96-2, 1,272 stock option grants were issued totaling 3.8 million shares. Of this, 1.4 million shares were dated in Q96-2, with the balance dated in prior quarters due to overlapping window periods and completion of jumbo grant issuances.
- Cumulative outstanding options on 12/31/95 were 131.2 million with an average price of \$41.43. Authorized but unissued options totaled 199 million.
- Under the ESPP program for the six month period ended 12/31/95, a total of 330,527 shares were issued to 10,055 domestic employees at a purchase price of \$74.59 per share. International ESPP is reported in odd numbered quarters.

**Stock Repurchases**

	Shares adjusted for all splits	Amount (millions)	Average Cost
FY90	3,570,750	\$ 46	\$13.07
FY91	10,939,500	197	17.98
FY92	3,959,655	135	34.09
FY93	6,257,000	250	39.96
FY94	8,839,000	348	40.24
FY95	11,669,000	698	59.82
Q96-1	1,600,000	151	94.18
Q96-2	4,000,000	373	93.32
Life to date	<u>50,634,905</u>	<u>\$2,198</u>	43.41

- During Q96-2, MS purchased 4 million shares for an average price of \$93.32. Life-to-date, MS has purchased 50.6 million shares for an average price of \$43.41.

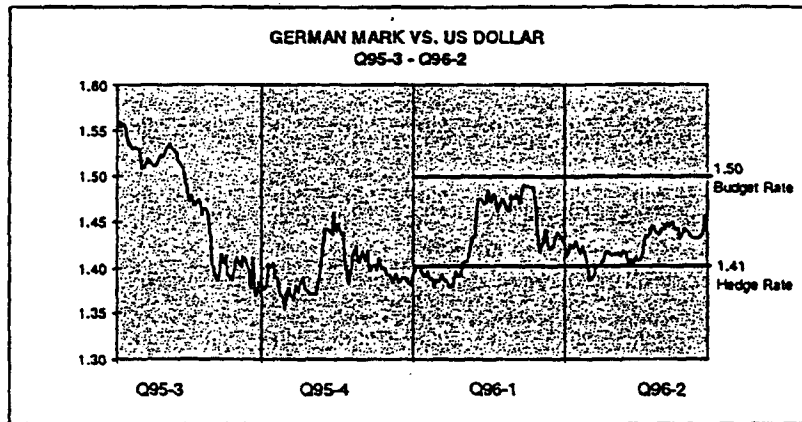
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**Put Warrants**

- During Q96-2, the strike prices of the 10 million outstanding put warrants of MS stock were increased to a range of \$82-\$91, and an average strike of \$86. At quarter end, 10 million put options were outstanding, with maturities ranging from 6 to 18 months. Life-to-date program proceeds total \$101 million.
- This program has enhanced the buyback program by reducing life-to-date stock buyback cost per share by \$1.99 (from \$43.41 to \$41.42).
- To recognize the amount that would be required to purchase all 10 million shares at their put option strike prices, a liability of \$860 million would be required as an offset to retained earnings; this liability was reduced to \$560 million by selling "capped puts" which limit our liability to the difference between the \$86 average strike price and the "caps" of \$30 per share.

**Foreign Exchange Hedging**



- The dollar strengthened about 1% versus the major European currencies during Q96-2, trading between a range of 1.38 DM/\$ and 1.45 DM/\$ versus the German DeutscheMark. The dollar strengthened 2.5% versus the Japanese yen during Q2, trading between a range of 99.70 Y/\$ and 104 Y/\$.
- In Q96-1, Treasury bought foreign currency put options to hedge Microsoft's total forecasted FY96 foreign currency denominated net cash flow exposure of \$1.3 billion. The financial instruments used were average rate put options for 17 different currencies. The value on the outstanding put options at the end of Q96-2 represent an unrealized gain of \$12 million.
- Treasury also has a continuing program to actively hedge the monthly exposure to foreign currency-denominated accounts receivable on a short-term rolling 30 day basis.

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## COMPETITOR HIGHLIGHTS

### Novell

- Novell consolidated the Systems, Applications, and Information Access and Management Groups into a single organization called the Novell Products Group. Steven Markman, formerly EVP of the Information Access and Management Group, will head the group.
- The company still expects to announce the sale of the personal productivity Business Applications Division by the end of January.
- First customer shipments began for Netware Web Server, a software system for Netware 4.1 servers that brings the World Wide Web to Netware customers.
- Version 5 of LAN Workgroup for MS Windows and DOS was announced and will give users centralized access to information on both Netware and TCP/IP networks, including Unix Systems and the Internet.

### Oracle

- After failing to meet analyst expectations in the first quarter (after their huge fourth quarter), Oracle's second quarter results were strong and generally met or exceeded expectations.
- Certain analysts are calling Oracle a "sphere of influence" along with Microsoft and SAP. Due to the difficulty of administration, management, installation, and support of best of breed products from multiple vendors, Oracle is expected to provide one-stop shopping to companies for their internal corporate Intranets.
- Oracle announced that it is finishing the design touches on its first Internet PC (IPC), which it expects to begin shipping in March. Oracle is also working with England's Acorn Computer to design another version of an IPC.

### IBM

- Taligent will become an object technology development center, a wholly owned subsidiary of IBM. The center will continue development of Taligent technologies and Apple and Hewlett-Packard will retain licensing rights.
- Lotus Notes Release 4 is slated to begin shipping on January 10. The product will make improvements in client/server messaging; Internet integration; application development; and enterprise management and scalability.
- IBM is ready for re-entry into the printer market next spring with a line of color inkjet and network laser printers. IBM exited the printer market in 1991 with its sale of Lexmark.

### Netscape

- Analysts view the acquisition of Illustra by Informix, a strategic partner of Netscape, as a benefit to Netscape by providing faster adoption of its web server products by commercial customers deploying web technologies.
- Servers accounted for 37% and services represented about 6% of revenue.
- Netscape is distributing beta 5 of its new browser, Navigator 2.0.
- In the September quarter, browsers represented 57% of Netscape's \$21 million of revenues.
- In March, Netscape will sponsor a Java and JavaScript developers conference.

### Other

- In a widely anticipated ruling, the Supreme Court split 4-4 in the Lotus copyright lawsuit against Borland. The stalemate effectively handed Borland a victory. The Court failed to establish precedent regarding whether a copyright can prevent competitors from selling programs that work the same way or whether developers would have to take the more difficult route of obtaining a patent. Justice John Paul Stevens did not participate in the ruling, thus allowing the split, and the ruling was not accompanied by an opinion.

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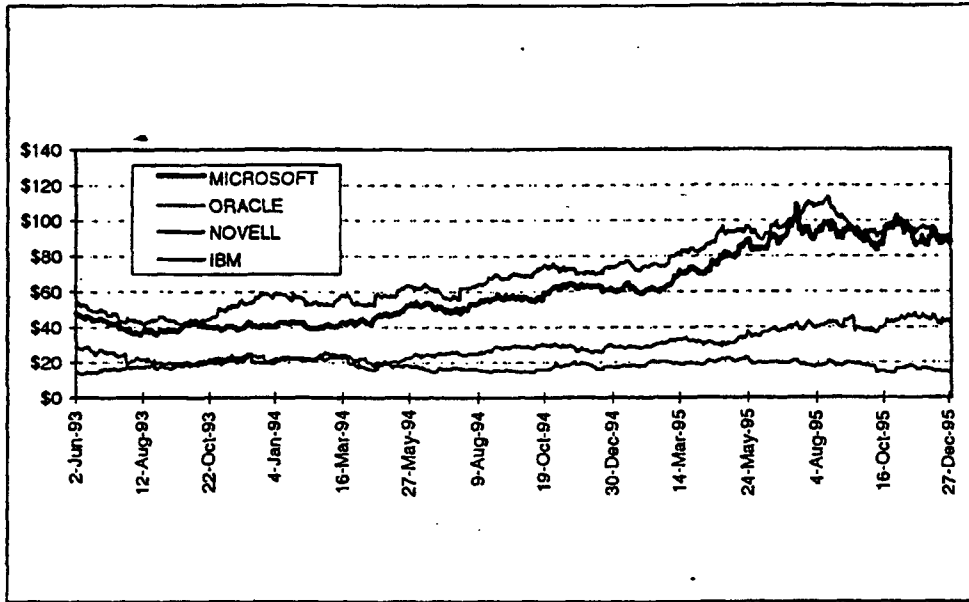
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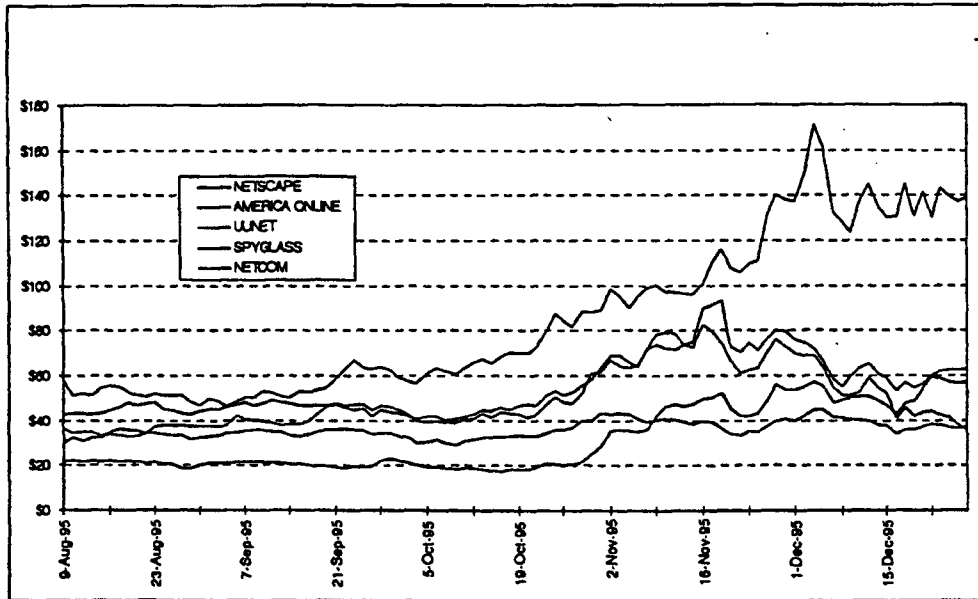
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SOFTWARE STOCK PRICES



INTERNET/ONLINE STOCK PRICES



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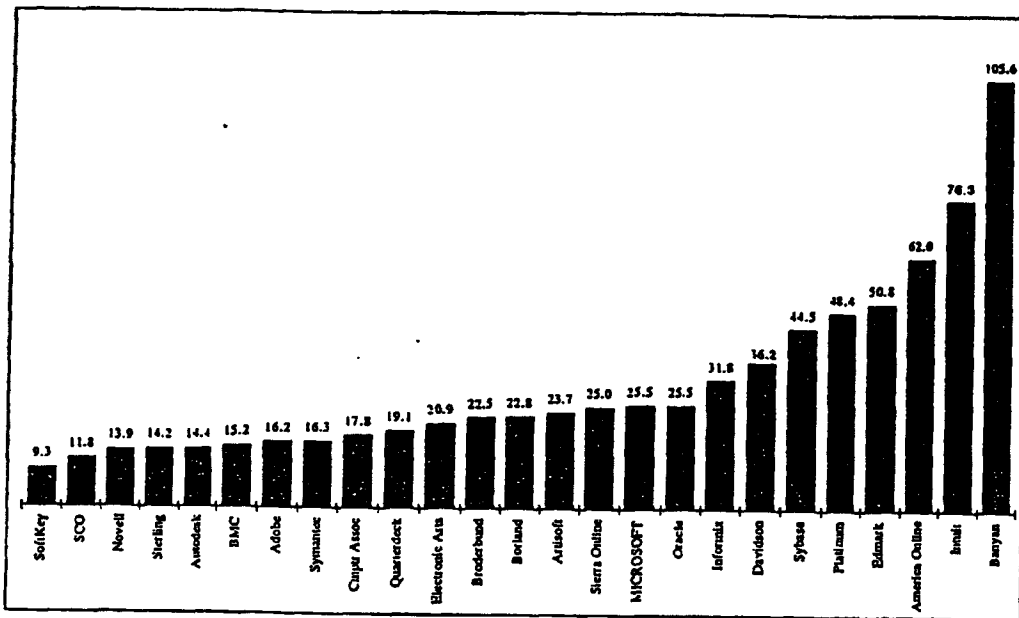
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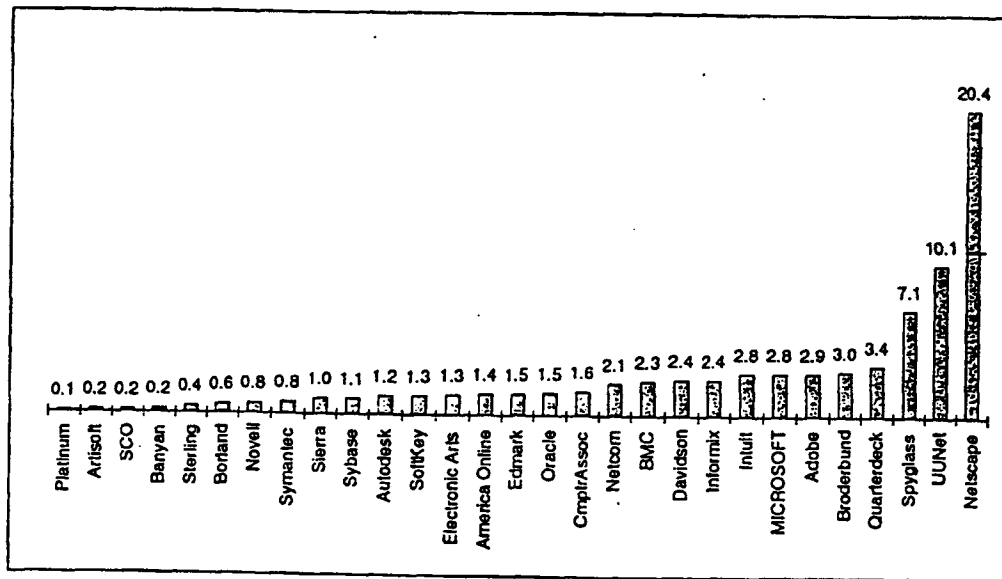
SOFTWARE INDUSTRY FORWARD P/E RATIOS



- a) Forward P/E ratios are calculated based upon January 15, 1996 stock prices and analyst's consensus estimates for the next four quarters.
- b) P/E ratios for Spyglass (228) and Netscape (448) were excluded to maintain a normal scale.

MARKET VALUE PER EMPLOYEE

(in millions)



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## TOP THREE SOFTWARE COMPANIES

(in millions)

Most recent quarter	Microsoft		Novell		Oracle	
	12/31/95		10/28/95		11/30/95	
Net revenue	\$ 2,195	100.0%	\$ 481	100.0%	\$ 967	100.0%
Cost of revenue	330	15.0	123	25.6	255	26.4
Gross profit	1,865	85.0	358	74.4	712	73.6
Research and development	312	14.2	95	19.8	93	9.6
Sales and marketing	691	31.5	142	29.5	357	36.9
General and administrative	76	3.5	44	9.1	57	5.9
Total operating expenses	1,079	49.2	281	58.4	507	52.4
Operating income	786	35.8	77	16.0	205	21.2
Nonoperating income	99	4.5	11	2.3	3	0.3
Income before income taxes	885	40.3	88	18.3	208	21.5
Provision (benefit) for income taxes	310	14.1	29	6.0	71	7.3
Net income	\$ 575	26.2%	\$ 59	12.3%	\$ 137	14.2%
Average shares outstanding	638		375		447	
EPS	\$ 0.90		\$ 0.16		\$ 0.31	
<b>Trailing twelve months</b>						
	Microsoft		Novell		Oracle	
Net revenue	\$ 7,419	100.0%	\$ 2,041	100.0%	\$ 3,479	100.0%
Cost of revenue	1,121	15.1	489	24.0	922	26.5
Gross profit	6,298	84.9	1,552	76.0	2,557	73.5
Research and development	1,098	14.8	368	18.0	377 (a)	10.8
Sales and marketing	2,332	31.5	579	28.4	1,277	36.8
General and administrative	293	3.9	153	7.5	200	5.7
Total operating expenses	3,723	50.2	1,100	53.9	1,854	53.3
Operating income	2,575	34.7	452	22.1	703	20.2
Nonoperating income	219	3.0	57	2.8	13	0.4
Income before income taxes	2,794	37.7	509	24.9	716	20.6
Provision (benefit) for income taxes	956	12.9	171	8.3	239	6.9
Net income	\$ 1,838	24.8%	\$ 338	16.6%	\$ 477	13.7%
Average shares outstanding	635		375		444	
EPS	\$ 2.89		\$ 0.90		\$ 1.08	

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a) Oracle trailing twelve month results include a one-time charge of \$51 million for the acquisition of IRI in July 1995. Net income would have been \$33 million, or \$0.20 per share, higher.

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## TOP THREE SOFTWARE COMPANIES - continued

(in millions)

Balance sheets	Microsoft		Novell		Oracle	
	12/31/95		10/28/95		11/30/95	
<b>Current assets:</b>						
Cash and short-term investments	\$ 6,017	66%	\$ 1,321	59%	\$ 554	22%
Accounts receivable - net	771	8	470	19	767	30
Inventories	108	1	23	1	-	-
Other	207	3	111	5	270	11
<b>Total current assets</b>	<b>7,103</b>	<b>78</b>	<b>1,925</b>	<b>80</b>	<b>1,591</b>	<b>63</b>
Property, plant and equipment - net	1,297	14	390	16	603	24
Capitalized software	-	-	-	-	99	4
Other assets	706	8	102	4	237	9
	<u>\$ 9,106</u>	<u>100%</u>	<u>\$ 2,417</u>	<u>100%</u>	<u>\$ 2,530</u>	<u>100%</u>
<b>Current liabilities</b>						
Long-term liabilities	-	-	-	-	93	4
Other liabilities	125	1	18	1	19	1
Put warrants	560	6	-	-	-	-
Stockholders' equity	6,180	68	1,938	80	1,462	57
	<u>\$ 9,106</u>	<u>100%</u>	<u>\$ 2,417</u>	<u>100%</u>	<u>\$ 2,530</u>	<u>100%</u>
<b>Other data</b>						
Closing stock price (Dec. 29, 1995)	\$87.75		\$14.25		\$42.38	
Common shares outstanding	638		375		447	
Market value	\$55,985		\$5,344		\$18,944	
Price/revenue ratio	7.5x		2.6x		5.4x	
Price/earnings ratio - trailing twelve	30.3x		15.8x		39.2x	
Price/earnings ratio - future 4 quarters	26.1x		12.4x		27.0x	
Headcount (most recent disclosure)	19,641		7,000		12,500	
Net revenue/employee	\$377,730		\$291,571		\$278,320	
Book value per share	\$9.69		\$5.17		\$3.27	
Price/book value ratio	9.1x		2.8x		13.0x	
<b>Growth statistics (over comparable quarter):</b>						
Revenue	48%		(1%)		44%	
Research and development	57%		6%		63%	
Sales and marketing	44%		(13%)		46%	
General and administrative	23%		14%		32%	
Net income	54%		18% (a)		46%	

- a) Novell's comparable quarter included a restructuring charge of \$51 million in connection with the WordPerfect acquisition and an additional \$10 million for the alignment of WordPerfect and Novell employee benefit plans.

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## INDUSTRY REVIEW

## Software Company Metrics

(in millions)

	Adobe 12/1/95	Artisoft 9/30/95	Autodesk 10/31/95	BMC 9/30/95	Banyan 9/30/95
<b>Income statement</b>					
<b>Most recent quarter</b>					
Net revenue	\$201	\$15	\$129	\$88	\$31
Net income (loss)	(12) (a)	0	19	26	(4) (e)
EPS	(0.16)	0.03	0.38	0.50	(0.26)
<b>Trailing twelve months</b>					
Net revenue	\$694	\$70	\$537	\$369	\$143
Net income (loss)	86	(8)	79 (d)	85	1
EPS	1.27	(0.58)	1.57	1.64	0.03
Net income (loss) as a % of net revenues	12%	(12%)	15%	23%	0%
<b>Balance sheet</b>					
Cash	\$516	\$38	\$207	\$121	\$33
Other current assets	177	31	148	96	40
Other assets	192	10	175	324	37
	<u>\$885</u>	<u>\$79</u>	<u>\$530</u>	<u>\$541</u>	<u>\$110</u>
Liabilities	\$187	\$10	\$167	\$182	\$48
Equity	698	69	363	359	62
	<u>\$885</u>	<u>\$79</u>	<u>\$530</u>	<u>\$541</u>	<u>\$110</u>
<b>Other data</b>					
Closing stock price (Dec 29, 1995)	\$62.00	\$6.31	\$34.25	\$42.75	\$10.25
Common shares outstanding (in millions)	72	15	50	53	17
Market value (in millions)	\$4,464	\$95	\$1,713	\$2,266	\$174
Price/revenue ratio	6.4x	1.4x	3.2x	6.1x	1.2x
Price/earnings ratio - trailing twelve	48.7x	n/m	21.8x	26.0x	293.6x
Price/earnings ratio - future 4 qtrs.	24.3x	17.1x	15.4x	15.7x	33.1x
Headcount (most recent disclosure)	1,565	600	1,788	987	692
Net revenue/employee	\$443,523	\$115,893	\$300,602	\$373,404	\$206,341
Book value per share	\$9.69	\$4.60	\$7.26	\$6.77	\$3.65
Price/book value ratio	6.4x	1.4x	4.7x	6.3x	2.8x
<b>Growth statistics (over comparable quarter):</b>					
Revenue	7%	(30%) (c)	19%	10%	(20%)
Net income	74% (b)	(71%) (c)	21%	8%	(209%) (c)

- a) Adobe's current quarter net income includes a \$31.5 million restructuring charge associated with the acquisition of Frame Technology and a \$15 million write-off of in-process R&D acquired in conjunction with the purchase of Ceneca Communications. Net income would have been \$30 million, or \$0.40 per share.
- b) Adobe's comparable quarter included costs of \$72 million in connection with its merger with Aldus and \$12 million purchased R&D.
- c) Artisoft's comparable quarter included the revenues and net income of the Eagle Technology business unit which was sold in January 1995.
- d) Autodesk's trailing twelve month results include a charge of \$26 million for a litigation judgment.
- e) Banyan has experienced lower than expected sales of VINES and ENS during the current year.

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## Software Company Metrics - continued

(in millions)

Income statement	Borland	Computer	Informix	Intuit	Platinum
	9/30/95	Assoc. 9/30/95	10/1/95	10/31/95	9/30/95
<b>Most recent quarter</b>					
Net revenue	\$51	\$812	\$181	\$97	\$13
Net income (loss)	3	(637) (b)	25	(21)	(4)
EPS	0.08	(2.64)	0.18	(0.48)	(0.32)
<b>Trailing twelve months</b>					
Net revenue	\$219	\$2,913	\$642	\$424	\$54
Net income (loss)	(68) (a)	(162)	90	(13)	(10)
EPS	(2.39)	(0.65)	0.66	(0.30) (c)	(0.78)
Net income (loss) as a % of net revenues	(31%)	(6%)	14%	(3%)	(19%)
<b>Balance sheet</b>					
Cash	\$85	\$208	\$211	\$147	\$22
Other current assets	30	1,037	203	114	19
Other assets	129	3,429	180	133	21
	<u>\$244</u>	<u>\$4,674</u>	<u>\$594</u>	<u>\$394</u>	<u>\$62</u>
Liabilities	\$94	\$3,658	\$234	\$123	\$20
Equity	150	1,016	360	271 (d)	42
	<u>\$244</u>	<u>\$4,674</u>	<u>\$594</u>	<u>\$394</u>	<u>\$62</u>
<b>Other data</b>					
Closing stock price (Dec. 29, 1995)	\$16.50	\$56.88	\$30.00	\$78.00	\$5.63
Common shares outstanding (in millions)	32	241	140	44	14
Market value (in millions)	\$528	\$13,708	\$4,200	\$3,432	\$79
Price/revenue ratio	2.4x	4.7x	6.5x	8.1x	1.5x
Price/earnings ratio - trailing twelve	n/m	n/m	45.7x	n/m	n/m
Price/earnings ratio - future 4 qrts.	23.6x	17.7x	31.3x	75.7x	18.1x
Headcount (most recent disclosure)	900	9,000	1,718	1,228	657
Net revenue/employee	\$243,022	\$323,643	\$373,680	\$345,536	\$82,513
Book value per share	\$4.69	\$4.22	\$2.57	\$6.16	\$3.00
Price/book value ratio	3.5x	13.5x	11.7x	12.7x	1.9x
<b>Growth statistics (over comparable quarter):</b>					
Revenue	(37%)	30%	55%	42%	(13%)
Research and development	(38%)	25%	33%	86%	(5%)
Sales and marketing	(45%)	23%	58%	90%	52%
General and administrative	n/a	44%	47%	40%	23%
Net income	655%	(589%)	52%	52%	(8890%)

- a) Borland's trailing twelve months include a restructuring charge of \$50 million.  
b) Computer Associates' net income includes the write-off of purchased R&D of \$808 million relating to the acquisition of Legent during the quarter.  
c) Intuit's trailing twelve month results include purchased R&D write offs and other merger costs of \$43 million, offset by the Microsoft termination fee of \$41 million.  
d) Intuit announced the pending acquisition of Galt Technologies, Inc., a provider of mutual fund information on the Internet.

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## Software Company Metrics - continued

Income statement	Quarterdeck	Santa Cruz Operation	Sterling	Sybase	Symantec
	9/30/95	9/30/95	9/30/95	9/30/95	9/30/95
<b>Most recent quarter</b>					
Net revenue	\$20	\$47	\$173	\$233	\$103
Net income (loss)	(1)	(3) (c)	28	1	13
EPS	(0.02) (a)	(0.08)	1.12	0.02	0.30
<b>Trailing twelve months</b>					
Net revenue	\$61	\$199	\$588	\$944	\$366
Net income (loss)	3	(6) (d)	9 (e)	7 (f)	44
EPS	1.08	(0.19)	0.39	0.10	1.08
Net income (loss) as a % of net revenues	5%	(3%)	2%	1%	12%
<b>Balance sheet</b>					
Cash	\$23	\$47	\$241	\$177	\$114
Other current assets	158	57	203	227	67
Other assets	(125)	28	270	287	44
	<u>\$56</u>	<u>\$132</u>	<u>\$714</u>	<u>\$691</u>	<u>\$225</u>
Liabilities	\$21	\$50	\$366	\$268	\$86
Equity	35	82	348	423	139
	<u>\$56</u>	<u>\$132</u>	<u>\$714</u>	<u>\$691</u>	<u>\$225</u>
<b>Other data</b>					
Closing stock price (Dec. 29, 1995)	\$27.50	\$6.25	\$62.38	\$36.00	\$23.25 (g)
Common shares outstanding (in millions)	24	33	25	76	43
Market value (in millions)	\$660	\$206	\$1,560	\$2,736	\$1,000
Price/revenue ratio	10.8x	1.0x	2.7x	2.9x	2.7x
Price/earnings ratio - trailing twelve	25.4x	n/m	161.5x	360.6x	21.4x
Price/earnings ratio - future 4 qrts.	16.7x	12.5x	n/a	35.6x	16.7x
Headcount (most recent disclosure)	198	1,205	3,700	2,528	1,204
Net revenue/employee	\$307,591	\$165,418	\$158,964	\$373,498	\$303,681
Book value per share	\$1.46	\$2.48	\$13.92	\$5.57	\$3.23
Price/book value ratio	18.9x	2.5x	4.5x	6.5x	7.2x
<b>Growth statistics (over comparable quarter):</b>					
Revenue	142%	(7%)	30%	7%	30%
Research and development	7%	11%	5%	24%	32%
Sales and marketing	40%	18%	32%	30%	38%
General and administrative	3%	14%	n/a	26%	14%
Net income	96% (b)	(144%)	50%	(95%)	61%

- a) Quarterdeck's current quarter includes net charges of \$3.8 million relating to the acquisitions of Interware and Starline Technologies and the acquisition of IPR from Prospero Systems Research.
- b) Quarterdeck's comparable quarter includes a restructuring charge of \$13.5 million relating to force reductions and office consolidations and relocations.
- c) SCO's current quarter net income includes \$4 million in restructuring charges.
- d) SCO's trailing twelve months net income included a charge for purchased R&D primarily in connection with its acquisition of Visionware, Ltd. Absent the charge, net income would have been \$14 million, or \$0.44 per share.
- e) Sterling's trailing twelve month results included purchased R&D and expenses totaling \$82 million in connection with its acquisition of KnowledgeWare.
- f) Sybase's trailing twelve month results include a \$25 million charge for the acquisition of Powersoft and \$20 million for the purchase of in-process technology.
- g) Symantec's stock price fell to \$10, a 33% decrease, on January 9 following a pre-release of earnings that was far short of analyst expectations.

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## Internet/Online

(in millions)

	America				
	Online	Netcom	Netscape	Spyglass	UUNet
	9/30/95	9/30/95	9/30/95	9/30/95	9/30/95
<b>Income statement</b>					
<b>Most recent quarter</b>					
Net revenue	\$198	\$15	\$21	\$3	\$16
Net income (loss)	(10) (a)	(4)	1	1	1
EPS	(0.27)	(0.49)	0.04	0.20	0.02
<b>Trailing twelve months</b>					
Net revenue	\$530	\$38	\$38	\$10	\$38
Net income (loss)	(38)	(9)	(7)	2	(3)
EPS	(0.90)	(1.58)	(0.20)	0.46	(0.16)
Net income (loss) as a % of net revenues	(7%)	(23%)	(18%)	19%	(8%)
<b>Balance sheet</b>					
Cash	\$42	\$36	\$123	\$35	\$70
Other current assets	83	5	20	2	9
Other assets	367	41	61	3	32
	<u>\$492</u>	<u>\$82</u>	<u>\$204</u>	<u>\$40</u>	<u>\$111</u>
Liabilities	\$263	\$12	\$37	\$4	\$22
Equity	229	70	167	36	89
	<u>\$492</u>	<u>\$82</u>	<u>\$204</u>	<u>\$40</u>	<u>\$111</u>
<b>Other data</b>					
Closing stock price (Dec. 29, 1995)	\$37.50	\$36.00	\$139.00	\$57.00	\$63.00
Common shares outstanding (in millions)	38	9	38	6	30
Market value (in millions)	\$1,425	\$324	\$5,282	\$342	\$1,890
Price/revenue ratio	2.7x	8.5x	139.8x	33.0x	50.4x
Price/earnings ratio - trailing twelve	n/m	n/m	n/m	125.2x	n/m
Price/earnings ratio - future 4 qtrs.	61.5x	26.8x	37.9x	20.9x	27.6x
Headcount (most recent disclosure)	1,000	153	258	48	258
Net revenue/employee	\$530,134	\$247,941	\$146,418	\$215,625	\$145,390
Book value per share	\$6.03	\$7.78	\$4.39	\$6.00	\$2.97
Price/book value ratio	6.2x	4.6x	31.6x	9.5x	21.2x
<b>Growth statistics (over comparable quarter):</b>					
Revenue	248%	346%	5,886%	61%	417%
Research and development	415%	561%	562%	310%	121%
Sales and marketing	218%	62%	599%	151%	96%
General and administrative	237%	2%	192%	136%	55%
Net income	(793%)	n/m	134%	158%	128%

a) America Online's current quarter includes a \$16.9 million charge for the write-off of purchased R&D.

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## Consumer Software Companies

(in millions)

Income statement	Broderbund	Davidson & Assoc.	Edmark	Electronic Arts	Sierra On-Line	SoftKey
	11/30/95	9/30/95	9/30/95	9/30/95	9/30/95	9/30/95
<b>Most recent quarter</b>						
Net revenue	\$71	\$36	\$7	\$94	\$32	\$42
Net income (loss)	16	4	0	3	3	10
EPS	0.73	0.12	0.03	0.06	0.17	0.36
<b>Trailing twelve months</b>						
Net revenue	\$189	\$133	\$26	\$498	\$107	\$152
Net income (loss)	41	11	2	40	20 (e)	34
EPS	1.90	0.31	0.37	0.77	1.12	1.47
Net income (loss) as a % of net revenues	21%	8%	9%	8%	19%	23%
<b>Balance sheet</b>						
Cash	\$136	\$27	\$30	\$92	\$79	\$87 (a)
Other current assets	48	34	8	128	48	54
Other assets	10	13	2	121	19	77
	<u>\$194</u>	<u>\$74</u>	<u>\$40</u>	<u>\$341</u>	<u>\$146</u>	<u>\$218</u>
Liabilities	\$48	\$21	\$3	\$81	\$49	\$47
Equity	146 (a)	53 (e)	37 (b)	260	97	171 (d)
	<u>\$194</u>	<u>\$74</u>	<u>\$40</u>	<u>\$341</u>	<u>\$146</u>	<u>\$218</u>
<b>Other data</b>						
Closing stock price (Dec. 29, 1995)	\$60.75	\$22.00	\$31.50	\$26.13	\$28.75	\$23.13
Common shares outstanding (in millions)	22	36	7	54	20	28
Market value (in millions)	\$1,337	\$792	\$221	\$1,411	\$575	\$648
<b>Price/revenue ratio</b>						
Price/revenue ratio	7.1x	6.0x	8.6x	2.8x	5.4x	4.3x
Price/earnings ratio - trailing twelve	31.9x	71.7x	86.1x	34.1x	25.6x	15.8x
Price/earnings ratio - future 4 qtrs.	26.8x	37.9x	20.9x	20.9x	27.6x	12.4x
<b>Headcount (most recent disclosure)</b>						
Headcount	438	327	156	1,077	540	512
Net revenue/employee	\$432,571	\$405,691	\$163,549	\$462,806	\$197,422	\$296,102
<b>Book value per share</b>						
Book value per share	\$6.64	\$1.47	\$5.29	\$4.81	\$4.85	\$6.11
Price/book value ratio	9.2x	14.9x	6.0x	5.4x	5.9x	3.8x
<b>Growth statistics (over comparable quarter):</b>						
Revenue	34%	58%	68%	5%	63%	48%
Research and development	61%	78%	106%	21%	48%	93%
Sales and marketing	62%	68%	52%	24%	47%	38%
General and administrative	2%	n/a	33%	(5%)	n/a	6%
Net income	37%	14%	257%	257%	483%	149%

- a) Broderbund's proposed merger with The Learning Company failed during the quarter as SoftKey submitted an all cash bid valued at \$625 million on December 6<sup>th</sup> and closed the deal on December 22<sup>nd</sup>.
- b) Edmark had a 3 for 2 stock split during the quarter and issued 634,000 new shares in a public offering.
- c) Sierra's trailing 12 months included a gain of \$19 million on the sale of the ImagiNation Network to AT&T.
- d) SoftKey finalized its acquisition of The Learning Company, announced it had entered into a definitive merger agreement with Minnesota Educational Computing Corporation, and completed a private offering of \$350 million in Senior Convertible Notes all after its quarter end.
- e) Davidson & Associates had a 2 for 1 stock split during the quarter.

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## Hardware Company Metrics

(in millions)

	AST 9/30/95	Apple 12/29/95	Compaq 9/30/95	DEC 9/30/95	Dell 10/29/95	Gateway 9/30/95
<b>Income statement</b>						
<b>Most recent quarter</b>						
Net revenue	\$403	\$3,148	\$3,594	\$3,271	\$1,416	\$889
Net income (loss)*	(96)	(69) (b)	245	39	75	41
EPS	(2.36)	(0.56)	0.89	0.26	0.75	0.52
<b>Trailing twelve months</b>						
Net revenue	\$2,376	\$11,378	\$13,305	\$13,962	\$4,790	\$3,255
Net income (loss)	(158)	167 (c)	950	292	248	153
EPS	(4.57)	1.35	3.49	1.96	2.52	1.94
Net income (loss) as a % of net revenues	(7%)	1%	7%	2%	5%	5%
<b>Balance sheet</b>						
Cash	\$135	\$1,100	\$1,120	\$1,501	\$571	\$163
Other current assets	679	4,451	5,458	5,601	1,372	617
Other assets	178	1,002	1,110	2,642	170	203
	<u>\$992</u>	<u>\$6,553</u>	<u>\$7,688</u>	<u>\$9,744</u>	<u>\$2,113</u>	<u>\$983</u>
Liabilities	\$584	\$3,759	\$3,243	\$6,148	\$1,220	\$493
Equity	<u>408 (a)</u>	<u>2,794 (d)</u>	<u>4,445</u>	<u>3,596</u>	<u>893</u>	<u>490</u>
	<u>\$992</u>	<u>\$6,553</u>	<u>\$7,688</u>	<u>\$9,744</u>	<u>\$2,113</u>	<u>\$983</u>
<b>Other data</b>						
Closing stock price (Dec. 29, 1995)	\$8.50	\$31.88	\$48.00	\$64.13	\$34.63	\$24.50
Common shares outstanding (in millions)	41	123	275	152	101	79
Market value (in millions)	\$349	\$3,921	\$13,200	\$9,747	\$3,497	\$1,940
<b>Price/revenue ratio</b>						
Price/revenue ratio	0.1x	0.3x	1.0x	0.7x	0.7x	0.6x
<b>Price/earnings ratio - trailing twelve</b>						
Price/earnings ratio - trailing twelve	n/m	23.5x	13.8x	32.7x	13.7x	12.6x
<b>Price/earnings ratio - future 4 qtrs.</b>						
Price/earnings ratio - future 4 qtrs.	n/m	16.6x	10.3x	13.9x	9.9x	9.0x
<b>Headcount (most recent disclosure)</b>						
Headcount (most recent disclosure)	6,977	14,592	21,137	77,800	5,980	7,700
<b>Net revenue/employee</b>						
Net revenue/employee	\$340,504	\$779,742	\$629,465	\$179,456	\$800,984	\$422,782
<b>Book value per share</b>						
Book value per share	\$9.95	\$22.72	\$16.16	\$23.66	\$8.84	\$6.19
<b>Price/book value ratio</b>						
Price/book value ratio	0.9x	1.4x	3.0x	2.7x	3.9x	4.0x
<b>Growth statistics (over comparable quarter):</b>						
Revenue	(19%)	11%	27%	5%	60%	38%
Research and development	(3%)	16%	12%	(11%)	53%	n/a
Sales and marketing	(1%)	6%	31%	(12%)	53%	71%
General and administrative	12%	n/a	n/a	n/a	n/a	n/a
Net income	(145%)	(137%)	22%	128%	92%	48%

- a) AST announced that Samsung will provide credit support to the company in exchange for Samsung's ownership interest increasing to as much as 49.9 percent and the appointment of two additional board members. Samsung-designated directors will represent a majority of the AST board following the appointments.
- b) Apple's current quarter reflects a significant decline in gross margins from 20.7% of net sales last quarter to 15.1% of net sales in the current quarter. Next quarter, Apple anticipates taking a \$125 million before-tax charge for the lay off of approximately 1300 employees, 8% of their workforce, in a company-wide restructuring of operations.
- c) Apple's trailing 12 months and comparable quarter include an after-tax increase to earnings of \$3.8 million and \$10.6 million, or \$0.03 and \$0.09 per share, respectively, related to a reduction in the Company's estimates of costs associated with previous restructuring activities.
- d) Apple is rumored to be up for sale but has been unsuccessful in identifying an acceptable suitor.

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## Hardware Company Metrics - continued

(in millions)

	Hewlett Packard	IBM	Intel	Silicon Graphics	Sun
	10/31/95	12/31/95	12/31/95	12/31/95	12/31/95
<b>Income statement</b>					
<b>Most recent quarter</b>					
Net revenue	\$9,048	\$21,920	\$4,580	\$672	\$1,751
Net income (loss)	678	1,706 (a)	867	52	126
EPS	1.29	3.09	0.98	0.30	0.68
<b>Trailing twelve months</b>					
Net revenue	\$31,519	\$71,940	\$16,202	\$2,497	\$6,390
Net income (loss)	2,433	4,163 (b)	3,566 (c)	231 (e)	447
EPS	4.63	7.31	4.03	1.30	4.25
Net income (loss) as a % of net revenues	8%	6%	22%	9%	7%
<b>Balance sheet</b>					
Cash	\$2,616	\$7,701	\$2,458	\$412	\$776
Other current assets	13,623	32,990	5,639	1,085	1,847
Other assets	8,188	39,601	9,407	768	645
	<u>\$24,427</u>	<u>\$80,292</u>	<u>\$17,504</u>	<u>\$2,265</u>	<u>\$3,268</u>
Liabilities	\$12,588	\$57,869	\$4,639	\$822	\$1,342
Put warrants	0	0	706	0	0
Equity	<u>11,839</u>	<u>22,423</u>	<u>12,159</u>	<u>1,443</u>	<u>1,926 (f)</u>
	<u>\$24,427</u>	<u>\$80,292</u>	<u>\$17,504</u>	<u>\$2,265</u>	<u>\$3,268</u>
<b>Other data</b>					
Closing stock price (Dec. 29, 1995)	\$83.75	\$91.38	\$56.75 (d)	\$27.63	\$45.63
Common shares outstanding (in millions)	527	552	887	177	185
Market value (in millions)	\$44,136	\$50,442	\$50,337	\$4,891	\$8,442
Price/revenue ratio	1.4x	0.7x	3.1x	2.0x	1.3x
Price/earnings ratio - trailing twelve	18.1x	12.5x	14.1x	21.3x	10.7x
Price/earnings ratio - future 4 qtrs.	14.9x	7.5x	11.2x	15.8x	17.6x
Headcount (most recent disclosure)	98,400	302,196	29,500	3,750	14,500
Net revenue/employee	\$320,315	\$238,057	\$549,220	\$665,922	\$440,673
Book value per share	\$22.46	\$40.62	\$13.71	\$8.15	\$10.41
Price/book value ratio	3.7x	2.2x	4.1x	3.4x	4.4x
<b>Growth statistics (over comparable quarter):</b>					
Revenue	29%	10%	42%	22%	19%
Research and development	15%	12%	24%	33%	27%
Sales and marketing	19%	(1%)	42%	33%	16%
General and administrative	n/a	n/a	n/a	n/a	n/a
Net income	42%	41%	133% (c)	(11%)	54%

- a) IBM's current quarter includes a \$626 million charge for work force and asset reductions, a software writedown of \$37 million, and a \$175 million gain relating to the completion of the sale of Federal Systems Company. Earnings per share would have been \$0.57 higher without these items.
- b) IBM's trailing twelve months include a \$1.8 billion charge for the write off of purchased technology in the Lotus acquisition. Earnings per share would have been \$3.26 higher without the charge.
- c) Intel's comparable quarter included a pretax charge of \$475 million to cover replacement and other costs associated with a divide problem in the floating point unit of the Pentium chip and the trailing twelve months include a pre-tax gain of \$81 million resulting from the settlement of litigation with AMD and the sale of part of Intel's interest in VLSI Technology, Inc.
- d) Intel's stock price declined \$5.50 to \$50.125 following their earnings release which was approximately 10% lower than expectations.
- e) Silicon Graphic's trailing twelve months include a \$22 million pre-tax charge for the acquisitions of Alias Research, Inc. and Wavefront Technologies, Inc.
- f) Sun had a 2 for 1 stock split during the quarter.

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## Key Relationship

(in millions)

	RR		
	Egghead 9/30/95	Merisel 9/30/95	Donnelley 9/30/95
<b>Income statement</b>			
<b>Most recent quarter</b>			
Net revenue	\$191	\$1,544	\$1,705
Net income (loss)	(4) (a)	(0)	92
EPS	(0.20)	(0.01)	0.60
<b>Trailing twelve months</b>			
Net revenue	\$840	\$5,802	\$5,971
Net income (loss)	(2)	(9) (b)	291
EPS	(0.11)	(0.31)	1.90
Net income (loss) as a % of net revenues	(0%)	(0%)	5%
<b>Balance sheet</b>			
Cash	\$56	\$1	\$19
Other current assets	259	1,248	1,848
Other assets	30	220	3,456
	<u>\$345</u>	<u>\$1,469</u>	<u>\$5,323</u>
Liabilities	\$202	\$1,238	\$3,210
Equity	143	231	2,113
	<u>\$345</u>	<u>\$1,469</u>	<u>\$5,323</u>
<b>Other data</b>			
Closing stock price (Dec. 29, 1995)	\$6.44	\$4.38	\$39.38
Common shares outstanding (in millions)	17	30	154
Market value (in millions)	\$109	\$131	\$6,065
Price/revenue ratio	0.1x	0.0x	1.0x
Price/earnings ratio - trailing twelve	n/m	n/m	20.8x
Price/earnings ratio - future 4 qtrs.	n/m	8.4x	17.3x
Headcount (most recent disclosure)	2,500	3,072	39,000
Net revenue/employee	\$336,097	\$1,888,601	\$153,105
Book value per share	\$8.41	\$7.70	\$13.72
Price/book value ratio	0.8x	0.6x	2.9x
<b>Growth statistics (over comparable quarter):</b>			
Revenue	(2%)	25%	37%
Sales, general, and administrative	11%	10%	39%
Net income	(258%)	(109%)	15%

a) Egghead's current quarter includes \$2.7 million in relocation, severance, and related costs associated with consolidating their headquarters.

b) Merisel's trailing twelve months include a \$9.3 million restructuring charge.

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Appendix

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## Q96-2 REVENUE SUMMARY RECONCILIATION

	Revenue Summary			WW Total	Reconciling Items		Gross Revenue	Revenue Adj's	Net Revenue
	FG	OEM	Other		Unbundle	Other			
Desktop Applications (New User)	\$692.9	\$54.2	\$0.0	\$747.1	(\$14.5)				
Desktop Applications (Existing User)	223.5	0.0	0.0	223.5	(5.5)				
Total Desktop Applications	916.4	54.2	0.0	970.6	(20.0)	(\$11.4)	\$939.2	\$17.7	\$956.9
Business Systems (New User)	207.5	11.7	0.0	219.2	29.3				
Business Systems (Existing User)	15.5	0.0	0.0	15.5	7.0				
Total Business Systems	223.0	11.7	0.0	234.7	36.3	15.8	286.8	(\$5.8)	281.0
Consumer	184.7	66.8	0.0	251.5	(1.8)	5.5	255.2	(15.5)	239.7
Personal Finance	7.3	0.7	0.0	8.0	-0.1	0.0	8.2	(0.2)	8.0
Microsoft On-line	0.0	0.0	9.5	9.5	0.0	(0.1)	9.5	(0.4)	9.1
Personal Systems	(5.1)	539.0	0.0	533.9	(17.1)	(24.8)	492.1	257.1	749.1
Developer	129.2	0.1	0.0	129.3	0.0	2.0	131.2	(2.6)	128.6
Consumer Systems	0.0	0.0	10.1	10.1	(0.0)	0.1	10.2	(2.7)	7.4
Press	0.0	0.0	29.1	29.1	(0.0)	0.1	29.1	(6.5)	22.6
Other	(39.6)	41.0	0.0	1.4	2.5	15.8	19.7	(63.3)	(43.5)
Product Divisions	\$1,415.9	\$713.5	\$48.7	\$2,178.1	(\$0.0)	\$3.1	\$2,181.1	\$177.9	\$2,359.0

- The revenue summary is management's standard view of gross revenue, licenses, and revenue per license which allows both a channel and product division perspective of sales in a single report. Revenue summary reports product revenue on an "as shipped" basis, that is, how a customer buys product from MS. For example, Excel is sold both as a stand-alone product and bundled as part of Office.
- In the Revenue Summary Report, Excel sold as part of Office is reported as Office sales, but Excel sold as a stand-alone product is reported separately. Conversely, for purposes of measuring product divisions, revenue is "unbundled." For example, Mail is a component of Office, but development occurs in the Business Systems Division, thus associated revenue for Mail is attributed to BSD rather than Desktop Applications.
- Additionally, the revenue summary segregates new users from existing users for Desktop Application products. Segregating users allows channel and product division management to track sales of new licenses versus upgrades.
- The table above reconciles the revenue summary shown in the Microsoft Results section with the product division P&Ls shown in the Product Division section. The primary reconciling item between Desktop Applications and BSD represents the unbundling of Mail from Office. Other reconciling items above include manuals, promotional copies of software, raw materials, and recurring maintenance which are shown as "other" in the revenue summary but included as specific product division revenue in product P&Ls. These items are reclassified in the revenue summary in order to report meaningful revenue per license information.

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**Q96-2 MICROSOFT WORLDWIDE REVENUE SUMMARY**

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 USFG YTD (USD)	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue
Office	282,237	349,040	(68,803)	1,152,081	1,574,766	(422,685)	245	222	23	1,010,873	228
Office Professional	277,435	200,404	77,031	1,319,948	669,172	650,776	710	299	(91)	844,981	225
Excel	41,938	55,114	(13,176)	586,392	334,455	251,937	72	165	(93)	185,310	159
Word	57,338	71,420	(14,082)	758,600	499,648	258,952	76	143	(67)	283,262	151
Powerpoint	6,684	9,266	(2,622)	30,298	57,796	(27,507)	220	161	59	96,971	178
Access	36,208	27,059	9,149	289,590	181,548	108,042	132	149	(17)	193,064	148
Project	39,850	48,191	(8,341)	216,825	144,087	72,738	184	321	(137)	142,363	284
Other Desktop Apps	3,421	1,859	1,563	54,516	32,595	21,921	63	57	6	35,282	49
Desktop Apps New Users	747,090	760,372	(13,283)	4,408,231	3,494,087	912,144	170	218	(48)	2,732,108	208
Office	118,481	91,209	27,272	786,038	572,502	213,534	151	159	(9)	618,537	154
Office Professional	87,429	66,405	21,024	440,353	332,208	108,147	199	200	(1)	392,292	181
Excel	1,625	19,480	(17,855)	20,620	233,645	(213,025)	79	63	(16)	215,919	76
Word	6,387	25,401	(19,094)	94,709	308,028	(213,317)	67	83	(16)	266,798	77
Powerpoint	(498)	2,448	(2,947)	(3,423)	33,335	(36,758)	146	73	72	37,680	72
Access	4,939	6,503	(3,564)	73,534	113,575	(40,041)	67	75	(8)	56,531	63
Project	5,151	6,971	(1,820)	45,051	72,247	(27,196)	114	98	16	69,587	107
Other Desktop Apps	2	18	(16)	40	282	(242)	42	63	(21)	128	86
Desktop Apps Existing Users	223,494	220,495	3,000	1,456,920	1,666,018	(209,098)	153	132	21	1,857,440	133
Desktop Apps - Total	970,584	980,867	(10,283)	5,863,151	5,160,085	703,066	168	190	(25)	4,589,548	178
Kids	21,257	24,385	(3,128)	1,440,073	1,000,067	440,006	15	24	(10)	445,493	27
Entertainment	28,750	43,507	(13,757)	2,021,722	1,740,118	281,604	15	25	(10)	848,956	27
Personal Interests	13,641	13,515	126	979,087	717,481	261,606	14	19	(5)	220,541	26
Geo/Travel	8,538	5,473	3,065	218,817	147,825	70,992	39	37	2	202,863	39
Reference	23,061	33,208	(10,148)	1,485,266	1,846,540	(161,274)	16	20	(5)	463,480	41
Bob	(696)	5,273	(5,969)	106,093	142,259	(36,166)	(7)	37	(44)	(82,444)	50
Imaging	613	699	(86)	464,950	84,683	380,267	1	8	(7)	16,072	12
New Business	86,164	128,059	(41,895)	8,718,008	5,478,953	3,239,055	14	23	(9)	2,134,941	30
Publisher	18,530	20,665	(2,135)	531,908	391,437	140,471	35	53	(18)	287,368	54
Works	37,193	35,135	2,059	1,785,895	1,811,959	(26,064)	21	22	(1)	570,981	38
Established Business	55,723	55,799	(76)	2,317,603	2,003,396	314,207	24	28	(4)	656,367	43
Keyboards	9,509	30,952	(21,443)	178,870	498,058	(319,188)	53	62	(9)	337,965	75
Mouse/Pointpoint	67,043	67,182	(139)	4,314,208	4,007,345	306,863	16	17	(1)	1,112,634	41
Gaming Devices	23,063	8,378	14,685	530,564	235,971	294,593	43	36	7	322,378	43
Hardware	99,615	108,481	(8,866)	5,023,662	4,739,374	284,288	20	22	(3)	1,772,977	48
Consumer	251,502	268,350	(16,848)	14,057,273	12,221,723	1,835,550	18	24	(6)	4,766,265	39
Personnel/Finance	6,818	2,931	3,887	834,167	176,001	658,166	10	16	(6)	180,484	21
MSN - Basic	2,632	2,521	111	978,000	1,268,057	(292,057)	7	8	(1)	-	-
MSN - Connectivity	81	3,255	(3,164)	-	-	-	-	-	-	-	-
MSN - Extended	-	-	-	-	-	-	-	-	-	-	-
MSN - Internet	-	-	-	-	-	-	-	-	-	-	-
Microsoft Network (MSN)	9,545	15,555	(6,010)	976,000	1,268,057	(292,057)	10	12	(2)	-	-
Total Apps/Content	1,238,649	1,287,603	(47,954)	21,730,891	18,825,866	2,905,025	57	68	(11)	9,536,315	108

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**Q96-2 MICROSOFT WORLDWIDE REVENUE SUMMARY (continued)**  
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 USFG YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue	
MS-DOS	157,785	148,413	9,372	6%	9,355,376	8,588,749	776,628	9%	17	17	317,645	35
Windows, WWY	256,947	184,977	71,970	39%	3,009,143	4,483,750	(1,474,607)	(33%)	24	21	1,698,761	46
Windows 95	99,933	322,863	(222,930)	(69%)	375,599	272,986	102,613	38%	33	40	4,192,937	86
MS Plus (Frothing)	14,153	10,991	3,162	29%	418,497	78,794	339,703	431%	38	40	1,083,606	37
Other PSD (AI Work, Telephony)	5,205	1,336	3,867	289%	23,783,574	22,172,948	1,610,626	7%	12	17	4,989	22
Personal Systems Division	533,923	669,581	(135,658)	(20%)	213,821	84,132	129,689	154%	22	30	7,348,139	87
Windows NT Workstation	39,076	15,703	23,373	149%	109,417	69,023	39,594	57%	183	187	185,133	188
Windows NT Server - Servers	54,511	34,910	19,601	56%	1,011,532	496,196	515,336	104%	498	500	61,191	507
Windows NT Server - Users	18,147	10,380	7,767	75%	16,732	13,692	3,040	22%	18	21	744,660	15
SQL Server - Servers	10,487	9,120	1,367	15%	87,557	105,395	(17,838)	(17%)	627	668	11,281	659
SQL Server - Users	6,530	10,433	(1,903)	(18%)	10,192	1,966	8,226	413%	97	99	90,064	82
Backoffice - Servers	13,829	2,764	11,065	400%	159,065	20,891	138,174	661%	1,357	1,392	6,041	1,025
Backoffice - Users	13,573	3,117	10,456	335%	20,963	2,435	18,528	761%	85	149	133,070	83
*Mail - Servers	8,005	6,970	1,035	17%	23,396	80,484	37,485	62%	342	328	23,347	279
*Mail - Users	3,259	2,128	1,131	53%	97,969	79,516	18,453	23%	33	35	158,569	21
*Mail - AddOns, Upgrades	9,462	7,697	1,764	23%	119,774	79,516	40,258	51%	79	97	173,957	78
Exchange - Servers	68	68	0	(00%)	168	168	0	(00%)	402	402	0	0
Exchange - Users	124	124	0	(00%)	2,551	2,551	0	(00%)	49	49	0	0
*SMS Server - Servers	3,938	2,297	1,641	71%	6,093	5,003	3,090	62%	487	459	4,554	411
*SMS Server - Users	9,537	4,290	5,246	122%	420,847	134,264	286,583	213%	23	32	391,459	21
*SNA Server - Servers	1,552	1,841	(289)	(16%)	5,163	6,398	(1,233)	(19%)	301	288	3,689	264
*SNA Server - Users	3,039	2,397	642	27%	103,734	54,419	49,315	91%	29	44	84,853	28
Other Business Systems	22,275	6,611	13,665	159%	31,764	71,618	(39,854)	(56%)	701	120	4,869	3,068
Business Systems New Users	219,218	122,747	96,471	79%	2,419,058	1,227,497	1,191,561	97%	91	100	2,037,377	78
Windows NT Workstation	9,748	1,308	8,440	645%	131,622	47,259	84,363	175%	74	28	113,099	73
Windows NT Server - Servers	2,745	2,097	648	31%	38,296	28,887	9,409	33%	72	78	42,147	51
Windows NT Server - Users	1,491	1,786	(296)	(17%)	7,985	4,915	3,070	62%	187	383	7,985	196
SQL Server - Servers	1,522	1,615	(93)	(6%)	37,588	39,905	(2,319)	(6%)	40	40	40,482	41
SQL Server - Users	13	13	0	(00%)	67	67	0	(00%)	186	186	0	0
Exchange - Servers	19	19	0	(00%)	414	414	0	(00%)	46	46	0	0
Exchange - Users	250	250	0	(00%)	513	4,098	3,585	(70%)	35	61	621	70
Other Business Systems	15,522	7,068	8,454	119%	215,992	123,545	92,447	75%	72	57	204,314	67
Business Systems Existing Users	234,740	129,835	104,905	81%	2,635,050	1,351,042	1,284,008	85%	89	96	2,281,991	76
Visual Basic	61,262	25,879	35,383	137%	311,477	160,518	150,959	84%	197	161	221,093	150
Fox	9,477	14,905	(5,427)	(36%)	42,621	99,332	(56,711)	(57%)	222	150	90,825	175
C++	28,073	24,512	3,561	15%	128,200	115,065	13,135	11%	219	213	113,973	197
MSDN	13,034	10,075	2,959	29%	25,007	24,536	471	2%	521	411	31,439	471
Other Developer Products	17,410	22,884	(5,475)	(24%)	57,108	103,279	(46,173)	(45%)	305	222	58,555	248
Developer	129,259	98,255	31,004	32%	584,411	502,730	81,681	17%	229	195	515,685	186
ACT - Software	8,962	10,216	(1,253)	(12%)	1,944	1,859	85	5%	4,610	5,498	0	0
ACT - Other	908,852	907,887	965	(0%)	26,984,979	24,028,578	2,956,401	12%	34	38	10,125,515	76
Total Platforms	2,148,531	2,195,490	(46,959)	(2%)	48,715,810	42,854,414	5,861,426	14%	44	51	19,681,830	90
Total Product Group	29,057	16,914	12,143	72%	3,862,301	390,640	3,471,661	915%	20	79	208,529	90
Press	78,773	29,950	48,823	156%	128,824	(41,198)	(170,022)	(208%)	0	0	0	0
Other (Mar, MES, Xenix, OS2)	52,562	26,728	25,836	97%	52,562	26,728	25,836	97%	0	0	0	0
Recurring Mnt (Materials)	2,178,099	2,227,802	(49,702)	(2%)	52,578,171	43,235,084	9,343,087	22%	41	52	19,810,359	87
Recurring Mnt (recognized)												
Gross Revenue												

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

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**FYTD96 MICROSOFT WORLDWIDE REVENUE SUMMARY**

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 USFG YTD (USD)				
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue
Office Professional	632,586	618,041	14,547	2%	2,476,894	2,635,778	(359,084)	(15%)	255	218	37	17%	1,010,873	228
Office Professional	573,874	556,715	216,959	61%	2,543,071	1,206,516	1,336,555	111%	228	298	(70)	(24%)	844,981	225
Excel	120,536	100,379	20,157	20%	1,098,957	619,465	479,492	77%	110	182	(52)	(32%)	185,310	159
Word	136,025	128,441	10,384	8%	1,337,833	913,852	423,981	46%	102	138	(36)	(26%)	283,262	151
Powerpoint	19,743	17,248	2,496	14%	111,540	106,894	4,646	2%	177	158	19	12%	56,971	176
Access	60,630	48,065	12,565	26%	457,575	325,610	131,965	41%	133	148	(15)	(10%)	183,064	146
Project	77,084	82,998	(5,911)	(7%)	338,047	260,745	77,302	30%	228	318	(90)	(28%)	142,363	294
Other Desktop Apps	4,520	3,512	1,008	29%	91,170	59,127	32,043	54%	50	59	(10)	(17%)	35,282	49
Desktop Apps New Users	1,825,600	1,353,397	272,203	20%	8,454,887	6,379,987	2,124,800	34%	192	214	(22)	(10%)	2,732,108	208
Office Professional	283,031	185,232	97,798	59%	1,599,223	1,066,133	533,090	50%	164	155	9	6%	818,537	154
Excel	169,028	98,969	69,059	70%	798,024	528,322	269,702	61%	211	188	23	12%	392,292	161
Word	29,263	39,150	(9,887)	(25%)	350,483	481,887	(131,204)	(27%)	83	81	2	3%	215,919	76
Powerpoint	3,613	5,418	(1,805)	(33%)	471,368	643,173	(171,805)	(27%)	80	81	(2)	(2%)	268,758	77
Access	7,444	13,082	(5,637)	(42%)	103,917	184,452	(80,535)	(44%)	74	73	1	2%	37,690	72
Project	12,425	12,179	246	2%	109,916	128,877	(18,961)	(15%)	113	94	19	20%	56,531	63
Other Desktop Apps	5	135	(129)	(96%)	109,916	128,877	(18,961)	(15%)	113	94	19	20%	68,587	107
Desktop Apps Existing Users	321,605	386,446	(64,841)	(17%)	3,479,594	3,106,753	372,841	12%	150	124	26	21%	1,857,410	133
Desktop Apps - Total	2,147,205	1,739,843	407,362	23%	11,934,481	8,438,740	2,497,741	26%	180	184	(4)	(2%)	4,589,548	178
Kids	29,707	35,334	(5,627)	(16%)	2,160,559	1,459,898	700,663	48%	14	24	(10)	(43%)	448,493	27
Entertainment	46,954	57,168	(10,233)	(18%)	3,477,933	2,373,179	1,104,754	47%	14	24	(10)	(43%)	848,956	27
Personal Interest	17,463	20,761	(3,298)	(16%)	1,395,902	1,072,781	323,121	30%	13	19	(7)	(35%)	220,541	26
Geo/Travel	12,791	6,782	6,009	89%	319,883	180,595	139,288	77%	40	37	3	7%	202,883	39
Reference	46,734	51,069	(4,355)	(9%)	3,108,378	2,450,052	658,326	26%	15	21	(6)	(28%)	463,490	41
Bob	(2,806)	8,698	(11,505)	(132%)	130,808	225,179	(94,371)	(42%)	(2)	9	(11)	(156%)	(62,444)	50
Imaging	1,366	1,172	284	23%	932,604	134,301	798,303	594%	2	8	(7)	(82%)	16,032	12
New Business	152,277	181,001	(28,724)	(16%)	11,556,083	7,903,783	3,652,300	46%	13	23	(10)	(42%)	2,134,341	30
Publisher	27,335	26,640	695	3%	799,453	533,858	265,595	50%	34	50	(16)	(37%)	287,386	54
Works	76,938	63,755	13,182	21%	4,014,658	3,209,390	805,278	25%	19	20	(1)	(5%)	570,981	38
Established Business	104,273	90,388	13,877	15%	4,814,109	3,743,038	1,071,071	29%	22	24	(2)	(10%)	858,367	43
Keyboards	43,073	47,768	(4,695)	(10%)	646,107	728,778	(82,669)	(11%)	67	66	1	2%	337,965	75
Mouse/Bar/point	133,841	116,479	17,362	15%	8,180,558	7,427,474	753,084	10%	16	16	1	4%	1,112,634	41
Gaming Devices	25,952	13,889	12,062	87%	599,530	395,754	213,776	55%	43	36	7	20%	322,376	43
Hardware	202,868	178,137	24,729	14%	9,428,195	8,542,004	886,191	10%	22	21	1	5%	1,772,977	46
Consumer	459,416	448,534	9,883	2%	25,766,367	20,188,875	5,577,542	28%	18	22	(4)	(20%)	4,768,265	39
Personal Finance	9,863	5,988	3,875	65%	1,178,742	481,879	697,083	145%	6	12	(4)	(33%)	180,484	21
MSN - Basic	7,167	9,779	(2,612)	(27%)	1,027,880	1,268,057	(240,177)	(19%)	7	8	(1)	(10%)	-	-
MSN - Connectivity	2,887	2,521	367	15%	-	-	-	-	-	-	-	-	-	-
MSN - Extended	100	3,255	(3,155)	(97%)	-	-	-	-	-	-	-	-	-	-
MSN - Internet	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Microsoft Network (MSN)	10,155	15,555	(5,400)	(35%)	1,027,880	1,268,057	(240,177)	(19%)	10	12	(2)	(18%)	-	-
Total Apps/Content	2,828,840	2,210,921	415,719	19%	39,907,470	31,375,301	8,532,169	27%	68	70	(5)	(7%)	9,538,315	106

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MSC 00499733

A4 - MICROSOFT CONFIDENTIAL AUTHOR: STEVE HOBRECHT (STEVEHOB)



FYTD96 MICROSOFT WORLDWIDE REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY95 US\$G YTD (USD)		
	Actual	Budget	Var %	Actual	Budget	Var %	Actual	Budget	Variance	Var %	Licenses	Revenue
MS DOS	372,262	301,571	10%	19,889,521	17,307,900	15%	17	17	(1)	(4%)	377,845	35
Windows, WWW	516,110	367,920	40%	21,389,921	17,432,858	23%	24	21	3	14%	1,698,781	46
Windows 95	1,041,689	768,744	36%	13,140,943	9,750,106	35%	80	79	1	1%	4,182,937	86
MS Plus! (Fostling)	76,808	29,987	156%	1,890,055	772,559	156%	39	39	(0)	(1%)	1,083,808	37
Other PSD (AI Work, Telephony)	9,499	3,159	201%	1,038,785	182,407	468%	9	17	(8)	(47%)	4,988	22
Personal Systems Division	1,982,368	1,471,381	35%	57,447,205	45,445,632	26%	35	32	3	7%	7,348,139	87
Windows NT Workstation	65,076	28,168	131%	359,731	154,054	134%	181	183	(2)	(1%)	165,133	188
Windows NT Server - Servers	86,274	61,221	41%	169,789	122,216	39%	508	501	7	1%	61,191	507
Windows NT Server - Users	27,768	17,781	56%	1,537,475	849,923	81%	18	21	(3)	(14%)	744,860	15
SOL Server - Servers	20,081	16,951	18%	30,094	25,280	19%	687	871	(4)	(1%)	11,261	639
SOL Server - Users	17,390	18,940	(8%)	192,712	191,199	1%	90	99	(9)	(9%)	90,064	82
Batchoffice - Servers	17,031	4,628	266%	15,088	3,373	347%	1,130	1,372	(242)	(18%)	6,041	1,025
Batchoffice - Users	19,503	5,270	270%	228,624	35,932	536%	85	147	(61)	(42%)	133,070	83
Mail - Servers	15,711	13,145	20%	48,408	40,307	20%	325	326	(1)	(0%)	23,347	279
Mail - Users	6,171	4,908	25%	239,346	151,047	59%	26	32	(7)	(21%)	158,569	21
Mail - AddOns, Upgrades	22,069	15,070	46%	261,730	154,437	69%	84	98	(13)	(14%)	173,957	78
Exchange - Servers	87	87	(0%)	218	218	(0%)	398	398	(0)	(0%)	113,099	76
Exchange - Users	184	184	(0%)	3,992	3,992	(0%)	46	46	(0)	(0%)	4,954	411
SMS Server - Servers	6,363	4,224	51%	14,047	9,219	52%	453	458	(5)	(1%)	391,459	21
SMS Server - Users	14,407	7,878	83%	623,486	247,458	152%	23	32	(9)	(27%)	3,689	264
SNA Server - Servers	2,668	3,337	(81%)	9,765	11,371	(16%)	273	283	(10)	(17%)	84,853	26
SNA Server - Users	4,493	4,168	8%	148,791	94,478	57%	30	44	(14)	(32%)	2,057,377	76
Other Business Systems	35,345	16,601	113%	88,474	137,851	(36%)	399	120	279	232%	4,889	3,088
Business Systems New Users	360,350	222,563	62%	3,987,738	2,231,338	78%	91	100	(9)	(9%)	113,099	73
Windows NT Workstation	12,262	2,257	443%	165,418	81,296	108%	72	28	45	161%	42,147	51
Windows NT Server - Servers	4,647	3,584	30%	70,164	45,929	53%	66	78	(12)	(15%)	7,965	196
Windows NT Server - Users	3,066	4,518	(32%)	13,938	12,567	11%	221	359	(138)	(38%)	40,462	41
SOL Server - Servers	2,551	3,863	(34%)	60,168	98,552	(39%)	42	39	3	8%	188	(186)
SOL Server - Users	15	15	(0%)	79	79	(0%)	45	45	(0)	(0%)	621	78
Exchange - Servers	41	453	(91%)	559	7,279	(6,720)	74	62	12	19%	204,314	67
Exchange - Users	22,587	14,711	54%	314,245	248,171	28%	72	60	12	20%	2,281,891	78
Other Business Systems	382,936	237,274	61%	4,281,983	2,477,507	73%	69	98	(6)	(7%)	221,093	150
Business Systems - Total	77,493	48,958	58%	418,853	290,104	44%	185	162	23	14%	90,825	175
Virtual Basic	29,565	32,828	(10%)	158,711	220,859	(29%)	189	149	40	27%	113,973	187
Fox	42,519	39,531	8%	192,189	186,008	3%	221	212	9	4%	31,439	471
C++	24,396	21,008	16%	52,156	50,971	2%	488	419	79	36%	58,555	248
MSDN	28,791	31,914	(10%)	89,951	145,724	(38%)	298	219	79	36%	815,685	198
Other Developer Products	200,765	172,237	17%	509,660	694,264	(26%)	221	193	28	15%	4,547	5,562
Developer	15,193	18,712	(19%)	3,341	3,364	(23)	4,547	5,562	(1,015)	(18%)	10,125,515	78
ACT - Software	2,581,262	1,899,603	36%	62,642,389	48,820,967	28%	41	39	2	6%	19,661,830	90
ACT - Other	5,207,802	4,110,524	27%	102,548,659	80,196,268	28%	51	51	(0)	(1%)	208,529	80
Total Platforms	50,227	26,622	75%	5,655,798	815,178	594%	23	67	(44)	(65%)	19,870,359	87
Other (Mac, MES, Xenix, OS2)	131,419	54,967	140%	187,330	78,257	140%	108,205,657	81,011,448	27,194,211	34%	51	(3)
Recurring Mkt (alternates)	88,515	52,323	69%	1,120,953	27%	21%	49	51	(2)	(5%)	19,870,359	87
Recurring Mkt (recapitated)	5,290,733	4,170,079	27%	108,205,657	81,011,448	27%	49	51	(2)	(5%)	19,870,359	87
Gross Revenue	5,290,733	4,170,079	27%	108,205,657	81,011,448	27%	49	51	(2)	(5%)	19,870,359	87

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

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Q96-2 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USFG YTD (USD)	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lic
Office	65,998	142,186	(76,200)	359,077	620,505	(260,828)	183	229	(46)	1,010,673	226
Office Professional	86,363	82,059	(4,304)	305,465	305,472	(7)	372	269	103	844,961	225
Excel	(5,699)	17,840	(23,539)	(17,172)	305,472	(322,644)	132	145	(13)	185,310	159
Word	(625)	28,979	(29,604)	23,855	211,573	(187,718)	(26)	128	(154)	163,262	151
Powerpoint	1,827	5,256	(3,429)	3,055	35,686	(32,631)	598	147	451	96,971	176
Access	20,404	12,465	7,939	143,698	88,828	54,870	142	141	1	193,064	148
Project	19,984	29,312	(9,328)	71,113	82,617	(11,504)	281	316	(35)	142,363	284
Other Desktop Apps	1,747	908	841	28,257	16,728	11,529	62	48	14	35,282	48
Desktop Apps New Users	169,996	317,033	(147,037)	998,146	1,496,361	(498,215)	170	212	(42)	2,732,108	208
Office	42,800	37,625	5,175	335,955	278,142	57,813	128	135	(7)	818,537	154
Office Professional	25,998	21,968	4,030	176,253	153,004	23,249	148	144	4	592,292	181
Excel	(3,907)	6,098	(9,999)	(38,735)	89,851	(128,586)	101	68	33	215,919	76
Word	(2,058)	8,445	(10,503)	(14,293)	118,449	(132,742)	144	71	73	266,756	77
Powerpoint	(1,074)	1,187	(2,261)	(9,993)	19,788	(29,779)	107	60	48	37,680	72
Access	2,949	2,277	672	48,048	51,635	(3,587)	64	44	20	56,531	63
Project	1,452	3,803	(2,351)	17,819	47,300	(29,481)	81	80	1	69,587	107
Other Desktop Apps	2	16	(13)	48	222	(174)	51	71	(20)	128	58
Desktop Apps Existing Users	68,246	81,415	(13,169)	513,202	758,369	(245,167)	129	107	22	1,657,440	133
Desktop Apps - Total	236,242	398,448	(162,206)	1,511,346	2,254,770	(743,422)	158	177	(20)	4,589,546	178
Kids	9,476	13,291	(3,813)	358,857	481,640	(122,683)	26	28	(2)	445,493	27
Entertainment	14,100	26,437	(12,336)	544,813	856,847	(312,034)	26	31	(5)	848,956	27
Personal Interests	5,341	5,785	(444)	209,444	235,100	(25,656)	26	25	1	220,541	28
Geo/Travel	4,951	3,360	1,591	133,510	96,594	36,916	37	34	3	202,803	39
Reference	7,616	19,590	(11,973)	251,483	538,720	(287,237)	30	36	(6)	483,490	41
Bob	(1,533)	4,739	(6,272)	(41,522)	72,233	(113,755)	37	66	(29)	(82,444)	50
Imaging	56	221	(163)	8,498	11,934	(3,436)	7	19	(12)	16,022	12
New Business	40,014	73,423	(33,410)	1,464,983	2,296,068	(831,085)	27	32	(5)	2,134,941	30
Publisher	10,308	14,283	(3,975)	189,860	212,639	(22,779)	54	67	(13)	287,388	54
Works	3,774	9,234	(5,460)	138,870	205,404	(66,534)	27	45	(18)	570,881	36
Established Business	14,082	23,517	(9,435)	328,790	416,043	(87,253)	43	56	(13)	656,387	43
Keyboards	1,124	16,796	(15,672)	23,362	250,688	(227,326)	48	75	(27)	337,865	75
Mouse/Ballpoint	21,501	24,803	(3,301)	497,159	620,821	(123,662)	43	40	3	1,112,634	41
Gaming Devices	13,174	5,736	7,438	300,264	151,849	148,415	44	38	6	322,378	43
Hardware	35,800	49,335	(13,535)	820,805	1,023,358	(202,553)	44	48	(5)	1,772,937	48
Consumer	69,895	146,275	(76,380)	2,814,538	3,737,469	(922,931)	34	39	(5)	4,766,785	39
Personal Finance	3,032	1,072	1,960	159,515	119,403	40,112	19	9	10	180,484	21
MSN - Basic											
MSN - Connectivity											
MSN - Extended											
MSN - Internet											
Microsoft Network (MSN)											
Total Apps/Content	329,169	645,785	(316,616)	4,285,401	6,111,842	(1,826,441)	77	89	(12)	9,538,315	106

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A6 - MICROSOFT CONFIDENTIAL AUTHOR: STEVE HOBENECHT (STEVEHOB)

Q96-2 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY95 USFG YTD (USD)	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	License	Rev/Lic
MS-00S	7,585	1,924	5,661	204,487	62,940	151,547	37	36	1	377,645	35
Windows NT	47,177	5,385	41,792	947,763	115,225	832,538	104	87	17	1,598,761	46
MS Plus (Frosting)	(173,514)	105,044	(278,558)	(1,671,323)	1,237,404	(2,908,727)	50	45	5	4,162,937	66
Other PSD (AI Work, Telephony)	(3,064)	4,453	(7,517)	(68,328)	117,156	(185,482)	45	38	7	1,063,008	37
Personal Systems Division	(121,782)	116,920	(238,602)	(585,264)	1,523,003	(2,108,267)	208	17	191	4,988	22
Windows NT Workstation	20,028	6,215	13,813	108,348	29,102	79,246	188	214	(26)	7,348,139	87
Windows NT Server - Servers	21,796	10,440	11,356	43,599	20,400	23,199	500	512	(12)	185,133	188
Windows NT Server - Users	8,335	2,623	5,712	536,965	145,504	391,461	15	18	(3)	744,860	15
SOL Server - Servers	3,870	3,418	451	5,934	5,246	688	652	652	0	11,281	659
SOL Server - Users	3,259	3,905	(646)	33,333	40,748	(7,413)	88	86	2	90,064	82
Backoffice - Servers	5,739	618	5,121	4,344	477	3,867	1,321	1,265	56	6,041	1,025
Backoffice - Users	8,295	654	7,641	102,073	5,898	96,177	81	145	(64)	133,070	83
*Mail - Servers	3,162	2,791	371	10,541	9,125	1,416	300	306	(6)	23,347	279
*Mail - Users	1,755	659	1,096	59,392	25,122	34,270	30	28	2	158,589	21
*Mail - AddOns, Upgrades	5,607	4,535	1,071	73,178	48,856	24,322	77	93	(16)	173,957	78
Exchange - Servers											
Exchange - Users											
*SMS Server - Servers	1,481	992	489	3,595	2,155	1,440	412	460	(48)	4,954	411
*SMS Server - Users	5,913	2,068	3,845	288,333	68,445	219,888	21	29	(8)	391,459	21
*SMA Server - Servers	381	1,085	(704)	823	3,947	(3,024)	413	275	138	3,669	264
*SMA Server - Users	1,717	1,209	508	68,297	27,894	40,403	25	43	(18)	84,853	26
Other Business Systems	10,591	3,649	6,942	4,403	24,539	(20,136)	2,408	149	2,257	4,889	3,068
Business Systems New Users	101,927	45,007	56,920	1,343,257	457,554	885,703	76	98	(22)	2,057,377	76
Windows NT Workstation	7,040	984	6,056	96,060	35,288	60,772	73	28	45	113,089	73
Windows NT Server - Servers	1,527	1,217	310	24,306	18,632	7,674	63	73	(10)	42,147	51
Windows NT Server - Users	632	1,177	(545)	4,385	3,288	1,097	144	358	(214)	7,965	196
SOL Server - Servers	987	935	52	25,805	25,498	307	37	37	0	40,462	41
SOL Server - Users											
Exchange - Servers											
Exchange - Users											
Other Business Systems	4		4	451		451	9		9	621	76
Business Systems Existing Users	10,171	4,313	5,858	151,007	80,704	70,303	67	53	14	204,314	67
Business Systems - Total	112,098	49,320	62,778	1,494,264	538,258	956,006	75	92	(17)	2,261,591	78
Visual Basic	28,604	13,747	14,857	180,998	87,438	93,560	158	157	1	221,093	150
Fox	3,211	6,431	(3,220)	15,130	45,042	(29,912)	212	143	69	90,625	175
C++	17,864	15,598	2,266	91,697	75,955	15,742	195	205	(11)	113,973	197
MSDN	8,783	5,617	3,166	17,042	14,468	2,574	515	388	127	31,439	471
Other Developer Products	9,811	15,645	(5,834)	41,751	72,213	(30,462)	235	217	18	58,555	248
Developer	68,274	57,038	11,236	348,616	295,114	53,502	197	193	4	515,665	196
ACT - Software											
ACT - Other											
Total Platforms	58,590	223,178	(164,588)	1,255,596	2,358,315	(1,102,719)	47	85	(48)	10,125,515	76
Total Product Group	387,759	768,973	(381,213)	5,540,997	8,468,017	(2,927,020)	70	91	(21)	19,681,830	90
Press	0		0								
Other (Man, MES, Xenix, OS2)	12,704	11,972	732	78,021	3,807	74,214	163	3,066	(2,903)	208,539	90
Recurring Mnt (deletrats)	(81,845)	(19,162)	(62,683)								
Recurring Mnt (recognised)	31,223	15,978	15,245								
Gross Revenue	350,642	777,460	(426,818)	5,619,018	8,471,924	(2,852,906)	62	92	(29)	19,870,359	87

\* Business Systems New Users contain some Existing User data for these lines denoted with an asterisk

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FYTD96 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USFG YTD (USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue		
Office	247,890	271,771	(23,881)	(9%)	1,101,856	1,185,348	(83,492)	(7%)	225	229	(4)	1,010,873	226
Office Professional	204,758	158,975	45,783	29%	919,215	590,977	328,238	56%	223	269	(46)	844,981	225
Exec	32,324	34,067	(1,743)	(5%)	210,217	234,469	(24,252)	(10%)	154	145	9	165,310	158
Word	43,055	51,844	(8,789)	(17%)	294,255	408,077	(111,822)	(28%)	146	128	18	263,262	151
Powerpoint	10,845	10,061	783	8%	62,763	68,260	(5,497)	(8%)	173	147	25	56,971	176
Access	30,380	23,738	6,622	28%	208,895	168,543	40,352	24%	145	141	4	193,064	146
Project	44,755	55,004	(10,249)	(19%)	152,551	173,819	(21,268)	(12%)	293	316	(23)	142,363	294
Other Desktop Apps	1,985	1,740	245	14%	36,214	35,233	981	3%	206	212	(6)	35,282	49
Desktop Apps New Users	815,862	607,201	208,661	34%	2,987,968	2,862,727	125,241	4%	206	212	(6)	2,732,106	208
Office	130,163	81,996	48,167	59%	659,172	591,208	67,964	11%	151	138	13	816,537	154
Office Professional	72,770	37,220	35,550	96%	402,819	269,077	133,842	50%	181	138	42	392,292	181
Exec	16,612	18,574	(1,962)	(11%)	218,490	253,217	(33,727)	(13%)	76	73	2	215,919	76
Word	20,937	26,249	(5,312)	(20%)	272,005	345,556	(73,551)	(21%)	77	78	1	268,758	77
Powerpoint	2,745	3,529	(784)	(22%)	36,038	52,744	(16,706)	(32%)	72	67	5	37,690	72
Access	3,614	3,669	(55)	(1%)	57,349	90,620	(33,271)	(37%)	63	40	23	56,531	63
Project	7,765	7,122	642	9%	73,101	86,972	(15,471)	(17%)	106	80	26	69,587	107
Other Desktop Apps	7	36	(28)	(80%)	133	488	(355)	(73%)	53	72	(17)	176	56
Desktop Apps Existing Users	254,532	176,394	78,138	43%	1,922,204	1,691,492	230,712	14%	132	105	27	1,857,440	133
Desktop Apps - Total	870,393	785,595	84,798	11%	4,910,170	4,554,219	355,951	8%	177	172	5	4,589,548	178
Kids	13,260	19,034	(5,773)	(30%)	484,145	682,870	(198,725)	(29%)	27	27	(1)	445,493	27
Entertainment	24,975	34,754	(9,779)	(28%)	929,300	1,091,119	(161,819)	(15%)	27	32	(5)	846,956	27
Personal Interests	6,626	6,581	45	1%	254,581	336,598	(82,017)	(24%)	28	25	3	220,541	26
Geo/Travel	8,290	3,777	4,513	119%	215,068	113,488	101,580	90%	39	33	6	202,883	38
Reference	20,774	26,693	(7,919)	(28%)	508,437	773,824	(267,187)	(35%)	41	37	4	463,490	41
Bob	(4,038)	7,667	(11,705)	(153%)	(77,237)	114,755	(191,992)	(187%)	52	67	(15)	(62,444)	50
Imaging	173	359	(185)	(52%)	15,437	19,398	(3,951)	(20%)	11	19	(7)	16,022	12
New Business	70,081	102,865	(32,784)	(32%)	2,337,731	3,141,842	(804,111)	(26%)	30	33	(3)	2,134,941	30
Publisher	16,457	18,864	(2,407)	(12%)	503,400	251,854	251,546	20%	54	67	(13)	287,386	54
Works	22,902	21,061	1,841	9%	601,381	489,290	112,091	23%	38	45	(7)	570,981	38
Established Business	39,359	37,925	1,434	4%	904,781	720,144	184,637	26%	44	53	(9)	858,367	43
Keyboards	27,293	30,540	(3,247)	(11%)	361,228	407,297	(46,069)	(11%)	76	75	1	337,965	75
Mouse/Ballpoint	48,916	40,615	8,301	20%	1,197,405	1,016,877	180,528	18%	41	40	1	1,112,634	41
Gaming Devices	15,578	10,569	5,009	47%	359,424	279,529	79,895	29%	43	38	5	322,376	43
Hardware	91,787	81,724	10,062	12%	1,918,057	1,763,703	154,354	13%	48	48	(0)	1,772,977	48
Consumer	201,207	222,514	(21,306)	(10%)	5,160,569	5,565,689	(405,120)	(7%)	39	40	(1)	4,768,285	39
Personal Finance	3,913	3,823	90	2%	188,870	403,183	(214,313)	(53%)	21	9	12	180,484	21
MSN - Basic													
MSN - Connectivity													
MSN - Extended													
MSN - Internet													
Microsoft Network (MSN)													
Total Apps/Content	1,076,514	1,011,733	64,780	6%	10,259,609	10,523,091	(263,482)	(3%)	105	96	9	9,536,313	106

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FYTD96 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USFG YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue	Rev/Lic
MS-DOS	13,772	3,950	9,823	248%	391,314	108,791	282,523	260%	35	36	377,845	35
Windows, WW	83,035	11,208	71,827	841%	1,848,013	238,984	1,609,029	870%	45	47	1,690,761	46
Windows 95	388,183	400,539	(12,346)	(3%)	4,487,842	4,718,300	(228,458)	(5%)	66	65	4,182,937	66
MS Plus (Fronting)	43,637	17,927	25,710	143%	1,167,242	471,857	695,385	147%	37	38	1,003,808	37
Other PSD (AI Work, Telephony)	118	33	85	258%	5,325	824	4,501	753%	22	53	4,988	22
Personal Systems Division	528,755	433,655	95,101	22%	7,893,738	5,537,358	2,356,380	43%	67	78	7,348,139	67
Windows NT Workstation	33,120	11,065	22,055	199%	175,611	51,837	123,774	239%	189	213	165,133	189
Windows NT Server - Servers	34,089	18,583	15,506	83%	87,253	36,308	50,945	65%	507	512	61,191	507
Windows NT Server - Users	12,361	4,511	7,850	174%	799,568	250,211	549,357	220%	15	16	744,860	15
SQL Server - Servers	7,971	6,597	1,374	21%	9,950	2,167	7,783	22%	658	663	11,281	659
SQL Server - Users	7,904	7,490	414	6%	96,387	77,365	19,022	25%	82	97	90,064	82
Backoffice - Servers	6,660	1,248	5,412	435%	6,355	995	5,360	539%	1,048	1,252	6,041	1,025
Backoffice - Users	11,443	1,879	9,564	562%	148,332	12,047	136,285	1048%	83	139	133,070	83
*Mail - Servers	7,103	5,888	1,215	21%	25,359	18,565	6,794	37%	280	308	23,347	279
*Mail - Users	3,504	2,215	1,289	58%	166,221	84,775	81,446	96%	21	26	158,589	21
*Mail - AddOns, Upgrades	14,489	6,944	7,545	109%	184,973	83,640	101,333	98%	76	96	173,957	76
Exchange - Servers												
Exchange - Users												
*SMS Server - Servers	2,193	1,960	233	12%	5,429	4,261	1,168	27%	404	460	4,954	411
*SMS Server - Users	6,587	3,962	2,625	177%	411,209	134,940	276,269	205%	21	28	391,458	21
*SNA Server - Servers	1,013	2,037	(1,024)	(50%)	3,865	7,193	(3,328)	(46%)	282	283	3,689	284
*SNA Server - Users	2,259	2,159	100	5%	86,631	50,083	36,548	73%	26	43	84,833	26
Other Business Systems	15,048	6,827	8,221	120%	5,374	45,002	(40,228)	(88%)	2,700	149	4,889	3,058
Business Systems New Users	167,772	84,962	82,811	97%	2,184,884	877,850	1,307,034	149%	77	97	2,057,377	76
Windows NT Workstation	8,462	1,716	6,746	393%	115,785	61,801	53,984	87%	73	28	113,099	73
Windows NT Server - Servers	2,336	2,125	212	10%	45,358	29,154	16,204	56%	52	73	42,147	51
Windows NT Server - Users	1,693	3,470	(1,776)	(51%)	6,383	9,788	(3,405)	(14%)	202	355	7,985	186
SQL Server - Servers	1,725	2,688	(963)	(36%)	42,320	73,856	(31,536)	(43%)	41	36	40,462	41
SQL Server - Users												
Exchange - Servers												
Exchange - Users												
Other Business Systems	48		48		620		620		77		621	76
Business Systems Existing Users	14,264	9,998	4,266	43%	212,484	174,597	37,887	22%	67	57	204,314	67
Business Systems - Total	182,037	84,960	97,077	92%	2,397,368	1,052,447	1,344,921	128%	78	90	2,281,691	76
Visual Basic	38,199	26,621	11,578	36%	240,961	169,307	71,654	42%	150	157	221,093	150
For	16,652	19,057	(2,404)	(12%)	96,344	131,283	(34,939)	(27%)	175	145	90,625	175
C++	23,616	22,579	1,039	5%	118,469	117,458	2,011	2%	188	192	113,973	197
MSDN	15,601	12,809	2,792	21%	33,245	32,802	443	1%	489	393	31,439	471
Other Developer Products	15,093	16,974	(1,881)	(20%)	61,235	69,890	(8,655)	(12%)	246	212	56,555	248
Developer	107,364	100,120	7,244	7%	551,274	540,540	10,734	2%	195	165	515,665	196
ACT - Software												
ACT - Other												
Total Platforms	818,156	628,734	189,422	30%	10,848,378	7,130,343	3,718,035	52%	75	88	10,125,515	76
Total Product Group	1,893,869	1,640,487	253,382	15%	21,107,867	17,653,434	3,454,433	20%	80	83	19,681,830	80
Press	0	0	0	0	0	0	0	0	0	0	0	0
Other (Man, MES, Xenix, OS2)	21,594	23,325	(1,732)	(7%)	220,605	6,563	214,042	3261%	98	3,554	208,529	90
Recurring Mnt (detrain)	(125,852)	(41,297)	(84,555)	205%								
Recurring Mnt (recognized)	54,272	30,426	23,846	78%								
Gross Revenue	1,843,583	1,652,922	190,661	12%	21,328,592	17,659,997	3,668,595	21%	88	94	19,870,359	87

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

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**Q96-2 EUROPE FINISHED GOODS REVENUE SUMMARY**

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue (License)			Y96 US\$ (Y1D US\$)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lic	Rev/Lic
Office Professional	139,484	128,022	13,462	11%	416,552	418,110	(2,558)	(1%)	335	301	34	11%
Excel	98,204	77,842	20,361	26%	254,325	224,952	29,373	13%	386	346	40	12%
Word	20,995	22,314	(1,319)	(6%)	109,862	124,963	(15,101)	(12%)	191	179	13	7%
Powerpoint	35,709	32,852	2,857	9%	186,447	190,618	(4,171)	(2%)	192	202	10	11%
Access	3,532	2,533	999	39%	15,331	12,487	2,844	23%	230	173	57	14%
Project	12,057	9,138	2,919	32%	56,569	51,563	5,006	10%	213	177	36	20%
Other Desktop Apps	14,516	12,702	1,814	14%	41,124	38,577	2,547	6%	353	347	6	2%
Desktop Apps New Users	1,501	691	810	132%	22,138	12,956	9,182	71%	72	53	19	36%
Office	326,098	284,035	42,063	15%	1,023,368	1,073,248	(49,880)	(5%)	296	265	31	12%
Office Professional	55,659	45,856	9,803	21%	208,597	246,650	(38,053)	(15%)	186	194	(7)	(4%)
Excel	37,739	38,780	(1,041)	(3%)	148,879	144,909	3,970	3%	253	268	(14)	(5%)
Word	5,072	11,069	(6,797)	(57%)	53,782	119,081	(65,299)	(55%)	94	100	(5)	(5%)
Powerpoint	7,622	15,221	(7,599)	(50%)	95,726	182,773	(87,047)	(41%)	80	94	(14)	(15%)
Access	507	1,005	(498)	(50%)	5,148	9,759	(4,611)	(47%)	98	103	(5)	(4%)
Project	2,146	5,610	(3,462)	(62%)	24,281	53,899	(29,618)	(55%)	89	104	(16)	(15%)
Other Desktop Apps	3,060	2,750	310	11%	20,371	19,551	820	4%	150	141	10	7%
Desktop Apps Existing Users	(1)	2	(3)	(145%)	(9)	60	(69)	(115%)	91	30	61	203%
Desktop Apps - Total	111,816	121,093	(9,278)	(8%)	648,753	746,642	(97,889)	(13%)	173	162	11	7%
Kids	437,914	405,198	32,716	8%	1,748,139	1,819,890	(70,751)	(4%)	250	223	28	12%
Entertainment	8,810	5,848	2,962	16%	217,288	165,442	51,846	31%	31	35	(4)	(11%)
Personal Interests	4,982	3,396	1,586	47%	284,140	207,277	76,863	37%	31	31	(0)	(1%)
Geo/Travel	3,279	2,069	1,190	57%	165,387	96,685	70,702	74%	30	35	(6)	(16%)
Reference	6,921	5,205	1,717	33%	69,799	46,686	21,111	43%	47	43	4	9%
Bob	2	31	(29)	(94%)	142,091	60,891	81,200	133%	49	65	(17)	(43%)
Imaging	57	212	(155)	(73%)	3,377	13,970	(10,593)	(76%)	78	71	7	7%
New Business	30,885	23,266	7,619	33%	893,107	592,396	300,711	49%	35	39	(4)	(11%)
Publisher	17,082	11,010	6,071	55%	80,834	82,398	(1,562)	(2%)	63	52	10	20%
Works	2,722	4,888	(2,166)	(44%)	235,041	192,268	41,755	22%	73	57	16	28%
Established Business	2,147	15,315	(13,168)	(86%)	315,875	275,682	40,193	15%	70	58	12	20%
Keyboards	8,026	11,785	(3,757)	(32%)	35,909	68,336	(32,427)	(47%)	78	72	6	6%
Mouse/Point	7,380	2,156	5,224	242%	219,132	335,753	(116,621)	(53%)	37	35	2	4%
Gaming Devices	18,130	19,879	(1,749)	(9%)	170,198	67,932	102,266	151%	43	32	12	37%
Hardware	71,182	57,410	13,772	24%	425,239	472,021	(46,782)	(10%)	43	40	3	7%
Consumer	4,008	1,887	2,121	138%	195,135	52,863	142,272	269%	21	32	(11)	(35%)
Personal Finance												
MSN - Basic												
MSN - Connectivity												
MSN - Extended												
MSN - Internet												
Microsoft Network (MSN)												
Total Apps/Content	513,084	484,285	48,799	11%	3,568,495	3,212,852	355,643	11%	144	145	(1)	(1%)

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Q96-2 EUROPE FINISHED GOODS REVENUE SUMMARY (continued)  
(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 USFG YTD (USD)				
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue			
MS DOS	3,773	793	2,980	378%	96,470	22,346	74,122	341%	38	35	3	377,845	35	
Windows, WW	21,070	3,521	17,550	498%	393,649	63,770	329,879	517%	54	55	(2)	1,698,761	46	
Windows 95	(7,917)	97,662	(105,609)	(108%)	(59,035)	1,190,204	(1,190,204)	(105%)	132	86	46	4,182,937	86	
Other PSD (AI Work, Telephony)	5,362	3,762	1,600	43%	114,010	91,010	23,000	25%	47	41	6	1,083,808	37	
Personal Systems Division	104	11	92	836%	1,737	184	1,553	844%	60	60	(1)	4,988	22	
Windows NT Workstation	22,412	103,780	(81,367)	(78%)	548,031	1,307,681	(759,650)	(58%)	41	81	(40)	7,348,139	67	
Windows NT Server - Servers	11,656	5,932	5,724	96%	47,665	26,612	21,053	79%	245	223	22	165,133	188	
Windows NT Server - Users	19,260	11,330	7,930	70%	31,831	20,547	11,284	65%	570	551	18	61,191	507	
SQL Server - Servers	5,438	4,692	746	16%	227,165	195,573	31,592	16%	24	24	(0)	744,860	15	
SQL Server - Users	3,208	2,487	721	29%	3,915	3,370	545	16%	820	738	81	11,281	659	
Backoffice - Servers	2,347	3,306	(959)	(29%)	22,022	29,868	(7,846)	(26%)	107	111	(4)	90,064	82	
Backoffice - Users	5,969	1,432	4,537	317%	4,116	988	3,128	317%	1,450	1,449	1	6,041	1,025	
Mail - Servers	2,902	1,431	1,471	103%	30,506	9,313	21,193	228%	85	154	(69)	133,070	83	
Mail - Users	3,048	1,967	1,081	55%	7,350	5,760	1,590	28%	415	341	73	23,347	279	
Mail - AddOns, Upgrades	856	406	450	111%	19,217	9,348	9,869	105%	45	43	2	158,569	21	
Exchange - Servers	2,621	2,142	479	22%	27,943	23,006	4,937	21%	84	83	1	173,957	78	
Exchange - Users	33	33	(33)	(100%)	71	71	(71)	(100%)	459	(459)	(958)	100%	100%	
SMS Server - Servers	42	42	(42)	(100%)	730	730	(730)	(100%)	58	(58)	(116)	100%	100%	
SMS Server - Users	1,586	766	818	106%	2,631	1,571	1,060	67%	603	489	114	4,954	411	
SNA Server - Servers	2,213	1,298	915	71%	73,576	37,665	35,911	95%	30	34	(4)	391,459	21	
SNA Server - Users	958	468	490	105%	3,420	1,538	1,882	122%	280	303	(23)	3,689	264	
SNA Server - Users	872	732	140	19%	20,087	18,243	1,844	24%	43	45	(2)	84,853	26	
Other Business Systems	5,929	2,674	3,255	122%	3,688	26,345	(22,657)	(86%)	1,608	101	1,507	1484%	4,689	3,068
Business Systems New Users	68,884	41,136	27,745	67%	527,132	408,568	118,564	29%	131	101	30	2,057,377	76	
Windows NT Workstation	2,270	230	2,039	886%	26,713	9,056	17,657	195%	85	25	60	113,099	73	
Windows NT Server - Servers	941	635	306	48%	6,335	7,976	(1,641)	(21%)	113	84	29	42,147	51	
Windows NT Server - Users	605	385	219	57%	2,757	997	1,760	177%	219	387	(167)	7,985	196	
SQL Server - Users	289	472	(183)	(39%)	5,708	9,981	(4,273)	(43%)	51	47	3	40,462	41	
Exchange - Servers	6	6	(6)	(100%)	20	20	(20)	(100%)	301	(301)	(601)	100%	100%	
Exchange - Users	10	10	(10)	(100%)	154	154	(154)	(100%)	84	(84)	(168)	100%	100%	
Other Business Systems	17	145	(128)	(88%)	75	2,225	(2,150)	(97%)	228	65	163	621	78	
Business Systems Existing Users	4,172	1,684	2,488	148%	43,568	30,009	13,559	45%	85	83	2	204,314	67	
Business Systems - Total	13,005	43,022	(29,983)	(70%)	570,718	438,577	132,141	30%	128	98	30	2,261,691	76	
Visual Basic	18,348	9,137	9,211	101%	66,454	53,770	12,684	24%	268	170	98	221,093	150	
Fort	3,725	4,748	(1,023)	(22%)	14,991	28,307	(13,316)	(47%)	248	168	81	90,025	175	
C++	5,444	5,463	(20)	(0%)	20,518	25,300	(4,782)	(19%)	265	216	49	113,973	197	
MSDN	2,140	2,923	(784)	(27%)	4,490	6,978	(2,488)	(36%)	477	419	57	31,439	471	
Other Developer Products	4,072	5,620	(1,548)	(28%)	9,304	23,705	(14,401)	(61%)	438	248	192	59,555	248	
Developer	33,728	28,091	5,637	20%	117,757	138,058	(20,301)	(15%)	268	203	63	515,665	196	
ACT - Software														
ACT - Other														
Total Platforms	129,146	176,693	(47,747)	(27%)	1,236,508	1,884,318	(647,810)	(34%)	104	94	11	10,125,515	76	
Total Product Group	842,229	641,178	201,051	31%	4,605,001	5,097,168	(492,167)	(6%)	134	128	6	19,661,830	90	
Press	0	0	0	0%	0	0	0	0%						
Other (Man, MES, Xenix, OS2)	18,215	10,594	7,621	72%	161,038	161,038	0	0%	101	101	0	206,529	90	
Recurring Mnt (deletrals)	(51,003)	(20,048)	(30,955)	61%										
Recurring Mnt (recognized)	14,504	8,722	5,782	66%										
Gross Revenue	641,845	640,448	1,397	0%	4,968,039	5,097,168	(131,129)	(3%)	129	128	1	19,870,359	87	

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

MSC 00499740

A11 - MICROSOFT CONFIDENTIAL

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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**FYTD96 EUROPE FINISHED GOODS REVENUE SUMMARY**  
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USEG YTD (USD)				
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue			
Office	246,287	201,136	45,151	22%	739,601	670,384	69,437	10%	333	300	33	11%	1,010,873	228
Office Professional	157,012	118,100	38,912	33%	414,228	342,775	71,451	21%	379	345	35	10%	844,981	225
Excel	41,593	36,875	4,718	13%	208,501	205,595	2,906	1%	189	179	20	11%	185,310	159
Word	60,048	53,678	6,368	12%	305,260	310,053	(4,793)	(0%)	194	173	21	12%	283,282	151
Powerpoint	6,228	4,190	2,038	49%	27,705	20,914	6,791	32%	225	200	24	12%	56,971	176
Access	17,615	13,978	3,636	26%	85,536	78,524	7,012	9%	208	178	28	16%	193,084	146
Project	23,593	21,383	2,210	10%	68,239	62,793	5,446	9%	346	341	5	2%	142,363	284
Other Desktop Apps	2,453	1,165	1,288	111%	38,849	21,864	16,985	69%	67	53	13	25%	35,282	49
Desktop Apps New Users	554,876	450,505	104,321	23%	1,890,117	1,712,892	177,235	10%	294	283	31	12%	2,732,106	208
Office	87,738	68,771	18,967	42%	498,545	362,060	137,485	38%	196	190	6	3%	818,537	154
Office Professional	63,581	52,840	10,742	20%	232,138	201,216	30,922	15%	274	263	11	4%	392,292	181
Excel	11,274	18,029	(6,754)	(37%)	110,268	184,048	(73,780)	(40%)	102	98	4	4%	215,919	76
Word	15,019	23,182	(8,162)	(35%)	168,711	252,374	(83,663)	(33%)	89	92	(3)	(3%)	268,758	77
Powerpoint	750	1,472	(723)	(49%)	8,092	14,700	(6,608)	(45%)	93	100	(6)	(6%)	37,690	72
Access	2,951	6,497	(3,546)	(55%)	33,779	82,002	(48,223)	(59%)	67	104	(37)	(36%)	56,531	63
Project	3,617	4,346	(728)	(17%)	25,644	31,040	(5,396)	(17%)	140	140	(0)	(0%)	89,587	107
Other Desktop Apps	(1)	3	(4)	(131%)	(10)	94	(104)	(111%)	86	30	56	187%	128	58
Desktop Apps Existing Users	194,930	177,139	17,791	10%	1,078,367	1,212,534	(134,167)	(12%)	181	157	24	15%	1,857,440	133
Desktop Apps - Total	749,756	627,644	122,113	19%	2,965,484	2,940,416	25,068	1%	253	221	32	14%	4,589,348	178
Kids	8,198	7,781	417	5%	261,756	220,768	40,988	19%	31	35	(4)	(11%)	445,493	27
Entertainment	11,383	8,160	3,223	40%	367,848	262,767	105,079	40%	31	31	(0)	(0%)	848,958	27
Personal Interests	5,823	4,854	969	20%	184,882	138,122	56,770	41%	30	35	(5)	(15%)	220,541	26
Geo/Travel	4,186	2,945	1,240	42%	86,708	86,218	490	0%	47	44	3	6%	202,883	39
Reference	8,436	6,825	1,610	24%	158,130	79,548	78,582	99%	53	66	(13)	(20%)	463,490	41
Bob	5	42	(37)	(87%)	71	593	(522)	(88%)	75	70	5	7%	(82,444)	50
Imaging	65	311	(246)	(79%)	4,694	20,697	(15,993)	(77%)	14	15	(1)	(6%)	16,022	12
New Business	30,095	30,918	(823)	(3%)	1,076,097	786,701	289,396	36%	35	39	(4)	(10%)	2,134,941	30
Publisher	23,471	16,027	7,444	46%	97,455	113,802	(16,347)	(14%)	67	52	15	29%	287,369	54
Works	30,024	21,981	8,044	37%	330,637	277,785	52,852	19%	71	58	13	23%	570,881	38
Established Business	6,254	7,488	(1,235)	(16%)	429,112	391,597	37,515	9%	70	56	14	25%	858,367	43
Keyboards	15,597	16,638	(1,039)	(6%)	84,876	104,721	(19,845)	(19%)	74	72	2	3%	337,965	75
Mouse/Joystick	7,847	2,618	5,231	200%	407,361	472,750	(65,389)	(14%)	38	35	3	9%	1,112,634	41
Gaming Devices	29,698	26,740	2,958	11%	179,485	81,970	97,515	119%	44	32	12	37%	322,378	43
Hardware	87,817	79,639	8,178	10%	671,722	658,441	13,281	2%	44	41	4	9%	1,772,977	48
Consumer	4,277	2,220	2,057	93%	2,175,931	1,639,729	536,202	18%	45	43	2	4%	4,766,285	39
Personal Finance					208,881	71,043	135,838	191%	21	31	(11)	(34%)	180,484	21
MSN - Basic														
MSN - Connectivity														
MSN - Extended														
MSN - Internet														
Microsoft Network (MSN)														
Total Apps/Content	851,850	709,502	142,348	20%	5,351,296	4,751,188	600,108	13%	159	149	10	7%	9,536,315	106

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MSC 00499741

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 AUTHOR: STEVE HOBRECHT (STEVEHOB)



**FYTD96 EUROPE FINISHED GOODS REVENUE SUMMARY (continued)**  
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USEG YTD (USD)				
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue			
MS-DOS	6,497	1,469	5,028	342%	174,821	40,980	133,841	326%	37	36	1	4%	377,845	35
Windows WW	33,901	6,468	27,433	424%	649,096	116,742	532,354	456%	52	55	(3)	(6%)	1,696,761	46
Windows 95	274,639	217,422	57,217	26%	2,692,597	2,541,407	151,190	6%	102	86	16	19%	4,182,937	86
MS Plus (Flopping)	18,295	8,627	9,668	112%	403,748	217,738	186,010	85%	45	40	5	14%	1,083,808	37
Other PSD (AI Work, Telephony)	122	22	101	463%	2,624	356	2,268	637%	47	61	(14)	(24%)	4,968	22
Personal/Systems Division	333,444	231,006	99,438	42%	3,222,976	2,317,223	1,005,753	34%	85	60	25	6%	7,348,139	67
Windows NT Workstation	17,625	9,612	8,013	83%	73,357	42,663	30,694	72%	240	225	15	7%	165,133	188
Windows NT Server - Servers	28,512	19,388	9,124	55%	46,358	33,264	13,094	45%	590	553	37	7%	81,191	507
Windows NT Server - Users	7,869	7,717	152	2%	337,030	318,200	18,830	6%	23	24	(1)	(4%)	744,860	15
SOL Server - Servers	4,869	4,018	851	21%	6,088	5,409	679	12%	802	743	60	8%	11,281	659
SOL Server - Users	3,801	5,385	(1,585)	(29%)	36,109	48,370	(12,261)	(25%)	105	111	(6)	(5%)	90,084	82
Backoffice - Servers	6,831	2,246	4,585	204%	5,432	1,550	3,902	252%	1,253	1,449	(196)	(14%)	6,041	1,025
Backoffice - Users	4,797	2,268	2,529	112%	55,422	14,785	40,637	275%	87	153	(67)	(44%)	133,070	83
Mail - Servers	5,037	3,799	1,238	33%	12,355	11,166	1,189	11%	408	340	67	20%	23,347	279
Mail - Users	1,472	754	719	95%	39,033	18,039	20,994	116%	38	42	(4)	(10%)	158,569	21
Mail - AddOns, Upgrades	5,095	4,298	797	19%	48,756	46,870	1,886	4%	109	92	17	19%	173,937	78
Exchange - Servers	-	-	44	(44)	-	99	-	(99)	444	444	-	(100%)	-	-
Exchange - Users	-	-	52	(52)	-	914	-	(914)	57	57	-	(100%)	-	-
SMS Server - Servers	2,226	1,290	936	73%	4,509	2,625	1,884	72%	494	491	3	0%	4,954	411
SMS Server - Users	3,242	2,113	1,129	53%	111,812	81,062	30,750	38%	28	35	(7)	(20%)	391,459	21
SNA Server - Servers	1,296	773	523	68%	4,558	2,531	2,027	80%	284	305	(21)	(7%)	3,689	264
SNA Server - Users	1,475	1,200	275	23%	36,332	26,508	9,824	37%	41	45	(4)	(9%)	84,853	26
Other Business Systems	6,591	5,122	1,469	29%	5,793	50,300	(44,507)	(88%)	1,138	102	1,036	1017%	4,889	3,068
Business Systems New Users	100,739	65,077	31,662	48%	822,744	684,355	138,389	20%	122	101	21	21%	2,057,377	78
Windows NT Workstation	3,156	364	2,792	768%	39,552	14,284	25,268	177%	80	25	54	213%	113,059	73
Windows NT Server - Servers	1,741	1,002	739	74%	16,165	11,998	4,167	35%	108	84	24	28%	42,147	51
Windows NT Server - Users	821	592	229	39%	3,646	1,527	2,119	139%	253	308	(135)	(35%)	7,985	198
SOL Server - Servers	379	749	(371)	(49%)	7,528	15,660	(8,134)	(52%)	90	46	44	96%	40,462	41
SOL Server - Users	-	6	(6)	(100%)	-	20	(20)	(100%)	-	301	(301)	(100%)	-	-
Exchange - Servers	-	10	(10)	(100%)	-	154	(154)	(100%)	-	64	(64)	(100%)	-	-
Exchange - Users	(3)	246	(249)	(101%)	(50)	3,626	(3,676)	(101%)	63	88	(25)	(28%)	621	78
Other Business Systems	8,194	2,969	5,225	109%	68,839	47,269	21,570	41%	93	83	10	12%	204,314	67
Business Systems Existing Users	108,633	72,048	34,887	48%	689,593	731,624	(42,031)	(6%)	120	98	22	22%	2,261,691	78
Business Systems - Total	21,180	13,542	7,638	56%	86,542	80,471	6,071	8%	245	188	57	30%	221,093	150
Visual Basic	7,193	7,602	(409)	(5%)	29,994	44,885	(14,891)	(33%)	240	169	70	42%	90,625	175
Fox	8,031	8,933	(902)	(10%)	32,009	41,833	(9,824)	(23%)	251	214	37	17%	113,973	197
C++	5,053	5,198	(145)	(3%)	11,819	12,381	(562)	(5%)	428	420	8	2%	31,439	471
MSDN	6,121	10,064	(3,943)	(39%)	15,153	41,096	(25,933)	(63%)	404	245	159	65%	58,555	248
Other Developer Products	47,578	45,339	2,239	5%	175,517	220,656	(45,139)	(26%)	271	208	60	32%	515,065	198
Developer	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ACT - Sullimage	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ACT - Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Platforms	467,855	351,331	136,564	39%	4,987,776	3,669,503	1,318,273	29%	98	91	7	8%	10,125,515	76
Total Product Group	1,339,809	1,060,893	278,916	26%	10,339,072	8,620,691	1,718,381	20%	130	123	7	6%	19,061,000	90
Press	3	-	3	-	-	-	-	-	-	-	-	-	-	-
Other (Man, MES, Xenix, OS2)	23,518	18,287	5,231	29%	186,573	-	186,573	-	120	-	120	-	208,529	90
Recurring Int (deferrals)	(41,069)	(31,710)	(9,359)	30%	-	-	-	-	-	-	-	-	-	-
Recurring Int (recognized)	23,822	17,946	5,876	33%	-	-	-	-	-	-	-	-	-	-
Gross Revenue	1,345,881	1,065,418	280,463	26%	10,535,645	8,620,691	1,914,954	22%	128	124	4	3%	19,870,359	87

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

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MSC 00499742

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A13 - MICROSOFT CONFIDENTIAL

**Q96-2 ICON FINISHED GOODS REVENUE SUMMARY**

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 US\$G YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue	Rev/Lic
Office	38,279	36,247	32	0%	187,031	173,673	13,358	8%	205	220	(16)	7%
Office Professional	22,754	21,918	(836)	(4%)	65,169	65,005	164	0%	267	294	(27)	(9%)
Excel	2,075	4,051	(1,976)	(49%)	16,611	27,577	(10,966)	(40%)	125	147	(22)	(15%)
Word	4,023	7,675	(3,651)	(48%)	35,564	51,490	(15,926)	(31%)	113	149	(36)	(24%)
Powerpoint	518	841	(323)	(39%)	4,578	5,538	(960)	(17%)	113	152	(39)	(25%)
Access	1,696	2,139	(443)	(21%)	12,559	14,098	(1,537)	(11%)	135	152	(17)	(11%)
Project	3,841	3,642	(199)	(5%)	14,449	13,640	809	6%	252	282	(30)	(11%)
Other Desktop Apps	51	51	0	0%	1,075	90	985	1094%	47	47	0	0%
Desktop Apps New Users	73,036	84,712	(11,676)	(14%)	357,036	381,109	(24,073)	(6%)	205	222	(18)	(8%)
Office	12,159	6,714	5,444	81%	97,738	50,697	47,041	93%	124	132	(8)	(6%)
Office Professional	4,121	5,391	(1,270)	(24%)	31,043	32,026	(983)	(3%)	133	164	(31)	(19%)
Excel	373	1,356	(983)	(72%)	4,077	22,865	(19,788)	(82%)	92	59	32	54%
Word	886	1,451	(565)	(39%)	11,827	21,543	(9,716)	(45%)	75	67	8	11%
Powerpoint	57	203	(147)	(72%)	1,123	3,096	(1,973)	(64%)	50	66	(16)	(23%)
Access	291	575	(284)	(49%)	3,589	7,534	(3,945)	(52%)	81	78	3	4%
Project	608	401	207	52%	6,388	5,159	1,229	24%	95	78	17	22%
Other Desktop Apps	0	0	0	0%	1	1	0	0%	29	29	0	0%
Desktop Apps Existing Users	18,494	16,092	2,402	15%	155,846	143,720	12,126	8%	119	112	7	6%
Desktop Apps - Total	91,530	100,803	(9,273)	(9%)	512,882	524,829	(11,947)	(2%)	178	192	(14)	(7%)
Kids	2,294	1,848	446	24%	104,249	65,390	38,859	59%	22	28	(6)	(22%)
Entertainment	1,808	1,552	255	16%	70,815	46,406	24,409	46%	28	32	(4)	(12%)
Personal Interests	686	1,073	(387)	(36%)	48,150	34,160	13,990	41%	21	31	(10)	(32%)
Geo/Travel	240	21	218	1017%	6,990	486	6,502	1332%	34	44	(10)	(22%)
Reference	807	1,723	(916)	(53%)	30,431	39,189	(8,758)	(22%)	27	44	(17)	(40%)
Bob	10	17	(7)	(41%)	300	314	(14)	(4%)	33	54	(21)	(39%)
Imaging	(6)	82	(88)	(109%)	925	4,066	(3,141)	(77%)	(6)	15	(22)	(141%)
New Business	6,142	6,295	(153)	(2%)	261,660	192,013	69,647	36%	23	33	(10)	(28%)
Publisher	1,372	1,155	217	19%	29,528	27,583	1,945	7%	45	42	3	7%
Works	1,508	2,138	(628)	(29%)	45,899	64,917	(19,018)	(29%)	33	33	0	0%
Established Business	2,830	3,290	(461)	(14%)	75,425	92,500	(17,075)	(18%)	38	38	0	0%
Keyboards	1,232	2,147	(915)	(43%)	21,646	32,093	(10,447)	(33%)	57	67	(10)	(15%)
Mouse/Ballpoint	2,733	2,748	(15)	(1%)	101,904	96,286	5,618	6%	27	29	(2)	(8%)
Gaming Devices	1,272	425	847	199%	31,918	13,793	18,125	131%	40	31	9	29%
Hardware	5,237	5,320	(83)	(2%)	155,468	142,172	13,296	9%	34	37	(4)	(10%)
Consumer	14,209	14,905	(697)	(5%)	497,553	428,685	68,868	16%	29	35	(6)	(17%)
Personal Finance	195	70	124	176%	18,173	3,612	14,561	348%	12	19	(7)	(38%)
MSN - Basic												
MSN - Connectivity												
MSN - Extended												
MSN - Internet												
Microsoft Network (MSN)												
Total Apps/Content	105,933	115,779	(9,846)	(9%)	1,021,608	955,126	66,482	7%	104	121	(18)	(14%)

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MSC 00499743

AUTHOR: STEVE HOBRECHT (STEVEHOB)

A14 - MICROSOFT CONFIDENTIAL

**Q96-2 ICON FINISHED GOODS REVENUE SUMMARY. (continued)**  
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 US\$G YTD (USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rewrite		
MS-DOS	1,076	538	539	100%	47,353	18,852	30,501	181%	23	32	(9)	377,645	35
Windows 3.11	7,728	1,905	5,824	306%	176,887	30,438	146,448	481%	44	63	(19)	1,698,761	46
Windows 95	(3,124)	21,921	(25,045)	(114%)	(21,200)	278,891	(300,091)	(108%)	147	79	69	4,162,937	66
MS Plus! (Fronting)	410	804	(394)	(49%)	36,869	23,308	13,561	56%	11	34	(23)	1,063,906	37
Other PSD (AI Work, Telephony)	(9)	7	(16)	(216%)	82	120	(38)	(48%)	(139)	62	(201)	4,988	22
Personal Systems Division	6,083	25,175	(19,092)	(76%)	238,991	349,607	(109,616)	(31%)	23	72	(47)	7,348,139	67
Windows NT Workstation	912	813	99	12%	4,999	4,058	941	23%	182	200	(18)	185,133	188
Windows NT Server - Servers	4,488	3,819	670	18%	9,668	8,854	814	9%	464	431	33	61,191	507
Windows NT Server - Users	2,022	1,239	783	63%	130,384	66,003	72,381	110%	15	19	(4)	744,860	15
SQL Server - Servers	946	968	(22)	(2%)	1,686	2,020	(334)	(17%)	581	478	103	11,281	659
SQL Server - Users	730	1,332	(602)	(45%)	9,493	14,241	(4,748)	(33%)	77	94	(17)	90,064	82
*Backoffice - Servers	1,569	533	1,036	194%	1,257	420	837	199%	1,264	1,269	(5)	6,041	1,025
*Backoffice - Users	1,274	615	659	107%	12,879	4,564	8,315	176%	99	132	(33)	133,070	83
*Mail - Servers	902	858	44	5%	2,995	2,750	245	9%	301	312	(11)	23,347	279
*Mail - Users	409	302	107	35%	13,698	9,840	4,058	41%	29	31	(1)	158,569	21
*Mail - AddOns, Upgrades	763	562	200	36%	16,032	6,448	9,584	149%	48	87	(40)	173,957	70
Exchange - Servers	-	30	(30)	(100%)	-	84	(84)	(100%)	-	352	(352)	-	-
Exchange - Users	67	67	-	(0%)	-	1,275	(1,275)	(100%)	-	52	(52)	-	-
*SMS Server - Servers	207	315	(108)	(34%)	373	757	(384)	(51%)	555	416	139	4,954	411
*SMS Server - Users	886	478	209	44%	33,456	14,921	18,635	126%	21	32	(12)	391,459	21
*SNA Server - Servers	92	137	(45)	(33%)	445	481	(46)	(9%)	206	278	(72)	3,689	284
*SNA Server - Users	276	259	17	6%	11,048	9,283	1,765	19%	25	41	(16)	84,853	26
Other Business Systems	219	221	(2)	(1%)	735	5,728	(4,993)	(87%)	299	39	260	4,889	3,069
Business Systems New Users	15,515	12,546	2,969	24%	257,340	148,735	108,613	73%	60	64	(4)	2,057,377	76
Windows NT Workstation	295	76	217	278%	4,979	2,782	2,197	79%	59	28	31	113,099	73
Windows NT Server - Servers	234	189	44	24%	5,309	2,410	2,899	120%	44	79	(35)	42,147	51
Windows NT Server - Users	187	191	(4)	(2%)	639	551	88	16%	293	347	(54)	7,985	186
SQL Server - Servers	145	152	(7)	(4%)	4,278	3,708	570	15%	34	41	(7)	40,462	41
SQL Server - Users	-	7	(7)	(100%)	-	47	(47)	(100%)	-	154	(154)	-	-
Exchange - Servers	-	9	(9)	(100%)	-	260	(260)	(100%)	-	36	(36)	-	-
Exchange - Users	(2)	105	(107)	(102%)	(14)	1,973	(1,987)	(101%)	144	59	85	621	76
Other Business Systems	859	732	126	17%	15,191	11,631	3,560	31%	57	63	(6)	204,314	67
Business Systems Existing Users	18,375	13,278	5,097	38%	272,539	160,366	112,173	70%	60	83	(23)	2,281,691	76
Business Systems - Total	3,480	1,835	1,645	90%	17,256	11,111	6,145	55%	202	185	17	221,093	150
Visual Basic	1,879	2,178	(499)	(23%)	8,262	15,967	(7,705)	(48%)	203	136	67	90,625	175
Fox	608	916	(308)	(34%)	2,932	4,712	(1,780)	(38%)	207	194	12	113,973	197
C++	328	258	70	27%	670	781	(111)	(14%)	489	300	189	31,439	471
MSDN	1,222	1,071	151	14%	1,261	5,620	(4,359)	(78%)	969	191	779	56,555	248
Other Developer Products	7,316	6,257	1,059	17%	30,381	38,191	(7,810)	(20%)	241	164	77	515,685	166
Developer	-	-	-	-	-	-	-	-	-	-	-	-	-
ACT - Software	-	-	-	-	-	-	-	-	-	-	-	-	-
ACT - Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Platforms	29,773	44,710	(14,937)	(33%)	542,911	346,184	196,727	57%	55	82	(27)	10,125,515	76
Total Product Group	135,707	160,489	(24,782)	(15%)	1,564,519	1,503,290	61,229	4%	87	107	(20)	19,661,830	90
Press	1,817	1,545	273	18%	127,922	-	127,922	-	14	-	14	208,529	80
Other (Man, MES, Kerk, OS2)	(12,097)	(1,988)	(10,109)	508%	-	-	-	-	-	-	-	-	-
Recurring Int (deferrals)	5,201	2,013	3,188	158%	-	-	-	-	-	-	-	-	-
Recurring Int (recognized)	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Revenue	130,628	162,056	(31,428)	(19%)	1,692,441	1,503,290	189,151	13%	77	106	(31)	19,870,359	87

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

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**FYTD96 ICON FINISHED GOODS REVENUE SUMMARY**

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY95 USFG YTD (USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lc		
Office	70,046	92,127	7,921	13%	327,429	293,952	43,477	15%	214	219	(5)	1,010,873	228
Office Professional	55,198	48,728	5,472	11%	205,490	171,064	34,416	20%	268	291	(22)	844,981	225
Excel	4,810	8,538	(1,326)	(23%)	35,329	40,550	(10,550)	(23%)	130	142	(12)	185,310	159
Word	8,011	12,270	(4,259)	(35%)	98,613	87,050	(10,437)	(12%)	117	141	(24)	263,262	151
Powerpoint	1,069	1,391	(321)	(23%)	6,887	9,813	(2,926)	(30%)	120	142	(21)	56,971	176
Access	2,466	3,335	(870)	(26%)	10,359	21,278	(2,919)	(14%)	134	157	(22)	193,064	148
Project	6,814	5,981	833	14%	25,793	21,719	4,074	19%	256	274	(18)	142,363	294
Other Desktop Apps	112	112	0	0%	2,375	171	2,204	1289%	47	47	0	35,282	49
Desktop Apps New Users	148,127	141,346	6,781	5%	692,265	640,926	51,339	8%	214	221	(7)	2,732,106	208
Office	17,152	11,737	5,415	46%	142,688	85,278	47,350	56%	120	123	(3)	618,537	154
Office Professional	11,403	8,397	3,006	36%	71,359	53,602	17,757	33%	180	197	3	392,292	181
Excel	879	2,270	(1,392)	(61%)	13,633	40,800	(26,967)	(66%)	64	56	8	215,919	76
Word	1,637	2,314	(677)	(29%)	28,839	37,081	(10,442)	(28%)	61	82	(11)	268,758	77
Powerpoint	92	319	(227)	(71%)	1,758	5,265	(3,507)	(67%)	52	61	(9)	37,890	72
Access	338	747	(409)	(55%)	5,178	9,749	(4,571)	(47%)	65	77	(11)	56,531	63
Project	980	678	302	45%	10,351	8,923	1,428	16%	95	76	19	69,587	107
Other Desktop Apps	(1)	(1)	0	0%	(14)	(14)	0	0%	73	73	0	126	56
Desktop Apps Existing Users	32,480	28,454	4,027	23%	271,770	250,698	21,072	8%	70	106	(36)	1,857,440	133
Desktop Apps - Total	190,608	187,800	2,808	9%	984,035	891,824	72,411	8%	187	188	(1)	4,589,548	178
Kids	3,311	2,856	445	16%	150,423	101,529	48,894	48%	22	28	(6)	445,483	27
Entertainment	2,535	2,297	248	11%	97,309	72,121	25,188	35%	26	32	(6)	846,956	27
Personal Interests	1,507	1,756	(249)	(14%)	88,265	55,907	12,458	22%	22	31	(9)	220,541	28
Geo/Travel	243	35	208	596%	7,089	789	6,300	788%	34	44	(10)	202,883	39
Reference	1,378	2,954	(1,576)	(53%)	48,483	67,116	(18,633)	(28%)	26	44	(18)	463,480	41
Bob	18	26	(8)	(32%)	434	487	(53)	(11%)	41	54	(13)	(62,444)	50
Imaging	47	109	(62)	(57%)	4,174	7,114	(2,940)	(41%)	11	15	(4)	18,022	12
New Business	9,038	10,033	(995)	(10%)	378,177	304,963	71,214	23%	24	33	(9)	2,134,941	30
Publisher	1,602	1,863	(261)	(14%)	36,501	44,471	(7,970)	(18%)	44	42	2	287,386	54
Works	2,473	3,368	(913)	(27%)	81,872	103,178	(21,304)	(21%)	30	33	(3)	570,981	38
Keyboards	4,075	5,249	(1,174)	(22%)	118,373	147,847	(29,274)	(20%)	34	38	(4)	858,367	43
Mouse/Joystick	2,579	3,722	(1,143)	(31%)	48,275	55,875	(7,600)	(14%)	53	66	(13)	337,965	75
Gaming Devices	5,025	4,845	180	4%	186,885	186,035	850	0%	27	29	(2)	1,112,634	41
Hardware	1,283	5,169	(2,811)	(53%)	32,229	20,167	12,062	60%	40	30	10	322,376	43
Consumer	22,000	24,451	(2,451)	(10%)	761,939	698,787	65,152	9%	29	35	(6)	4,786,285	39
Personal Finance	252	141	111	79%	19,258	7,224	12,032	167%	13	19	(6)	180,484	31
MSN - Basic	-	-	-	-	-	-	-	-	-	-	-	-	-
MSN - Connectivity	-	-	-	-	-	-	-	-	-	-	-	-	-
MSN - Extended	-	-	-	-	-	-	-	-	-	-	-	-	-
MSN - Internet	-	-	-	-	-	-	-	-	-	-	-	-	-
Microsoft Network (MSN)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Apps/Content	202,859	192,392	10,468	5%	1,745,230	1,595,835	149,395	9%	116	121	(4)	9,538,315	106

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AUTHOR: STEVE HOBRECHT (STEVEHOB)

FYTD96 ICON FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USLIC YTD(USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lic		
MS-DOS	2,417	1,140	1,276	12%	103,188	36,118	67,070	198%	23	32	(9)	377,845	35
Windows WW	14,560	3,871	10,689	276%	62,598	292,143	487%	(21)	(34%)	41	60	1,698,761	46
Windows 95	73,797	51,272	22,525	44%	856,291	638,330	218,961	34%	6	60	6	4,182,937	86
MS Plus (Fostling)	3,246	1,424	1,822	128%	121,294	40,880	80,414	197%	27	35	(8)	1,093,808	37
Other PSD (AI Work, Telephony)	(3)	12	(15)	(128%)	384	196	188	101%	(6)	62	(70)	4,989	22
Personal Systems Division	94,018	57,719	36,297	63%	1,435,908	279,122	656,786	84%	65	74	(9)	7,348,139	67
Windows NT Workstation	1,676	1,480	195	13%	9,908	7,405	2,503	34%	169	200	(31)	165,133	188
Windows NT Server - Servers	6,605	6,601	4	0%	14,190	15,803	(1,613)	(9%)	466	423	42	81,191	507
Windows NT Server - Users	2,870	2,149	721	34%	194,238	114,784	79,474	69%	15	19	(4)	744,860	15
SQL Server - Servers	1,650	1,709	(59)	(3%)	2,952	3,668	(714)	(19%)	559	466	93	11,281	659
SQL Server - Users	1,260	2,348	(1,088)	(46%)	16,077	25,079	(9,002)	(36%)	78	94	(16)	90,064	82
BackOffice - Servers	2,760	822	1,937	236%	2,447	646	1,799	278%	1,136	1,269	(133)	6,041	1,025
BackOffice - Users	1,981	957	1,024	107%	19,055	7,287	11,768	161%	104	131	(27)	133,070	83
Mail - Servers	1,748	1,582	166	10%	5,674	5,090	584	11%	308	311	(3)	23,347	279
Mail - Users	691	632	59	9%	22,515	20,377	2,138	10%	31	31	(0)	158,569	21
Mail - AddOns, Upgrades	1,487	1,031	456	44%	25,947	11,617	14,330	120%	57	87	(30)	173,957	78
Exchange - Servers	33	33	0	(100%)	95	95	(0)	(100%)	346	346	(0)	4,954	411
Exchange - Users	103	103	0	(100%)	2,060	2,060	(0)	(100%)	50	50	(0)	381,459	21
SMS Server - Servers	378	545	(167)	(31%)	886	1,325	(439)	(33%)	424	411	13	3,689	284
SMS Server - Users	1,105	834	272	33%	53,282	26,023	27,259	105%	21	32	(11)	84,853	28
SNA Server - Servers	184	236	(71)	(30%)	737	846	(109)	(13%)	223	278	(56)	4,889	3,068
SNA Server - Users	481	443	38	4%	18,621	10,857	7,764	75%	25	42	(17)	2,057,377	76
Other Business Systems	279	426	(147)	(35%)	1,400	11,359	(9,959)	(88%)	199	38	161	4,889	3,068
Business Systems New Users	25,132	21,941	3,190	15%	387,927	264,102	123,825	47%	65	83	(18)	113,089	73
Windows NT Workstation	567	141	428	303%	9,354	4,902	4,452	91%	61	29	32	42,147	51
Windows NT Server - Servers	435	341	95	28%	7,972	4,272	3,700	87%	55	60	(5)	7,985	196
SQL Server - Servers	358	379	(21)	(6%)	1,444	1,080	364	34%	248	351	(103)	40,462	41
SQL Server - Users	310	315	(5)	(1%)	6,207	7,598	(1,391)	(18%)	38	41	(3)	113,973	197
Exchange - Servers	9	9	0	(100%)	59	59	(0)	(100%)	160	160	(0)	31,439	471
Exchange - Users	11	11	0	(100%)	315	315	(0)	(100%)	36	36	(0)	58,555	248
Other Business Systems	(3)	208	(210)	(101%)	(18)	3,653	(3,671)	(100%)	149	57	92	821	78
Business Systems Existing Users	1,658	1,404	254	18%	26,959	21,877	5,082	23%	62	64	(2)	204,314	67
Business Systems - Total	26,800	23,346	3,455	15%	414,886	285,979	128,907	45%	65	82	(17)	2,261,691	76
Visual Basic	4,194	3,315	880	27%	23,333	20,161	3,172	16%	180	184	(4)	221,093	150
Fox	3,459	3,857	(398)	(10%)	19,088	29,074	(9,986)	(34%)	181	133	49	90,625	175
C++	964	1,614	(650)	(40%)	5,545	8,407	(2,862)	(34%)	174	192	(18)	113,973	197
MSDN	521	477	44	9%	1,247	1,477	(230)	(16%)	418	323	95	31,439	471
Other Developer Products	1,592	2,101	(509)	(24%)	2,734	11,024	(8,290)	(75%)	582	191	392	58,555	248
Developer	10,730	11,384	(654)	(6%)	51,947	70,143	(18,196)	(26%)	207	182	25	519,665	196
ACT - Software													
ACT - Other													
Total Platforms	131,545	92,429	39,116	42%	1,902,741	1,135,244	767,497	68%	69	81	(12)	10,125,515	78
Total Product Group	334,406	284,920	49,586	17%	3,647,971	2,730,879	917,092	34%	92	104	(13)	19,661,830	90
Press	3		3										
Other (Man, MES, Xerox, OS2)	4,554	3,069	1,485	49%	175,361		175,361		26		26	208,529	90
Recurring Mnt (delierals)	(18,656)	(3,249)	(15,407)	419%									
Recurring Mnt (recognised)	6,496	3,922	2,574	117%									
Gross Revenue	330,810	286,561	44,250	15%	3,623,332	2,730,879	1,092,453	40%	66	108	(42)	19,870,359	87

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

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**Q96-2 FAR EAST FINISHED GOODS REVENUE SUMMARY**

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 USFG YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Rev/Lic
Office	35,480	19,691	15,789	60%	82,244	122%	211	260	(49)	1,010,873	226	
Office Professional	56,219	12,985	43,634	347%	189,550	387%	264	287	(24)	844,981	225	
Excel	16,662	10,520	6,162	59%	222,530	308%	75	193	(118)	195,310	159	
Word	10,308	3,172	7,136	225%	194,829	590%	53	111	(58)	263,282	151	
Powerpoint	732	656	76	12%	5,884	44%	124	161	(36)	56,971	178	
Access	2,821	3,102	(481)	(16%)	17,855	(4%)	147	167	(20)	193,064	148	
Project	1,669	335	1,335	399%	6,854	807%	189	207	(18)	142,363	284	
Other Desktop Apps	29	262	(233)	(89%)	447	(372)	66	320	(254)	35,282	49	
Desktop Apps New Users	123,741	50,322	73,419	146%	831,398	265%	149	221	(73)	2,732,108	208	
Office	7,773	1,014	6,759	667%	53,688	701%	145	145	0	816,537	154	
Office Professional	19,571	266	19,305	7257%	84,178	1467%	232	181	51	392,292	181	
Excel	82	159	(76)	(48%)	1,496	2,048	55	70	(15)	215,919	76	
Word	(63)	345	(408)	(124%)	1,448	5,281	(57)	66	(123)	266,758	77	
Powerpoint	12	52	(40)	(76%)	301	894	42	75	(34)	37,690	72	
Access	(449)	42	(491)	(1180%)	(364)	547	1,234	76	1,156	152,333	63	
Project	32	10	14	81%	373	237	86	75	11	69,587	107	
Other Desktop Apps	26,939	1,895	25,044	1322%	141,118	17,287	191	110	81	1,857,440	133	
Desktop Apps Existing Users	150,879	52,217	98,463	189%	872,517	244,570	155	214	(59)	4,589,546	178	
Desktop Apps - Total	334	1,908	(1,574)	(82%)	9,932	46,821	34	41	(7)	445,493	27	
Kids	3,175	6,737	(3,562)	(53%)	69,473	94,393	46	71	(25)	848,958	27	
Entertainment	283	955	(672)	(70%)	7,027	25,753	40	37	3	220,541	28	
Personal Interests	1	2	(1)	(53%)	21	55	42	43	(1)	202,883	39	
Geo/Travel	202	106	96	91%	6,158	2,473	33	43	(10)	463,490	41	
Reference	1	24	(23)	(95%)	1,978	3,103	28	29	(1)	16,022	12	
Imaging	4,052	9,021	(5,768)	(64%)	94,608	172,998	43	57	(14)	2,134,841	30	
New Business	28	6	19	248%	667	102	39	75	(36)	287,388	54	
Publisher	1,732	2,991	(1,259)	(42%)	31,009	38,166	56	78	(22)	570,981	38	
Works	1,758	2,999	(1,241)	(41%)	31,698	38,268	55	78	(23)	838,367	43	
Established Business	443	381	62	16%	6,877	5,977	64	64	0	337,985	75	
Keyboards	1,990	2,823	(832)	(29%)	56,444	66,656	35	42	(7)	1,112,634	41	
Mouse/Balloon	1,237	60	1,177	1957%	28,204	2,397	44	25	19	322,378	43	
Gaming Devices	3,971	3,264	407	12%	81,525	75,032	40	44	(4)	1,772,977	48	
Hardware	9,481	18,084	(8,603)	(41%)	217,879	286,799	44	56	(12)	4,766,285	39	
Consumer	61	2	59	2507%	4,557	123	13	19	(6)	180,484	21	
Personal Finance												
MSN - Basic												
MSN - Connectivity												
MSN - Extended												
MSN - Internet												
Microsoft Network (MSN)												
Total Apps/Content	160,221	68,303	91,918	135%	1,194,903	530,991	134	129	5	9,536,315	108	

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AUTHOR: STEVE HOBRECHT (STEVEHOB)

Q96-2 FAR EAST FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY95 US\$GYID (USD)	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue
MS-DOS	338	129	210	7,601	2,754	4,847	44	47	(3)	377,645	35
Windows, VWW	2,407	198	2,210	40,048	5,787	34,261	60	34	26	1,686,761	46
Windows 95	73,902	22,863	51,039	742,207	233,097	509,110	100	98	2	4,182,937	86
MS Plus! (Frosting)	11,425	1,971	9,453	292,928	41,424	251,402	39	48	(9)	1,063,808	37
Other PSD (AI Work, Telephony)	104	1	103	2,256	15	2,241	48	53	(5)	4,968	22
Personal Systems Division	68,176	25,162	43,014	1,084,938	283,057	801,881	213	213	0	7,346,139	67
Windows NT Workstation	3,141	1,347	1,793	21,597	7,803	13,794	145	177	(32)	185,133	188
Windows NT Server - Servers	4,240	5,539	(1,299)	9,141	10,663	(1,522)	464	519	(56)	61,191	507
Windows NT Server - Users	2,352	1,828	528	107,018	89,116	17,902	22	20	2	744,860	15
SQL Server - Servers	2,097	2,218	(121)	2,768	2,954	(186)	758	751	7	11,281	659
SQL Server - Users	2,193	1,890	304	22,709	20,540	2,169	97	92	5	90,064	82
*Backoffice - Servers	532	181	351	475	101	374	1,120	1,796	(676)	6,041	1,025
*Backoffice - Users	1,102	217	885	13,607	1,018	12,589	81	213	(132)	133,070	63
*Mail - Servers	681	1,254	(373)	2,460	3,328	(868)	358	377	(18)	23,347	279
*Mail - Users	207	761	(555)	5,144	18,174	(13,030)	40	47	(7)	158,589	21
*Mail - AddOns, Upgrades	434	457	(23)	2,221	1,208	1,015	195	379	(184)	173,957	78
Exchange - Servers	5	5	0	13	13	0	415	415	0	-	-
Exchange - Users	15	15	0	546	546	0	28	28	0	-	-
*SMS Server - Servers	524	222	302	1,133	520	613	462	428	35	4,954	411
*SMS Server - Users	724	508	216	25,482	13,313	12,169	28	38	(10)	391,459	21
*SNA Server - Servers	121	152	(32)	375	420	(45)	322	363	(41)	3,689	284
*SNA Server - Users	174	196	(22)	4,302	3,899	403	40	50	(10)	84,853	28
Other Business Systems	2,443	197	2,246	951	2,400	(1,449)	2,569	92	2,487	4,889	3,068
Business Systems New Users	21,166	16,968	4,177	218,381	173,814	45,567	96	98	(2)	2,037,377	75
Windows NT Workstation	142	15	127	3,870	133	3,737	37	118	(79)	113,099	73
Windows NT Server - Servers	43	55	(12)	336	269	67	127	204	(77)	42,147	51
SQL Server - Servers	66	33	33	204	79	125	328	424	(96)	7,985	198
SQL Server - Users	120	55	65	1,797	720	1,077	67	77	(10)	40,482	41
Exchange - Servers	-	-	-	-	-	-	-	-	-	-	-
Exchange - Users	-	-	-	-	-	-	-	-	-	-	-
Other Business Systems	(1)	-	1	1	-	1	(1,447)	-	(1,447)	-	-
Business Systems Existing Users	370	159	211	6,208	1,201	5,007	60	133	(73)	621	78
Business Systems - Total	21,536	17,147	4,389	225,589	175,015	50,574	95	98	(3)	2,281,891	78
Visual Basic	10,630	1,160	9,470	44,762	8,201	36,561	242	141	100	221,093	150
For	662	1,518	(856)	4,238	10,016	(5,778)	203	155	49	90,825	175
C++	4,098	2,490	1,608	12,093	7,498	4,595	339	332	7	113,973	197
MSDN	1,783	1,277	506	2,805	2,311	494	636	553	83	31,439	471
Other Developer Products	2,302	348	1,953	4,728	1,741	2,988	487	200	287	58,555	248
Developer	19,874	6,824	13,051	68,624	29,787	38,837	290	229	60	515,665	198
ACT - Software	-	-	-	-	-	-	-	-	-	-	-
ACT - Other	-	-	-	-	-	-	-	-	-	-	-
Total Platforms	129,586	48,133	80,453	1,379,151	487,839	891,312	94	101	(7)	10,125,515	78
Total Product Group	289,807	117,436	172,371	2,574,054	1,018,630	1,555,224	113	115	(2)	19,681,830	80
Press	1	-	1	-	-	-	-	-	-	-	-
Other (Man, MES, Xenix, OS2)	3,899	15	3,884	19,815	-	19,815	197	-	197	208,529	90
Recurring Mkt (deterlab)	(2,579)	-	(2,579)	-	-	-	-	-	-	-	-
Recurring Mkt (recognized)	1,834	14	1,820	-	-	-	-	-	-	-	-
Gross Revenue	292,763	117,465	175,298	2,593,869	1,018,630	1,575,039	113	115	(2)	19,870,359	87

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

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**FYTD96 FAR EAST FINISHED GOODS REVENUE SUMMARY**  
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 US\$-GYD (USD)	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lic
Office	62,437	41,737	20,700	287,072	161,447	105,625	234	259	(25)	1,010,873	226
Office Professional	99,970	29,914	69,656	332,908	101,700	231,208	298	284	5	844,961	225
Excel	31,861	20,923	10,938	337,071	107,362	229,709	95	195	(100)	165,310	159
Word	15,254	5,651	9,603	258,502	49,012	209,490	58	115	(56)	263,262	151
Powerpoint	1,495	1,608	(111)	9,511	9,907	(396)	157	162	(5)	58,971	176
Access	7,780	6,465	1,315	43,755	36,565	7,190	178	168	10	183,064	146
Project	2,084	848	1,436	10,215	2,414	7,801	204	266	(64)	142,363	294
Other Desktop Apps	40	607	(567)	590	1,859	(1,269)	67	327	(259)	35,282	49
Desktop Apps New Users	220,541	107,550	112,991	1,259,624	472,268	787,356	175	228	(53)	2,732,100	208
Office Professional	17,968	2,718	15,239	97,648	17,587	80,061	184	155	28	818,537	154
Excel	20,275	512	19,763	69,664	2,807	66,857	228	182	44	392,292	181
Word	112	549	(437)	6,915	3,293	3,622	72	76	(4)	215,919	76
Powerpoint	27	98	(69)	4,128	8,162	(4,034)	27	67	(40)	268,758	77
Access	741	169	573	668	1,278	(610)	40	75	(35)	37,690	72
Project	43	33	10	7,618	2,081	5,535	89	81	8	56,531	63
Other Desktop Apps	96	(96)	(96)	622	442	180	97	75	(22)	69,587	107
Desktop Apps Existing Users	39,665	4,460	35,205	207,461	37,029	170,432	191	120	71	1,857,440	133
Desktop Apps - Total	260,207	112,010	148,197	1,467,085	509,295	957,790	177	220	(43)	4,569,546	178
Kids	991	2,677	(1,686)	26,654	64,613	(38,159)	37	41	(4)	445,493	27
Entertainment	4,479	7,408	(2,928)	95,184	106,254	(11,070)	47	70	(23)	848,958	27
Personal Interests	315	992	(676)	7,755	26,882	(19,127)	41	37	4	220,541	28
Geo/Travel	1	4	(3)	21	102	(81)	42	42	(0)	202,883	39
Reference	257	194	63	7,210	4,541	2,669	38	43	(7)	463,490	41
Bob	2	42	(40)	57	701	(644)	40	60	(20)	(62,444)	50
Imaging	188	184	4	8,503	5,751	2,752	28	29	(1)	16,022	12
New Business	6,234	11,480	(5,246)	143,384	206,044	(62,660)	43	55	(11)	2,134,941	30
Publisher	29	14	15	733	190	543	40	74	(34)	287,368	54
Works	2,091	3,178	(1,087)	38,023	43,242	(4,219)	54	73	(20)	570,981	38
Established Business	2,121	3,192	(1,072)	39,756	43,432	(3,676)	53	73	(20)	858,387	43
Keyboards	497	450	47	7,760	6,985	774	84	84	(0)	337,985	75
Mouse/Ballpoint	3,889	5,517	(1,628)	102,163	126,799	(24,636)	38	44	(5)	1,112,834	41
Gaming Devices	1,243	103	1,140	28,382	4,088	24,304	44	25	19	322,376	43
Hardware	5,629	6,070	(441)	138,315	137,873	442	41	44	(3)	1,772,977	48
Consumer	13,983	20,742	(6,758)	321,455	390,349	(68,894)	44	53	(10)	4,766,285	39
Personal Finance	64	4	59	4,725	229	4,496	13	19	(6)	180,184	21
MSN - Basic	-	-	-	-	-	-	-	-	-	-	-
MSN - Connectivity	-	-	-	-	-	-	-	-	-	-	-
MSN - Extended	-	-	-	-	-	-	-	-	-	-	-
MSN - Internet	-	-	-	-	-	-	-	-	-	-	-
Microsoft Network (MSN)	-	-	-	-	-	-	-	-	-	-	-
Total Apps/Content	274,254	132,756	141,498	1,793,265	699,673	693,392	153	148	5	9,538,315	106

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FYTD96 FAR EAST FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY86 USFG VID USD			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue		
MS-DOS	817	345	472	137%	18,864	6,673	10,391	150%	46	52	(4)	377,845	35
Windows, WW	5,150	847	4,304	503%	79,466	16,344	63,124	386%	65	52	13	1,696,761	48
Windows 85	79,815	24,017	55,799	233%	807,678	246,748	560,931	227%	89	97	1	4,182,937	86
MS Plus (Frosting)	11,630	2,008	9,622	475%	297,771	42,284	255,487	604%	38	47	(9)	1,083,808	37
Other PSD (At Work, Telephony)	627	1	626	42160%	14,613	26	14,585	52085%	43	53	(10)	4,989	22
Personal Systems Division	98,039	27,218	70,822	260%	1,216,495	311,977	904,518	290%	61	67	(7)	7,346,139	67
Windows NT Workstation	7,053	3,068	3,987	130%	44,640	17,152	27,488	160%	158	179	(21)	165,133	186
Windows NT Server - Servers	6,699	10,642	(1,944)	(18%)	16,809	20,284	(3,476)	(17%)	518	525	(7)	61,191	507
*Windows NT Server - Users	4,648	3,404	1,244	37%	208,639	165,746	40,893	25%	22	21	2	744,960	15
SQL Server - Servers	4,658	4,588	70	2%	6,078	6,058	20	0%	768	757	9	11,281	659
SQL Server - Users	4,425	3,716	709	19%	44,139	40,485	3,654	9%	100	92	8	90,064	82
*Backoffice - Servers	760	315	445	142%	814	180	634	352%	934	1,747	(814)	6,041	1,023
*Backoffice - Users	1,283	368	915	249%	15,815	1,813	14,002	772%	61	203	(122)	133,070	63
*Mail - Servers	1,783	2,078	(295)	(14%)	4,801	5,466	(665)	(12%)	371	379	(7)	23,347	279
*Mail - Users	470	1,308	(838)	(64%)	11,410	27,856	(16,446)	(59%)	41	47	(6)	156,589	21
*Mail - AddOns, Upgrades	953	797	156	20%	3,574	2,110	1,464	69%	267	378	(111)	173,957	78
Exchange - Servers	10	10	0	100%	24	24	0	100%	28	28	0	417	417
Exchange - Users	28	28	0	100%	1,018	1,018	0	100%	493	428	67	16%	16%
*SMS Server - Servers	1,325	429	896	209%	2,690	1,008	1,682	167%	31	38	(7)	391,459	21
*SMS Server - Users	1,473	969	504	52%	47,383	25,433	21,950	86%	319	384	(45)	3,689	264
*SNA Server - Servers	193	292	(99)	(34%)	605	801	(196)	(24%)	41	50	(9)	84,853	26
*SNA Server - Users	299	365	(67)	(18%)	7,207	7,251	(44)	(1%)	1,199	82	1,117	1,563%	3,068
Other Business Systems	2,871	393	2,478	630%	2,395	4,800	(2,405)	(50%)	99	100	(2)	2,057,377	78
Business Systems New Users	40,693	32,767	8,126	25%	414,998	327,507	87,491	27%	16	116	(102)	113,059	73
Windows NT Workstation	77	38	40	110%	4,717	309	4,408	1427%	199	230	(31)	42,147	51
Windows NT Server - Servers	133	116	17	15%	669	505	164	32%	245	439	(194)	7,985	196
SQL Server - Servers	114	78	37	49%	463	174	289	166%	65	77	(12)	40,462	41
SQL Server - Users	137	111	26	24%	2,107	1,440	667	46%	281	251	30	515,885	196
Exchange - Servers													
Exchange - Users													
Other Business Systems	(1)		(1)		7		7		(104)			621	78
Business Systems Existing Users	460	340	120	35%	7,963	2,428	5,535	228%	58	140	(82)	204,314	67
Business Systems - Total	41,353	33,107	8,246	25%	422,861	329,935	92,926	28%	98	100	(3)	2,261,691	150
Visual Basic	15,922	3,479	12,443	358%	68,047	20,165	47,882	237%	234	173	61	221,093	150
Fox	2,017	2,311	(294)	(13%)	10,971	15,617	(4,646)	(30%)	164	148	38	90,625	175
C++	9,766	6,360	3,406	54%	28,647	17,308	11,339	66%	341	367	(26)	113,973	197
MSDN	3,221	2,444	777	32%	5,945	4,311	1,634	38%	551	567	(16)	31,439	471
Other Developer Products	3,980	775	3,205	414%	10,711	3,924	6,787	173%	372	197	174	58,555	248
Developer	34,909	15,369	19,539	127%	124,221	61,325	62,896	103%	281	251	30	515,885	196
ACT - Software													
ACT - Other													
Total Platforms	174,301	25,694	148,607	130%	1,763,677	703,237	1,060,440	151%	99	108	(9)	10,125,515	78
Total Product Group	448,555	208,450	240,104	115%	3,556,942	1,603,110	1,953,832	122%	126	130	(4)	19,661,830	90
Press	8		8										
Other (Man, MES, Xenix, OS2)	11,077	30	11,048	37402%	30,074		30,074		368		368	208,529	90
Recurring Mkt (deferrals)	(3,452)		(3,452)										
Recurring Mkt (recognized)	2,202	27	2,175	7995%									
Gross Revenue	456,391	208,507	249,884	120%	3,587,016	1,603,110	1,983,906	124%	128	130	(2)	19,870,359	87

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

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**Q96-2 OEM REVENUE SUMMARY**  
(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 US\$GYID (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue	Rev/Lic
Office	2,990	22,884	(19,894)	20,765	285,866	(265,101)	144	60	64	1,010,873	225	
Office Professional	33,886	-	33,886	381,848	-	381,848	89	-	89	84,901	225	
Exec	7,885	389	7,496	284,541	4,330	280,211	31	90	(59)	183,310	159	
Word	7,921	742	7,179	316,105	17,330	298,775	25	43	(18)	263,262	151	
Powerpoint	55	-	55	1,441	-	1,441	38	-	38	56,971	178	
Access	1,430	196	1,235	58,881	8,500	50,381	24	23	1	193,064	146	
Project	41	-	41	81,285	-	81,285	1	-	1	142,363	294	
Other Desktop Apps	(6)	-	(6)	2,601	-	2,601	(2)	-	(2)	35,282	49	
Desktop Apps New Users	54,219	24,211	30,008	1,117,265	316,078	801,239	49	77	(28)	2,732,106	208	
Office	-	-	-	-	-	-	-	-	-	818,537	154	
Office Professional	-	-	-	-	-	-	-	-	-	392,292	191	
Exec	-	-	-	-	-	-	-	-	-	215,918	76	
Word	-	-	-	-	-	-	-	-	-	268,758	77	
Powerpoint	-	-	-	-	-	-	-	-	-	37,680	72	
Access	-	-	-	-	-	-	-	-	-	56,531	63	
Project	-	-	-	-	-	-	-	-	-	69,587	107	
Other Desktop Apps	-	-	-	-	-	-	-	-	-	126	56	
Desktop Apps Existing Users	54,219	24,211	30,008	1,117,265	316,078	801,239	49	77	(28)	1,857,440	133	
Desktop Apps - Total	2,341	1,492	849	749,847	240,774	509,073	3	6	(3)	445,493	27	
Kids	1,834	2,298	(462)	1,052,881	533,195	519,686	2	4	(3)	848,958	27	
Entertainment	2,046	2,298	(250)	548,059	328,763	221,276	2	7	(5)	220,541	26	
Personal Interests	68	-	68	8,497	-	8,497	8	-	8	202,893	39	
Geo/Travel	7,513	6,594	919	1,055,123	1,004,267	50,856	7	7	0	463,490	41	
Reference	874	462	362	147,271	88,889	78,402	6	7	(1)	(62,444)	50	
Bob	447	115	332	450,172	51,590	398,582	1	2	(1)	16,022	12	
Imaging	15,071	13,254	1,817	4,011,650	2,225,478	1,786,172	4	6	(2)	2,134,941	30	
New Business	1,909	915	993	230,981	66,717	162,264	8	13	(5)	287,388	54	
Publisher	13,098	9,763	3,335	1,334,878	1,110,188	224,690	10	9	1	570,981	38	
Works	14,908	10,678	4,228	1,585,857	1,178,903	386,954	10	9	0	858,367	43	
Established Business	3,987	4,739	(752)	81,056	138,864	(17,808)	44	34	10	337,965	75	
Keyboards	32,790	25,004	7,786	3,439,569	2,887,827	551,742	10	9	1	1,112,834	41	
Mouse/Ballpoint	-	-	-	-	-	-	-	-	-	372,378	43	
Gaming Devices	36,777	29,743	7,034	3,530,625	3,028,791	503,834	10	10	0	1,772,977	48	
Hardware	68,755	53,875	13,880	9,108,132	8,431,172	2,676,960	7	8	(1)	4,768,285	30	
Consumer	723	-	723	459,087	-	459,087	2	-	2	180,484	21	
Personal Finance	-	-	-	-	-	-	-	-	-	-	-	
MSN - Basic	-	-	-	-	-	-	-	-	-	-	-	
MSN - Connectivity	-	-	-	-	-	-	-	-	-	-	-	
MSN - Extended	-	-	-	-	-	-	-	-	-	-	-	
MSN - Internet	-	-	-	-	-	-	-	-	-	-	-	
Microsoft Network (MSN)	-	-	-	-	-	-	-	-	-	-	-	
Total Apps/Content	121,697	77,886	43,810	10,584,484	6,747,198	3,837,286	11	12	(0)	9,538,315	108	

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**Q96-2 OEM REVENUE SUMMARY (continued)**

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USFG YTD (USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lic		
MS-DOS	145,012	146,030	(1,017)	9,007,457	8,491,855	515,602	6%	16	17	(1)	(6%)	377,645	35
Windows, WWV	176,463	173,968	2,495	9,056,790	8,535,559	521,231	6%	20	20	(1)	(3%)	1,668,761	46
Windows 95	210,565	75,342	135,243	4,019,294	1,803,989	2,415,305	151%	52	47	5	12%	4,182,937	86
MS Plus (Frosting)	4,972	1,304	3,668	412,357	76,197	334,160	427%	12	17	(5)	(28%)	1,063,808	37
Other PSD (AI Work, Telephony)	538,033	398,644	142,389	22,495,858	18,709,600	3,786,258	20%	24	21	3	13%	7,348,139	67
Personal Systems Division	3,342	1,395	1,947	33,214	16,757	16,457	98%	101	83	17	21%	165,133	188
Windows NT Workstation	4,706	3,776	931	13,178	9,359	3,819	41%	357	403	(46)	(11%)	61,191	507
Windows NT Server - Servers													
*Windows NT Server - Users	365	27	338	2,431	102	2,329	2283%	150	262	(112)	(43%)	744,860	15
SOL Server - Servers													
SOL Server - Users													
*Backoffice - Servers													
*Backoffice - Users													
*Mail - Servers	12		12	52		52		225		225		133,070	63
*Mail - Users	32		32	318		318		101		101		23,347	279
*Mail - AddOns, Upgrades	37		37	399		399		94		94		158,589	21
Exchange - Servers													
Exchange - Users													
*SMS Server - Servers	140		140	361		361		388		388		4,954	411
*SMS Server - Users													
*SNA Server - Servers													
*SNA Server - Users													
Other Business Systems	3,093	1,810	1,222	21,987	12,608	9,379	74%	141	148	(6)	(5%)	84,853	26
Business Systems New Users	11,727	7,068	4,660	71,940	38,828	33,114	85%	163	162	(19)	(10%)	4,889	3,068
Windows NT Workstation													
Windows NT Server - Servers													
SOL Server - Servers													
SOL Server - Users													
Exchange - Servers													
Exchange - Users													
Other Business Systems													
Business Systems Existing Users													
Business Systems - Total	11,727	7,068	4,660	71,940	38,828	33,114	85%	163	162	(19)	(10%)	2,057,377	76
Visual Basic	0		0	9		9		35		35		113,099	73
Fox													
C++	61	45	16	960	1,600	(640)	(40%)	63	28	35	126%	42,147	51
MSDN													
Other Developer Products													
Developer	3		3	64		64		43		43		80,625	175
ACT - Software	64	45	19	1,033	1,600	(567)	(35%)	62	28	34	120%	113,973	197
ACT - Other													
Total Platforms	550,824	403,756	147,068	22,568,871	18,750,028	3,818,845	20%	24	22	3	13%	10,125,515	76
Total Product Group	672,521	481,643	190,878	33,253,355	25,487,224	7,758,131	30%	20	19	1	7%	19,681,830	90
Press													
Other (Man, MES, Xenix, OS2)	41,026	6,125	34,903	3,475,503	376,833	3,098,670	822%	12	16	(4)	(27%)	56,555	248
Recurring Mini (deletrails)													
Recurring Mini (recognized)													
Gross Revenue	713,549	487,768	225,781	38,728,858	25,874,057	10,854,801	42%	19	19	1	3%	515,685	196

\* Business Systems New Users contain some Existing User data for these lines denoted with an asterisk

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**FYTD96 OEM REVENUE SUMMARY**  
(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY96 USFG YTD (USD)				
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lic
Office Professional	5,936	41,270	(35,334)	(88%)	40,536	534,666	(494,130)	(92%)	146	77	69	69	1,010,873	228
Escal	10,127	1,979	8,148	412%	671,242	671,242	-	85	85	85	85	844,961	225	
Word	10,459	2,988	7,461	249%	407,203	26,180	381,023	1077%	33	76	(43)	(43)	185,310	159
Powerpoint	108	-	108	-	2,874	81,660	78,786	560%	28	48	(20)	(20)	263,262	151
Access	2,409	549	1,860	339%	101,030	19,700	81,330	400%	40	29	11	11	56,971	176
Project	38	-	38	-	81,249	-	81,249	-	2	0	2	2	142,353	294
Other Desktop Apps	31	-	31	-	13,142	-	13,142	-	0	0	0	0	35,282	49
Desktop Apps New Users	68,244	48,795	19,449	84%	1,824,915	641,186	1,183,729	153%	53	73	(20)	(20)	2,732,106	208
Office	(0)	-	-	-	(10)	-	(10)	-	5	5	0	0	818,537	154
Office Professional	(1)	-	-	-	(56)	-	(56)	-	22	22	0	0	392,292	181
Escal	(0)	-	-	-	(23)	-	(23)	-	5	5	0	0	215,919	76
Word	(2)	-	-	-	(115)	-	(115)	-	15	15	0	0	266,758	77
Powerpoint	-	-	-	-	-	-	-	-	-	-	-	-	37,690	72
Access	-	-	-	-	(2)	-	(2)	-	-	-	-	-	56,531	63
Project	(0)	-	-	-	(2)	-	(2)	-	5	5	0	0	69,567	107
Other Desktop Apps	(2)	-	-	-	(208)	-	(208)	-	15	15	0	0	126	56
Desktop Apps Existing Users	86,241	46,795	39,446	84%	1,624,707	641,186	983,521	153%	53	73	(20)	(20)	1,857,440	133
Desktop Apps - Total	3,947	2,976	971	33%	1,227,581	379,716	847,865	223%	3	6	(3)	(3)	4,585,448	170
Kids	3,581	4,578	(997)	(22%)	1,988,294	840,918	1,147,376	136%	2	5	(4)	(4)	848,956	27
Entertainment	72	-	72	-	8,987	-	8,987	-	4	8	(4)	(4)	220,541	26
Personal Interests	15,891	12,423	3,468	28%	2,388,116	1,533,223	854,893	56%	6	6	0	0	202,883	38
Geo/Travel	1,205	921	284	31%	207,481	106,643	98,838	91%	7	8	(1)	(1)	483,490	41
Reference	963	229	734	321%	501,796	81,351	420,445	1008%	6	6	0	0	(62,444)	50
Bob	28,850	25,705	3,145	12%	7,582,674	3,459,233	4,133,441	119%	1	3	(2)	(2)	18,022	12
Imaging	2,694	1,946	748	38%	381,364	123,341	258,023	193%	4	7	(4)	(4)	2,134,941	30
Publisher	28,000	20,103	7,897	29%	3,323,007	2,316,887	1,006,120	28%	7	16	(9)	(9)	287,386	54
Works	28,694	22,049	6,645	30%	2,961,723	2,440,278	521,445	21%	9	9	0	0	570,981	38
Established Business	6,450	5,567	883	16%	143,968	153,787	(9,819)	(6%)	45	36	9	9	858,367	43
Household/In-House	60,415	48,866	11,548	24%	6,286,744	5,643,013	643,731	11%	10	9	1	1	1,112,634	41
Gaming Devices	68,865	54,434	14,431	23%	6,430,712	6,788,810	(358,098)	(5%)	10	9	1	1	322,378	43
Hardware	124,409	102,188	22,221	22%	17,348,479	11,888,271	5,460,208	46%	7	9	(2)	(2)	1,772,977	46
Consumer	1,358	-	1,358	-	799,010	-	799,010	-	2	2	0	0	4,786,285	39
Personal Finance	-	-	-	-	-	-	-	-	-	-	-	-	180,484	21
MSN - Basic	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSN - Connectivity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSN - Extended	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSN - Internet	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Microsoft Network (MSN)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Apps/Content	212,008	148,993	63,025	42%	19,730,190	12,337,457	7,392,733	60%	11	12	(1)	(1)	9,536,315	106

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MSC 00499763

AUTHOR: STEVE HOBRECHT (STEVEHOB)

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**FYTD96 OEM REVENUE SUMMARY (continued)**  
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue / License			FY95 USFG YTD (USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue		
MS-DOS	308,789	294,687	14,102	5%	19,203,414	17,115,438	2,087,976	12%	16	17	(1)	37,645	35
Windows, WW	379,463	345,531	33,932	10%	18,456,603	16,997,190	1,461,413	9%	21	20	0	1,696,761	46
Windows 95	231,245	75,494	155,751	206%	4,298,544	1,608,323	2,690,221	167%	54	47	7	4,182,937	86
MS Plus! (Frosting)	8,635	3,091	5,544	179%	1,013,829	181,203	832,626	459%	9	17	(9)	1,083,808	37
Other PSD (AI Work, Telephony)	928,113	718,783	209,330	29%	42,972,380	35,900,154	7,072,226	20%	22	20	2	7,348,139	67
Personal Systems Division	5,604	2,948	2,656	90%	56,217	34,958	21,221	61%	100	84	16	165,133	188
Windows NT Workstation	8,370	7,008	1,363	19%	23,180	16,759	6,421	38%	381	418	(57)	61,191	507
Windows NT Server - Servers												744,860	15
Windows NT Server - Users												11,281	659
SQL Server - Servers												90,064	82
SQL Server - Users												6,041	1,025
*BackOffice - Servers													
*BackOffice - Users													
*Mail - Servers													
*Mail - Users													
*Mail - AddOns, Upgrades													
Exchange - Servers													
Exchange - Users													
*SMS Server - Servers													
*SMS Server - Users													
*SNA Server - Servers													
*SNA Server - Users													
Other Business Systems	10,556	3,822	6,734	176%	73,312	25,590	47,722	186%	144	149	(5)	4,889	3,068
Business Systems New Users	25,813	13,815	11,998	87%	157,185	77,522	79,663	103%	164	178	(14)	2,057,377	76
Windows NT Workstation													
Windows NT Server, Servers													
SQL Server - Servers													
SQL Server - Users													
Exchange - Servers													
Exchange - Users													
Other Business Systems													
Business Systems Existing Users	25,813	13,815	11,998	87%	157,185	77,522	79,663	103%	164	178	(14)	2,057,377	76
Visual Basic	(1)		(1)		(30)		(30)		39		39		
Fox	44		44		314		314		139		139		
C++	138	45	93	207%	6,519	1,800	4,919	307%	21	28	(7)	113,973	197
MSDN	5		5		88		88		47		47		
Other Developer Products	185	45	140	313%	6,901	1,800	5,301	331%	27	28	(1)	515,685	186
Developer													
ACT - Softimage													
ACT - Other													
Total Platforms	854,111	732,843	221,268	30%	43,136,478	35,979,276	7,157,202	20%	22	20	2	10,125,515	76
Total Product Group	1,166,119	881,628	284,493	32%	62,868,668	48,318,733	14,549,933	30%	19	18	0	19,581,800	90
Press													
Other (Man, MES, Xenix, OS2)	68,388	10,157	58,232	573%	5,033,181	808,615	4,224,566	527%	14	13	1	208,529	90
Recurring Mint (deletals)													
Recurring Mint (recognized)	(76)		(76)										
Gross Revenue	1,234,431	891,183	342,648	38%	87,699,847	48,125,348	18,774,489	38%	18	18	0	19,070,359	87

\* Business Systems New Users contain some Existing User data for those lines denoted with an asterisk

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AUTHOR: STEVE HOBRECHT (STEVEHOB)

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**Q96-2 CHANNEL P&L**  
(\$ in thousands)

	Finished Goods									
	North America	Europe	ICOM	Emv Emv	Total W/VEG	W/VEEM	Press	Online	Advanced Technology	Total
Rev Sum Revenue	350,687	641,066	130,803	204,847	1,417,303	715,221	20,096	9,460	10,072	2,181,141
Revenue Adjustments	324,832	(16,281)	(1,982)	(78,495)	227,884	(42,523)	(6,504)	33	(2,740)	176,160
Net Revenue	675,519	624,805	128,821	216,442	1,645,187	672,698	22,592	9,493	7,332	2,357,302
Cost of Revenue:										
Standard Product Costs	44,387	26,619	9,756	20,356	100,128	61,178	7,178	0	1,195	126,940
Non-product Costs of Revenue	117,152	53,070	11,930	11,975	193,727	18,913	4,323	18,021	567	235,652
Cost of Revenue	161,539	79,689	21,686	31,930	293,855	37,251	11,502	18,021	1,763	362,602
Gross Margin	513,749	545,116	107,135	184,512	1,351,332	635,447	11,090	(8,528)	5,569	1,994,810
% of Net Revenue	77.1%	87.4%	83.1%	85.2%		94.6%	48.1%	(68.8%)	76.0%	84.6%
Controllable Expenses										
Direct Expenses:										
People	42,712	38,842	14,743	12,219	100,516	7,256	2,231	1,184	4,437	124,024
Infrastructure	14,141	12,427	4,971	4,326	36,864	1,687	335	205	912	39,004
Other/Misc Expenses	3,564	4,686	6,639	1,949	16,867	1,991	1,072	835	321	40,748
Direct Expenses	60,417	56,955	26,352	18,494	182,218	30,925	3,638	1,924	5,671	204,378
Marketing										
Marketing	100,208	78,660	13,185	20,059	224,113	2,699	2,411	1,572	2,387	233,182
Marketing Recovery	(7,035)	(8,984)	(1,631)	(4,377)	(22,036)	3	(89)	(9)	400	(21,741)
Brand Reach	0	0	0	0	0	0	0	0	0	0
Marketing	93,174	69,676	11,554	24,682	202,077	2,702	2,312	1,563	2,787	211,451
Distributions:										
MCS Costs	21,578	9,053	2,717	918	34,265	0	0	0	186	34,452
MCS Revenue	(27,710)	(9,377)	(2,739)	(332)	(39,891)	0	0	0	(235)	(39,827)
GAA Costs	776	10,251	2,237	2,048	15,312	873	63	70	29	16,166
PSS Costs	85,258	37,349	5,247	13,696	151,550	9,226	3,559	6,704	443	182,256
PSS Revenue	(14,969)	(9,405)	(1,522)	(1,284)	(27,180)	(327)	0	0	(12)	(27,599)
Distributions	74,853	37,871	8,468	15,037	136,217	3,905	83	6,774	421	145,430
Total Controllable Expenses	231,924	184,491	44,313	58,213	485,541	37,532	6,034	10,281	8,869	541,257
Responsibility Margin	282,226	381,824	82,641	128,308	632,800	597,815	5,047	(18,789)	(3,300)	1,433,553
% of Net Revenue	41.8%	31.1%	48.7%	58.4%		88.9%	22.3%	(187.9%)	(45.3%)	60.8%
Shared Resources:										
Shared Resources-In	38,234	33,077	8,710	3,204	83,224	2,650	0	3,138	0	89,013
Shared Resources-Out	0	(7,638)	(6,659)	(872)	(15,169)	(2,500)	0	0	0	(17,759)
Shared Resources	38,234	25,439	2,051	2,332	68,055	60	0	3,138	0	71,285
Corporate Allocations	107,053	83,983	23,879	30,720	246,635	14,926	2,790	25,028	9,339	387,664
Contribution Margin	136,938	272,202	56,711	89,256	539,108	482,850	2,237	(48,854)	(12,651)	974,904
% of Net Revenue	20.3%	43.6%	28.5%	41.1%		71.9%	10.0%	(484.6%)	(172.6%)	41.3%
Shared Resources-In										
SR In-PBS Corp	727	1,512	280	486	3,005	0	0	3,138	0	6,144
SR In-VP Corp	5,050	2,123	622	728	8,523	2,146	0	0	0	10,669
SR In-US SAM	262	0	0	0	262	0	0	0	0	262
SR In Reg Dir RHQ	0	8,183	6,234	872	15,269	604	0	0	0	16,773
SR In-MCS Corp	745	263	176	50	1,233	0	0	0	0	0.7%
SR In-Global Reach	31,480	21,016	1,387	1,009	54,943	3,326	0	0	0	64,943
Shared Resources-In	38,234	33,077	8,710	3,204	83,224	2,650	0	3,138	0	89,013

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A26 - MICROSOFT CONFIDENTIAL MSC 00-199765 JR: STEVE HOBRECHT (STEVEHOB)

**FYTD96 CHANNEL P&L**  
(\$ in thousands)

	North America		Europe		Asia/Pac		Latin America		Total		Advanced Technology		Total
	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses	
Rev Sum Revenue	1,843,583	1,345,890	330,810	458,391	3,978,484	1,254,431	50,213	17,488	5,800,735	1,244,391	17,488	5,800,735	121.9%
Revenue Adjustments	(488,669)	(231,864)	(59,358)	(83,333)	(884,231)	(54,015)	(3,749)	(57)	(1,416,053)	(54,015)	(57)	(1,416,053)	(21.7%)
Net Revenue	1,354,914	1,093,897	271,452	375,057	3,094,253	1,199,417	46,464	17,431	4,384,682	1,190,417	17,431	4,384,682	100.0%
Cost of Revenue:													
Standard Product Costs	119,845	69,370	28,061	35,663	242,940	79,674	31,407	12,165	2,072	285,184	0	2,072	6.7%
Non-product Costs of Revenue	163,498	63,973	21,267	19,189	237,924	7,391	2,301	42,807	1,202	358,651	1,202	358,651	8.5%
Cost of Revenue	283,343	133,343	49,328	54,852	480,864	87,065	33,708	54,972	3,274	643,835	1,404	643,835	18.2%
Gross Margin	1,071,571	960,554	221,944	320,205	2,613,389	1,112,352	13,756	12,936	1,051,847	1,179,999	16,027	1,051,847	84.8%
% of Net Revenue	78.1%	86.9%	81.8%	85.4%	84.5%	92.8%	29.4%	74.7%	24.0%	26.9%	92.8%	24.0%	84.8%
Controllable Expenses:													
Direct Expenses:													
People	80,966	78,996	27,643	24,019	211,624	6,874	13,910	3,772	2,003	8,928	8,928	240,237	5.5%
Infrastructure	26,658	22,839	9,184	8,764	87,246	2,224	3,171	668	1,754	668	1,754	73,180	1.7%
Other Misc Expenses	17,530	10,064	10,138	3,158	40,910	1,324	37,019	1,558	448	448	448	60,477	1.4%
Direct Expenses	125,154	111,720	46,965	35,941	319,780	10,456	54,100	5,998	2,887	11,129	11,129	393,895	9.1%
Manufacturing:													
Maintenance	199,014	134,412	30,948	43,919	408,291	13,224	4,817	3,786	3,076	4,951	4,951	424,920	9.8%
Marketing Recovery	(16,462)	(15,126)	(2,895)	(7,965)	(42,558)	(1,474)	52	(354)	(9)	(9)	(9)	(42,869)	(1.0%)
Broad Reach	0	0	0	0	0	0	0	0	0	0	0	0	0.0%
Maintenance	182,552	119,286	27,981	35,954	365,733	11,750	4,869	3,432	3,067	4,951	4,951	397,051	9.1%
Distributions:													
MCS Costs	42,008	15,532	5,121	1,686	84,378	2,124	0	0	0	0	0	84,378	1.9%
MCS Revenue	(51,859)	(16,308)	(4,214)	(559)	(71,938)	(2,324)	0	0	(235)	(235)	(235)	(72,173)	(1.7%)
GMA Costs	1,522	22,419	4,365	4,247	32,753	1,124	1,550	142	116	358	358	34,917	0.8%
PSS Costs	183,096	69,401	10,555	24,118	287,139	8,876	6,982	7,111	1,218	1,218	1,218	292,448	6.8%
PSS Revenue	(28,266)	(18,027)	(2,170)	(2,803)	(49,287)	(1,674)	(511)	0	(16)	(16)	(16)	(49,763)	(1.1%)
Distributions	128,501	74,019	13,935	26,888	243,884	7,202	8,021	142	2,237	1,517	1,517	259,871	6.0%
Total Controllable Expenses	436,208	305,025	89,782	99,582	929,577	30,076	96,990	9,572	13,180	17,997	17,997	1,039,817	23.9%
Responsibility Margin	634,468	845,578	133,163	221,643	1,634,602	52,876	1,032,443	13,370	(48,690)	(48,690)	(48,690)	2,647,596	61.0%
% of Net Revenue	46.9%	59.0%	49.1%	59.1%	50.1%	52.8%	69.7%	29.8%	(4.6%)	(4.6%)	(4.6%)	61.0%	
Shared Resources:													
Shared Resources-In	70,982	66,014	13,960	16,479	156,945	5,124	4,266	0	3,612	0	3,612	165,023	3.8%
Shared Resources-Out	0	(12,053)	(9,312)	(1,989)	(23,365)	(8,241)	(6,083)	0	0	0	0	(27,448)	(0.6%)
Shared Resources	70,982	53,961	4,648	14,490	133,580	(3,117)	183	0	3,612	0	3,612	137,575	3.2%
Corporate Allocations	204,623	160,471	45,084	56,542	469,120	15,224	199,898	5,382	(31,839)	(31,839)	(31,839)	733,491	16.9%
Contribution Margin	359,952	441,107	89,431	149,612	1,032,102	33,929	832,552	9,989	(81,551)	(81,551)	(81,551)	1,779,528	40.8%
% of Net Revenue	26.6%	40.3%	30.8%	39.6%	30.1%	33.4%	72.2%	16.9%	(6.0%)	(6.0%)	(6.0%)	40.8%	
Shared Resources-In	1,426	2,901	544	1,069	6,939	0.2%	0	0	3,612	0	3,612	9,761	0.2%
S/R in-Vp Corp	8,925	3,778	1,106	1,296	16,105	0.5%	3,625	0	0	0	0	19,730	0.4%
S/R in-US SALM	0	0	0	0	0	0.0%	642	0	0	0	0	24,281	0.6%
S/R in Rep Dir RHO	1,662	551	366	106	2,587	0.1%	0	0	0	0	0	2,587	0.1%
S/R in-MCS Corp	59,978	39,072	2,053	12,020	69,674	3.5%	0	0	0	0	0	109,674	2.5%
Shared Resources-In	70,982	66,014	13,960	16,479	156,945	5.1%	0	0	3,612	0	3,612	165,023	3.8%

MSC 00489756

AUTHOR: STEVE HOMERRECHT (STEVHOB)

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**Q96-2 PRODUCT P&L**

(\$ in thousands)

	Workwide Applications/Content				Workwide Platforms				Total
	Desktop Apps	Personal Finance	Microprod. Dev. Lic.	Apps/Content Mgmt/Research	Terminal Ops Sys	Product Lic	Consumer Sys	Direct Op Systems	
Gross Revenue	939,172	252,217	8,162	9,460	1,212,011	288,813	16,133	12,331	931,591
Revenue Adjustments	17,713	(15,693)	(152)	(262)	1,704	(5,794)	(2,599)	(86)	243,975
Net Revenue	956,885	236,524	8,010	9,198	1,213,715	283,019	13,534	12,245	1,175,476
Costs of Revenue:									
Standard Product Costs	40,345	60,160	1,626	0	102,130	9,261	1,123	0	16,800
Other Costs of Revenue	71,195	35,620	1,022	16,970	124,257	6,828	8,242	38	72,261
Product Specific Costs	9,750	19,606	54	1,101	30,510	6,664	612	1,065	10,512
Costs of Revenue	121,489	115,386	2,701	18,021	257,997	22,754	18,112	1,102	99,573
Gross Margin	835,396	121,138	5,309	(6,823)	956,118	260,265	15,422	11,143	1,075,903
% of Net Revenue	87.3%	51.7%	64.7%	(82.3%)	78.6%	91.9%	113.9%	91.0%	91.6%
Operating Expenses:									
People	28,235	25,298	1,157	11,881	71,761	20,830	22,255	0	10,419
Infrastructure	8,777	7,017	342	4,227	21,363	10,131	6,319	0	3,224
Contingency/Staff	2,490	11,451	75	4,007	18,169	8,162	2,476	0	889
Product Development	8,617	18,402	78	2,800	30,140	3,066	5,615	0	2,314
Marketing	61,146	35,005	3,042	1,371	122,990	27,051	11,591	2,744	95,465
Other	113	548	0	720	1,436	206	912	0	152
Product Support Services	36,010	8,112	563	9,863	54,578	16,179	16,519	725	0
Tec. Insurance & Software	1,324	1,324	21	97	2,856	1,226	(1,904)	88	67
Bad Debt Expense	9,298	2,061	35	445	11,840	1,293	519	93	8,817
R&D Shared Resources	9,243	1,714	851	365	8,371	5,291	(900)	814	(1,571)
Total Operating Expenses	187,291	111,621	6,166	35,766	344,653	102,717	63,622	365	417
Responsibility Margin	648,105	124,717	(457)	(44,949)	611,456	157,548	46,897	10,774	(417)
% of Net Revenue	67.7%	53.3%	(6.7%)	(47.6%)	50.4%	55.8%	34.7%	88.0%	61.6%
Allocations	106,020	53,005	659	6,623	166,307	25,827	19,463	89	592
Under/Over Allocated	0	0	0	0	0	0	0	0	0
Contribution Margin	542,085	(31,097)	(1,469)	(51,322)	478,297	131,721	27,434	10,686	(1,019)
% of Net Revenue	46.7%	(13.5%)	(18.3%)	(64.3%)	39.4%	47.9%	20.8%	91.2%	61.3%

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Q96-2

FYTD96 PRODUCT P&L

(\$ in thousands)

	Worldwide Applications/Content		Business Systems		Personal Office Sys		Worldwide Platforms		Total
	Personal Finance	On Line	Personal On Line	Apps/Content	Total	Developer	Consumer Sys	Other Op Systems	
Gross Revenue	2,081,186	496,095	10,100	0	2,587,381	204,143	17,560	20,162	2,844,225
Revenue Adjustments	(353,778)	(39,701)	(975)	0	(393,692)	(5,144)	(2,122)	(236)	(407,630)
Net Revenue	1,727,410	456,394	9,125	0	2,193,689	198,999	15,438	19,926	2,436,595
Costs of Revenue:									
Standard Product Costs	86,142	108,629	0	0	194,771	16,147	47,428	595	252,995
Other Costs of Revenue	96,531	53,411	1,220	0	151,162	14,110	64,508	77	215,256
Product Specific Costs	24,544	29,003	720	0	54,267	14,939	5,485	472	75,163
Costs of Revenue	207,217	188,044	3,603	0	398,864	45,196	117,417	3,739	565,219
Gross Margin	1,520,194	268,350	5,522	0	1,804,825	153,803	1,376,272	16,187	1,880,376
% of Net Revenue	88.0%	58.8%	60.3%	0	82.3%	78.0%	62.8%	83.2%	76.8%
Operating Expenses:									
People	56,128	47,204	2,121	10,693	116,146	59,719	38,262	0	194,127
Infrastructure	17,128	13,011	619	2,262	33,019	19,305	11,028	0	63,352
Contingency Staff	5,322	22,542	205	415	28,484	15,016	7,635	0	51,136
Product Development	15,826	33,578	216	548	50,168	5,843	7,822	0	63,839
Marketing	146,147	56,947	3,395	48	206,497	42,998	100,190	0	353,685
Other	828	1,205	2	370	2,405	841	(414)	0	2,291
Product Support Services	65,518	15,506	1,059	0	82,083	31,890	85,147	0	169,020
Tax, Insurance & Sellenent	4,440	3,037	35	1	7,513	2,196	14,868	0	24,517
Bad Debt Expense	18,631	3,337	51	0	22,019	2,990	14,868	0	40,877
R&D Shared Resources	16,799	3,863	1,167	0	21,829	8,138	7,287	0	37,244
Total Operating Expenses	344,565	200,368	8,681	10,693	564,312	185,538	252,269	723	823,342
Responsibility Margin	1,175,458	268,000	(2,159)	(6,980)	1,204,227	138,265	1,123,999	17,464	1,342,591
% of Net Revenue	64.1%	58.7%	(23.1%)	(30.8%)	54.9%	78.0%	52.1%	84.2%	55.5%
Allocations	200,497	92,932	1,126	0	294,555	177,728	872,611	0	1,175,336
Under/Over Allocated	0	0	0	0	0	0	0	0	0
Contribution Margin	974,961	(54,979)	(13,761)	(6,980)	899,241	118,265	241,388	17,464	1,036,858
% of Net Revenue	42.5%	(12.0%)	(15.0%)	(27.3%)	40.9%	78.0%	52.1%	84.2%	45.5%

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**Q96-2 REVENUE BY SALES LOCATION**  
(\$ in millions)

	Finished Goods				Total Business			
	Net Revenue		Responsibility Margin		Net Revenue		Responsibility Margin	
	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan
<b>North America</b>								
US (Redmond)	\$815.4	99%	\$249.6	91%	\$355.6	102%	\$431.4	97%
Canada	59.9	97%	32.6	91%	61.5	99%	32.4	92%
Other	0.0	NM	0.0	NM	7.0	128%	(0.6)	47%
	<u>875.3</u>	<u>98%</u>	<u>282.2</u>	<u>91%</u>	<u>1,024.1</u>	<u>102%</u>	<u>463.2</u>	<u>97%</u>
<b>Europe</b>								
Austria	10.5	86%	6.1	98%	12.8	78%	6.0	72%
Belgium	14.7	73%	6.5	97%	18.5	83%	9.4	73%
Czechoslovakia	13.2	180%	10.1	219%	15.3	171%	12.0	195%
Denmark	18.1	85%	13.2	95%	22.1	100%	16.0	102%
Eastern Europe	1.8	159%	1.0	227%	2.0	161%	1.3	236%
England	114.5	103%	67.1	108%	135.9	107%	65.4	115%
Finland	11.8	119%	8.0	134%	20.6	136%	16.5	153%
France	94.0	99%	55.0	97%	110.9	106%	68.7	110%
Germany	139.3	98%	91.2	104%	211.7	113%	153.4	125%
Hungary	8.6	162%	6.2	194%	9.3	161%	6.7	167%
Italy	53.2	119%	40.1	131%	67.1	120%	53.5	128%
Netherlands	23.0	106%	12.8	125%	29.8	118%	18.0	140%
Norway	18.0	120%	13.0	129%	21.3	123%	15.8	132%
Poland	9.1	208%	6.8	315%	11.1	178%	8.5	226%
Portugal	5.8	87%	3.1	80%	6.4	89%	3.7	83%
Russia	4.0	98%	1.8	93%	4.8	96%	2.4	82%
Slovakia	2.0	135%	1.4	153%	2.0	137%	1.4	156%
Slovenia	1.3	293%	0.8	NM	1.3	246%	0.9	NM
Spain	16.2	104%	10.2	111%	20.7	114%	14.2	124%
Sweden	32.7	78%	15.1	86%	37.4	83%	19.1	76%
Switzerland	32.1	94%	18.9	93%	34.8	98%	22.0	98%
Other	0.0	NM	(7.6)	NM	0.3	NM	(8.5)	NM
	<u>624.8</u>	<u>101%</u>	<u>311.6</u>	<u>105%</u>	<u>796.3</u>	<u>108%</u>	<u>532.5</u>	<u>117%</u>
<b>ICON</b>								
Argentina	3.1	72%	1.3	67%	3.5	73%	1.6	70%
Australia	41.4	98%	26.7	117%	48.7	101%	33.9	118%
Brazil	14.2	46%	4.5	22%	18.1	51%	6.0	33%
Caribbean	1.8	81%	0.8	40%	2.8	86%	1.5	84%
Chile	2.6	73%	1.4	66%	2.9	75%	1.6	68%
Colombia	3.9	74%	2.2	76%	4.1	74%	2.3	75%
Ecuador	0.9	121%	0.6	185%	0.9	114%	0.6	162%
Greece	1.9	127%	0.8	123%	2.3	134%	1.2	129%
India	5.0	136%	3.0	145%	5.9	142%	3.9	154%
Indonesia	(0.1)	NM	(0.4)	NM	(0.1)	NM	(0.3)	NM
Israel	3.1	117%	1.8	165%	3.9	105%	2.4	118%
Malaysia	3.6	93%	2.2	105%	4.1	101%	2.6	115%
Mexico	5.9	80%	2.3	66%	7.1	80%	3.2	66%
Middle East	4.0	103%	1.7	113%	5.1	120%	2.5	148%
Morocco	1.0	111%	0.5	143%	1.0	111%	0.5	144%
New Zealand	8.1	90%	4.3	88%	9.9	100%	6.0	107%
Paru	2.5	154%	1.6	193%	2.5	149%	1.6	180%
Philippines	0.6	88%	0.3	71%	1.0	95%	0.4	86%
Singapore	7.0	108%	3.9	106%	12.9	137%	8.7	146%
South Africa	6.5	81%	3.3	57%	11.0	94%	5.2	77%
Thailand	4.2	150%	3.3	215%	4.7	163%	3.7	234%
Turkey	2.5	140%	1.5	193%	3.2	153%	2.1	205%
Uruguay	6.8	110%	0.2	112%	0.7	119%	0.3	138%
Venezuela	2.1	87%	1.2	96%	2.1	87%	1.3	86%
Other	(0.0)	NM	(6.3)	NM	0.8	106%	(6.1)	NM
	<u>128.6</u>	<u>85%</u>	<u>62.6</u>	<u>81%</u>	<u>139.8</u>	<u>92%</u>	<u>84.7</u>	<u>83%</u>
<b>Far East</b>								
China	1.6	122%	(0.0)	8%	2.1	134%	0.3	NM
Hong Kong	4.0	58%	0.7	20%	6.2	80%	2.4	36%
Japan	189.5	213%	114.9	682%	304.9	226%	229.3	377%
Korea	13.6	137%	8.1	177%	23.3	113%	17.3	118%
Taiwan	7.8	128%	3.5	151%	40.8	163%	35.8	175%
Other	0.0	NM	(0.9)	NM	1.9	NM	1.0	NM
	<u>216.5</u>	<u>191%</u>	<u>126.3</u>	<u>499%</u>	<u>376.9</u>	<u>197%</u>	<u>285.1</u>	<u>283%</u>
<b>Microsoft</b>	<u>\$1,845.2</u>	<u>105%</u>	<u>\$852.8</u>	<u>110%</u>	<u>\$2,159.0</u>	<u>113%</u>	<u>\$1,369.8</u>	<u>121%</u>

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**FYTD96 REVENUE BY SALES LOCATION**  
(\$ in millions)

	Finished Goods				Total Business			
	Net Revenue		Responsibility Margin		Net Revenue		Responsibility Margin	
	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan
<b>North America</b>								
US (Redmond)	\$1,259.7	92%	\$586.2	87%	\$1,884.8	97%	\$889.3	90%
Canada	94.4	80%	48.2	71%	96.9	82%	48.4	73%
Other	0.0	NM	0.0	NM	14.7	155%	1.9	NM
	<u>1,354.0</u>	<u>91%</u>	<u>634.5</u>	<u>85%</u>	<u>1,996.4</u>	<u>96%</u>	<u>939.7</u>	<u>89%</u>
<b>Europe</b>								
Austria	23.9	109%	14.7	131%	27.3	117%	17.5	140%
Belgium	35.7	108%	20.5	106%	41.3	113%	24.8	114%
Czechoslovakia	17.3	190%	12.5	269%	20.6	179%	15.5	225%
Denmark	28.0	113%	18.7	124%	32.1	114%	22.5	124%
Eastern Europe	3.3	215%	2.0	544%	3.7	208%	2.3	470%
England	201.4	95%	110.8	93%	244.9	103%	147.5	105%
Finland	18.4	143%	12.4	189%	36.8	172%	30.1	203%
France	157.0	88%	85.9	82%	181.8	93%	105.3	91%
Germany	262.3	110%	168.3	121%	371.9	117%	264.8	131%
Hungary	11.1	153%	7.2	213%	11.9	147%	7.9	190%
Italy	81.4	120%	58.3	135%	108.3	122%	82.5	132%
Netherlands	40.2	106%	20.5	127%	51.1	117%	30.5	137%
Norway	24.4	127%	16.5	148%	29.5	128%	20.8	143%
Poland	13.9	214%	9.8	376%	17.2	175%	12.9	228%
Portugal	12.7	135%	7.8	175%	13.6	134%	8.5	168%
Russia	6.9	118%	2.8	155%	8.4	117%	4.0	135%
Slovakia	2.8	141%	1.8	224%	2.8	144%	1.9	231%
Slovenia	2.8	418%	1.9	NM	2.9	350%	2.0	NM
Spain	28.8	113%	14.8	131%	33.9	123%	21.4	143%
Sweden	54.7	100%	23.7	108%	61.4	102%	29.1	112%
Switzerland	69.2	112%	48.8	128%	72.5	113%	49.8	128%
Other	0.0	NM	(12.0)	NM	0.0	NM	(12.8)	NM
	<u>1,053.9</u>	<u>106%</u>	<u>645.3</u>	<u>115%</u>	<u>1,371.7</u>	<u>113%</u>	<u>889.9</u>	<u>124%</u>
<b>CON</b>								
Argentina	9.0	118%	5.0	161%	9.8	114%	5.5	144%
Australia	77.9	93%	40.5	88%	97.2	99%	57.5	99%
Brazil	27.4	58%	8.5	33%	34.9	65%	15.2	48%
Caribbean	6.0	115%	3.4	151%	7.0	129%	4.4	174%
Chile	6.2	101%	3.5	105%	6.8	103%	4.0	107%
Colombia	9.8	89%	5.9	97%	10.1	88%	6.1	95%
Ecuador	1.7	141%	1.1	277%	1.7	133%	1.1	235%
Greece	3.8	149%	2.0	202%	4.5	146%	2.6	173%
India	8.2	140%	4.5	161%	9.8	140%	5.9	158%
Indonesia	0.8	44%	0.3	32%	0.8	45%	0.4	36%
Israel	6.4	129%	3.6	195%	8.0	114%	5.0	131%
Malaysia	7.4	124%	4.3	160%	8.2	132%	5.0	171%
Mexico	18.1	145%	11.0	220%	19.2	129%	11.8	164%
Middle East	8.2	109%	4.0	142%	9.8	117%	5.1	154%
Morocco	1.8	120%	0.6	208%	1.8	120%	0.8	208%
New Zealand	17.7	113%	9.2	118%	21.1	121%	12.4	134%
Peru	3.9	145%	2.4	205%	4.0	141%	2.4	190%
Philippines	1.6	97%	0.7	95%	1.9	102%	0.9	108%
Singapore	13.3	108%	7.2	108%	25.8	148%	17.0	158%
South Africa	22.5	115%	12.1	118%	27.1	125%	16.0	130%
Thailand	8.0	171%	6.6	260%	9.8	178%	7.2	264%
Turkey	5.1	206%	3.1	496%	6.4	208%	4.1	358%
Uruguay	1.3	108%	0.6	152%	1.4	121%	0.8	188%
Venezuela	4.4	123%	2.4	156%	4.5	121%	2.4	149%
Other	0.1	NM	(9.3)	NM	1.3	102%	(9.2)	NM
	<u>271.3</u>	<u>101%</u>	<u>133.2</u>	<u>109%</u>	<u>331.8</u>	<u>107%</u>	<u>184.1</u>	<u>118%</u>
<b>Far East</b>								
China	2.7	102%	(0.2)	NM	3.7	128%	0.6	NM
Hong Kong	18.8	132%	10.1	157%	20.4	112%	13.0	112%
Japan	318.4	203%	194.0	692%	494.2	208%	364.9	353%
Korea	23.4	135%	14.1	184%	47.0	128%	36.8	141%
Taiwan	12.7	119%	5.7	149%	78.9	181%	68.9	200%
Other	0.0	NM	(2.0)	NM	1.1	NM	(0.9)	NM
	<u>375.1</u>	<u>187%</u>	<u>221.7</u>	<u>523%</u>	<u>643.5</u>	<u>180%</u>	<u>483.2</u>	<u>262%</u>
Microsoft	\$3,094.2	103%	\$1,634.8	111%	\$4,343.2	110%	\$2,496.9	119%

**MICROSOFT'S MANAGEMENT ACCOUNTING POLICIES AND MANAGEMENT REPORTING****MAP**

- Financial statements included herein are prepared in accordance with Microsoft's Management Accounting Policies and are intended for confidential internal use.
- Microsoft's Accounting Policies emphasize worldwide consistency among product, customer, geography, and cost center activities based on standard taxonomies for responsibility accounting for cost centers and marginal costs of incremental unit cost and revenue allocations which may not be relevant for external and regulatory reporting.
- Adjustments required by Generally Accepted Accounting Principles for external reporting may not be reflected in some of the detailed management views included in this report. Adjustments required for other statutory purposes or local purposes may also be omitted.
- If you have any comments, questions, or if you are interested in obtaining a copy of Microsoft's Management Accounting Policies, please email the "MAP" alias.

**Management Reporting**

- All management reports are available online and on the dedicated management reporting server located at \\sparrow\measure.
- The reports can be accessed via an Excel add-in reporting tool.
- If you have any questions or suggestions about the online financial management reports or the reporting tool, please email the "MRPT" alias.

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## THE MICROSOFT FAMILY OF FUNDS

During Q95-4, Microsoft's cash investment portfolio was migrated into five distinct sub-portfolios - four fixed-income portfolios and one opportunity portfolio. Each portfolio is a separate mutual fund or risk bucket, with unique guidelines and risk/return expectations. Collectively, the portfolios are the Microsoft "Family of Funds".

With this strategy, MS is increasing the sophistication of our portfolio management efforts, focusing on Total Rate-of-Return portfolio management (as opposed to yield-to-maturity) and using duration as a risk management tool (instead of term-to-maturity).

The goals of this strategy are to:

- Segregate the cash portfolio into individual funds of a more manageable size.
- Enhance the total return on Microsoft's cash assets.
- Establish risk and return expectations for each Fund.
- Provide pro-active risk management of financial assets.
- Benchmark performance relative to market indices.
- Allow allocation of cash among the various risk segments of the short-term fixed-income market.

Following is a high level summary of the general guidelines of each Fund:

- Level 1: Money Market Fund - Designed to meet the operating cash requirements of MS Corporation, and other legal entities, MS MBV, MB IBV, and MS Puerto Rico, this fund has a targeted duration of 20-45 days and a maximum

maturity of 91 days. Little principal value fluctuation is expected. Benchmark: 30-Day US Treasury Bill.

- Level 2: Enhanced Money Market Fund - Designed as a secondary source of liquidity supporting the Money Market Fund, this fund has a maximum maturity of 13 months. The longer targeted duration of 2 to 6 months, will provide opportunity for increased return with a modest increase in risk. A small amount of principal value fluctuation is expected. Benchmark: 90-Day US Treasury Bill.
- Level 3: Short-term Fixed Income Fund - This fund will carry an increased focus on interest rate changes, security sectors and temporary market anomalies to provide the opportunity for returns above money market rates. Duration is further extended to a target of 1.25 to 2.25 years. Some principal value fluctuation is expected, and negative monthly total returns may occur occasionally. Benchmark: Merrill Lynch US Treasury 1 - 2.99 Yr. Index.
- Level 4: Intermediate Fixed Income Fund - An actively managed portfolio with a targeted duration of 2.5 to 4.0 years. This "short bond fund" will focus on the optimal security type, sector, and credit risk to achieve superior returns. Principal value fluctuation is expected. Months with negative returns will occur and an occasional negative quarter is possible. Benchmark: Merrill Lynch US Treasury 3 - 4.99 Yr. Index.
- Level 5: Opportunity Fund - This fund will seek investment opportunities that provide yield enhancement, meet tax-planning objectives, and mirror MS' strategic investments and business relationships (e.g., we own \$25 million MTEL 10-year bonds). This fund requires senior management approval of each transaction, and does not carry specific maturity constraint.

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## INVESTMENTS

## Wang Laboratories, Inc.

(Financial information shown below is the most recent available)

	Three Months Ended		Change \$	Change %
	Sep. 30, 1994	Sep. 30, 1995		
Net revenue	\$192	\$264	\$72	38
Cost of revenue	126	179	53	42
Gross profit	66	85	19	29
Controllable expenses	65	108	43	66
Net income	\$1	(\$23)	(\$24)	NM

- For the three months ended September 30, 1995, Wang's revenues increased 38% as product sales increased 5% and service revenue increased 60% primarily due to the acquisition of Bull's service business. Wang experienced a loss primarily due to \$38 million of acquisition and fresh-start accounting charges (compared with \$7 million in the comparable period). EBITDA increased 83% from \$19 million to \$33 million.
- Wang is attempting to realign its business to be a service provider and a developer of open systems software. It is de-emphasizing proprietary product sales.
- In September, Wang purchased Sigma Imaging, an enterprise and workflow imaging vendor whose products run on Windows NT, for approximately \$20 million. In October, Wang acquired BISS, Limited, a UK-based system integrator and service provider.
- In April 1995, MS signed a broad technical, service, marketing, patent, and investment agreement with Wang. Under the agreement, Wang's desktop imaging and object controls will be incorporated in future releases of Windows 95, Windows NT, and Visual Basic. Wang's imaging technology enables images of scanned documents, including text and graphics, to be embedded in Windows applications such as e-mail, word processing and databases. Additionally, the two companies are working together on the definition of work management APIs. Wang's structured workflow technology manages the routing and delivery of this data and documents.
- As part of the agreement, MS also designated Wang as its "preferred" vendor of imaging and workflow software and will engage in some co-marketing.
- The agreement also expands Wang's role in support services for MS products. MS is outsourcing some Office and Windows NT support calls to Wang and subcontract MCS work for on-site network design and installation consulting, network integration, migration support, workflow and imaging services, and end-user help desk services.
- MS also received a license to Wang's portfolio of software and software-related patents, which resolved outstanding litigation between the two companies.
- In consideration, MS purchased \$90 million face amount of 4.5% convertible preferred stock due in 2003 for \$84 million. The stock is convertible into Wang common at \$23 per share and represents approximately 10% of Wang's common stock on a fully diluted basis. Wang's common was recently trading at approximately \$16 per share, up from \$13 per share at the time the deal was signed.

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**Stac, Inc.**

(Financial information shown below is the most recent available)

	Twelve Months Ended		Change \$	Change %
	Sept. 30, 1994	Sept. 30, 1995		
Net revenue	\$ 31.3	\$ 45.8	\$ 14.5	46 %
Cost of revenue	5.0	5.4	0.4	8
Gross profit	26.3	40.4	14.1	54
Controllable expenses	26.4	40.5	14.1	53
Net income	\$ (0.1)	\$ (0.1)	\$ (0.0)	0

- In June 1994, MS and Stac signed cross-license and investment agreements to end their disk compression patent dispute. MS agreed to pay Stac license royalties of \$1 million per month for 43 months. MS also purchased \$39.9 million of 4.0% convertible preferred stock (since converted to common - see below).
- On November 1, 1995, the company changed its name to Stac, Inc. to more accurately reflect its current product line.
- Software accounted for under 50% of total revenue, with the Stacker business continuing to erode. ReachOut now accounts for more than 60% of software sales.
- Gross profit increased (88% versus 84%), largely reflecting increased royalty income.
- Controllable expenses in 1995 include \$13.4 million of purchased R&D and \$2.4 million of restructuring charges.
- On November 9, 1995, the preferred stock held by MS converted into 4,458,746 shares of Stac common stock. As of 12/31/95, with a price of \$14.375 per share, MS's stake is worth about \$64 million.

**Mobile Telecommunications Technologies Corporation (Mtel)**

(Financial information shown below is the most recent available)

	Nine Months Ended		Change \$	Change %
	Sep. 30, 1994	Sep. 30, 1995		
Net revenue	\$ 118	\$ 172	\$ 54	46 %
Operating expenses	116	164	48	41
EBITDA	2	8	6	300
Other expenses	(14)	(26)	(12)	86
Net income	\$ (12)	\$ (18)	\$ (6)	50

- Mtel is the leading provider of nationwide and alpha-numeric paging services under the SkyTel brand. Mtel is also developing the SkyTel 2-Way network which was launched in September and is expected to be operational in 300 cities by early 1996. The SkyTel 2-Way development has caused a dramatic increase in expenses.
- During the first nine months of 1995, Mtel recorded a net increase in pager units in service to 296,000 and total in excess of 1 million. This unit increase was offset in part by a decrease in pricing and a mix shift toward less expensive services.
- This month, Bernard Puckett, Mtel's CEO and the former SVP, Strategy of IBM, resigned. A search is underway for a new CEO.
- Pursuant to a roll-up plan, MS's stock in the two-way subsidiary has been converted into Mtel common at a price per share of \$17.10 (which compares with the recent stock price of \$20).
- MS and Mtel are renegotiating certain terms and conditions of their July 1994 technical and marketing agreement to reflect the changes in MS's Pegasus product. This renegotiation will determine the outcome of MS's warrants in Mtel, but they should have a value in excess of \$5 million.

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**Santa Cruz Operation, Inc.**

(Financial information shown below is the most recent available)

	Fiscal Year Ended		Change \$	Change %
	Sep. 30, 1994	Sep. 30, 1995		
Net revenue	\$ 186	\$ 199	\$ 13	7 %
Cost of revenue	51	53	2	4
Gross profit	135	146	11	8
Controllable expenses	121	152	31	28
Net income	\$ 14	\$ (6)	\$ (20)	(143)

- The Unixware acquisition was completed on December 6, 1995. Novell received 6.1 million SCO shares (15.6% post-transaction), and may receive additional consideration depending on future unit volumes. R. Duff Thompson, Novell's Senior VP of strategic development, joined the SCO board. SCO currently has been able to hire only 70% of the "desired Unixware personnel" as it faces a very strong competition from HP. Also, according to Alok Mohan (SCO CEO), the "HP relationship is moving very slowly." MS's position in SCO is now 10.5%, down from 13% pre-transaction.
- Q4 FY95 (ending Sep. 95) earnings release was delayed from late October until mid-November, due to additional work required in the European Operations.
- Several special agreements could lead to much higher returns or exchanges of products than per the standard terms, and significant reserves (\$4 million, or 25% of EMEA sales) had to be accrued.
- As a consequence, Q4 sales were at \$47.2 million, Q4 loss was \$2.6 million. For FY95, total sales were \$199.3 million, and the net loss was \$6.1 million, after \$18.1 million of non-recurring charges.
- Bad results for the fourth quarter drove the stock down from \$8 to \$6.50.
- MS is currently negotiating with SCO (1) the sales of its shares (25% as a buy-back by SCO and 75% through Goldman Sachs), and (2) the buy-out by SCO of the Unix royalties.

**Dorling Kindersley PLC**

- MS sold our entire equity stake in DK. The 12.1 million shares were sold in late November for 507 pence per share in a secondary offering managed by Goldman Sachs and Cazenove. Net

of expenses and currency translation, we recognized a pre-tax gain of \$75 million. We have a \$3 million loan outstanding to the company which matures in 1998.

**UUNET Technologies, Inc.**

(Financial information shown below is the most recent available)

	Quarter Ended		Change \$	Change %
	Sep. 30, 1994	Sep. 30, 1995		
Net revenue	\$ 3.2	\$ 16.4	\$ 13.2	413 %
Cost of revenue	2.2	10.6	8.4	382
Gross profit	1.0	4.3	3.3	330
Controllable expenses	3.2	3.7	0.5	16
Net income	\$ (2.2)	\$ 0.6	\$ 2.8	(127)

- As of January 9, 1995, UUNET had a market value of \$1.39 billion, up 16% from the previous report. The value of MS's \$16 million investment is now \$204 million.
- Network development continues ahead of schedule. UUNET currently has 118 POPs in service and has 112 additional POPs scheduled for completion by year end, including 20 outside the United States.

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- While MS has been a key part of the UUNET strategy, we represented only 33% of revenue in Q3 as UUNET has achieved rapid growth in all its business lines.
- On November 15, UUNET acquired 90.54% of the outstanding shares off Unipalm Group PLC,

the largest provider of Internet services in Europe and the largest Internet access provider in the United Kingdom, for \$154 million in stock. UUNET also announced its intention to acquire 40% of EUNET Germany, another of Europe's leading Internet providers, with 30 POPs.

**MicroUnity Systems Engineering, Inc.**

(Financial statements not meaningful.)

- First chips were produced in December 95, but many manufacturing issues have still to be solved (yields are still far from target). MicroUnity plans to have shippable chips in Q3 of CY96, at the earliest.
- The Consumer Systems Division (Jay Torborg and Bill Pope) spent one day in late November with MicroUnity management and technical staff and concluded that there is little synergy between MU's current directions and MS view of the evolving graphics and multimedia world. But we will still continue to monitor it closely. Jean-Francois Heitz will be the "observer" on the board representing MS, along with observers from the other investors (TCI, Comcast, Motorola, etc.).
- While there are two significant volume markets for media processors in the next few years—PCs

and digital TV—MU is not pursuing either one; PC because their chip has too high a power dissipation, and digital TV because they have no support for the high resolution requirements. Instead, MU is pursuing the external cable modem market.

- MU currently spends about \$4 million per month in operating expenses (headcount is at 172) and had \$12 million in cash as of 12/31/95.
- MU is seeking to raise about \$60 million to \$120 million in Q1CY96 (series F preferred at \$6 a share, which gives a valuation of about \$700 million, pre-transaction), possibly from DRAM manufacturers, and plans to go public in Q2-Q3 if the IPO market continues to be favorable.

**Individual, Inc.**

(Financial information shown below is the most recent available)

	Quarter Ended Sep. 30, 1994	Quarter Ended Sep. 30, 1995	Change \$	Change %
Net revenue	\$ 2.4	\$ 4.2	\$ 1.8	75 %
Cost of revenue	2.1	3.9	1.8	86
Gross profit	0.3	4.3	4.0	1,333
Controllable expenses	1.3	6.0	4.7	362
Net income	\$ (1.0)	\$ (1.7)	\$ (0.7)	70

- Individual had a strong fourth quarter (December), booking \$7.1 million in revenue and finishing the year at \$19.3 million, ahead of its \$18 million plan.
- Individual now has 90,000 users of its various news services, 40,000 of whom are on Newspaper, the company's Internet news offering.
- Newspaper was launched in the fourth quarter, and slightly exceeded its planned \$500,000 in revenue.
- The company is considering filing an IPO in the near future.
- Individual now offers content from over 600 news sources, up from 400 when MS invested in September 1995.

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**Lightspan Partnership, Inc.**

(Financial information shown below is the most recent available)

	Actual YTD		Plan YTD	
	Oct. 31, 1995	Oct. 31, 1995	Variance \$	Variance %
Net revenue	\$ 0.2	\$ 1.6	\$ 1.4	(86) %
Cost of revenue	0.0	0.3	0.3	(100)
Gross profit	0.2	1.3	1.1	(83)
Controllable expenses	13.4	13.5	0.1	(1)
Net income	\$ (13.2)	\$ (12.2)	\$ 1.0	NM

- On February 7, 1995, MS invested \$5 million in Lightspan Partnership, along with TCI, Comcast, Kleiner Perkins and Accel Partners. Pursuant to this transaction, MS acquired 1.67 million shares of Series B Preferred stock at \$3 per share. In total, Lightspan raised \$17.5 million to support development and marketing.
- On June 1, 1995, pursuant to the earlier commitment, MS invested an additional \$5.1 million. Investment in Lightspan now totals \$10.1 million, which includes approximately \$100,000 of accrued interest, representing approximately 12.0% of the company.
- Financial information above is for the period January 1, 1995, through October 31, 1995. The company now has 168 employees on its payroll. Despite lower costs than planned, the company is only slightly over budget as a result of lower than expected revenues.
- Lightspan Partnership's mission is to become a major player in the field of interactive multimedia "edutainment" and curricular software targeting the K-6 education market. Initially, the company's design focus was TV/NTSC. Subsequently and with MS's persuasion, the company will also focus on porting the software to the Windows, Macintosh, and PlayStation platforms.
- The company is working to create a solid plan for simultaneous product development over multiple platforms. Products going into production after December 1, 1995, will be simultaneously programmed for all platforms.
- The company expects to raise more financing in mid-1996.

**Metricom, Incorporated**

(Financial information shown below is the most recent available)

	Quarter Ended		Change \$	Change %
	Sep. 29, 1994	Sep. 30, 1995		
Net revenue	\$ 5.3	\$ 1.8	\$ (3.5)	(66) %
Cost of revenue	4.3	3.2	(1.1)	(26)
Gross profit	1.0	(1.4)	(2.4)	(240)
Controllable expenses	3.6	4.6	1.0	28
Net income	\$ (2.6)	\$ (6.0)	\$ (3.4)	NM

- In March 1994, MS purchased 200,000 shares of Metricom common stock and 75,000 warrants. Fully-diluted, MS owns approximately 2% of Metricom.
- Metricom's "Ricochet" Microcellular Data Network commenced service in Cupertino in mid-1994, has completed coverage of the Silicon Valley area and has now extended to several campus networks in the Bay area. The company will be installing the Ricochet system in Washington, DC and Seattle in the first quarter. Metricom's deployment plan is to eventually cover the top 60 metropolitan areas in the US. In order to do this, the company is partnering with domestic utilities and telecommunication companies and focusing on developing vertical value added applications in areas such as healthcare and financial services.

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- Losses sustained to date are primarily attributable to the continued deployment costs of Ricochet, larger infrastructure costs to scale the organization, and the phase-out of older UtiliNet products. These losses translated to \$.20 per share and \$.46 per share in the third quarters of 1994 and 1995, respectively.
- MS and Metricom are working on a technology and marketing agreement that will complement MS's wireless data strategy. Currently, both companies are attempting to accelerate the deployment schedule for the network. Further, MS is also working with OEMs to reduce the cost of the hardware for the "Ricochet" network.

### Academic Systems Corporation

(Financial information shown below is the most recent available)

	Quarter Ended		Change \$	Change %
	Jun. 30, 1995	Sep. 30, 1995		
Net revenue	\$ 0.1	\$ 0.2	\$ 0.2	327 %
Cost of revenue	0.0	0.0	0.0	NM
Gross profit	0.1	0.2	0.2	327
Controllable expenses	1.5	2.2	0.7	46
Net income	\$ (1.5)	\$ (2.0)	\$ (0.5)	NM

- In August 1994, MS invested \$4 million in Academic Systems, along with TCI, Kleiner Perkins and other prominent investors. Pursuant to this transaction, MS acquired 1,468,093 shares of Series D Preferred stock at \$2.725 per share, representing approximately a 9% stake in the company.
- Academic System's mission is to become a major player in the field of technology mediated learning systems targeting the higher education market. The company intends to leverage partnerships with universities and community colleges to offer interactive multimedia courses over a network.
- General reaction to the curriculum and content has been favorable. Academic Systems demonstrated improved student course completion rates by 20 to 45 percent.
- Additional courses and Windows versions of all courseware is planned to ship for summer and fall 1996 deployments.
- Although December 1995 books have not yet closed, actual sales are expected to fall short of plan. The selling process is complex and it is taking longer than was projected to close a sale. In addition, accounting changes have significantly affected revenue recognition. As a result, additional funding is expected to be required sooner than was originally anticipated.

### "On Australia" Telecom JV

(Financial statements not available)

- In mid-November 1994, MS signed a joint venture agreement with Australian Telecom. Pursuant to this agreement, MS contributed AU\$4.5 million (approximately US\$3 million) to "On Australia," the joint venture company, which will be the delivery vehicle for the MS Online Services Partnership in Australia.
- On Australia is owned 50% by MS and 50% by Australian Telecom. For the software license provided to the JV, MS will get a recurring revenue stream of 8-11% of end-user revenue. In addition, MS's partnership with Australian Telecom, a company with one of the most advanced infrastructures in the world, experience in billing services and content and wide reach across Australia, is synergistic and will provide for rapid growth.
- The JV is refocusing and realigning itself with Microsoft's MSN/Internet strategy. Therefore, certain job functions will become redundant and no longer part of the JV. Seven-nine employees are likely to be transferred to MS or retrenched within the next quarter.

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- The JV will exist solely as a provider of Internet-related services using exclusively MS software and MS APIs with three main platforms for business: Internet access provider supporting only the MS Internet Explorer; MSN access with the MSN Australia site as a default; and Web hosting services supporting exclusively the MS toolset.
- With increased price competition, capital requirements expectations for the joint venture have increased to AUS 23.5 million, up from an initial estimate of AUS 9 million. The joint venture's business plan is currently under review with focus on competition, pricing, establishment of an Australian based data center, and capital requirements.

### Monotype Typography Limited

(Financial statements not available)

- Revenues for the past two quarters have been adversely affected due to a decline in and delays with several new products. One such delay was the company's upgrade to its important CD ROM based professional product, which is now complete and has begun shipping.
- Revenues for the 12 months ended 12/31/95 were approximately \$7.8 million, which was flat compared to the 12-month period of the previous year. Despite flat revenues during these periods in 1995 and 1994, the company's profitability fell to \$.5 million from \$.9 million. The decline in net income was due primarily to an increase in operating expenses generated partly from a mix shift from OEM to retail and increased development efforts.
- Monotype ceased efforts to acquire its principal reseller as the difficulties presented by the small professional font market made them uncomfortable with expanded exposure in this area.
- Despite the company's struggle to develop new products for the retail market, OEM revenues continue to increase, and the company maintains a backlog of high-margin OEM business in excess of \$1.5 million.
- In November 1995, MS concluded a restructure of its \$2.8 million investment. The restructure provides for long-term maintenance of the font library by Monotype. In return, each year that Monotype provides MS service, Monotype will increase its ownership per a 16-year vesting schedule.

### Citrix Systems, Inc.

(Financial information shown below is the most recent available)

	Quarter Ended		Change \$	Change %
	Sep 30, 1994	Sep 30, 1995		
Net revenue	\$ 2.8	\$ 4.3	\$ 1.5	54 %
Cost of revenue	0.5	0.5	0.0	0
Gross profit	2.3	3.8	1.5	65
Controllable expenses	1.9	2.8	0.9	47
Net income	\$ 0.4	\$ 1.0	\$ 0.6	150

- Citrix Systems products execute Windows applications on a multi-tasking, multi-user server that provides multiple end-users access to the server applications.
- On December 8, Citrix priced an IPO for 2.9 million shares at \$15 per share. Recently, the stock traded at \$26.50 per share. This values the company at about \$312 million and MS's 1.1 million shares at approximately \$29 million.

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**DreamWorks and DreamWorks Interactive**  
(Financial statements not meaningful)

- As reported last quarter, DreamWorks Interactive now has seven products under development, three of which are planned to ship in time for Christmas 1996. The company reports good progress toward this goal in the past quarter. In addition, the company also plans to create products based on Jurassic Park II and other leading DreamWorks LLC properties.
- The DreamWorks Interactive 3-year operating budget remains at \$61 million. To date, MS has contributed \$5.75 million and has agreed to contribute an additional \$4.25 million during

the second half of FY96. The company now employs 51, with a plan to grow to between 150 and 200 by the end of its third year. It will move into its permanent offices in early March.

- DreamWorks Interactive is creating interactive software products in the following categories, among others: adventure games for adults and kids, and stories for kids. The named categories will be exclusive in that neither party may pursue them independently, nor can DreamWorks content be used in these categories outside the venture.

**ASCII Network Technology, Inc.**

(Financial statements not available)

(No update from last quarter)

- In May 1994, MS agreed to make an equity investment of ¥100 million (approximately \$1 million) to purchase 1,990 shares of common stock of a new company, ASCII NT, giving MS a 20% equity interest. Other investors include ASCII Corp, which has a 50% stake, NTT Data Corp (15%), CSK Corp (10%) and IBJ Ltd (5%). Fifty percent of the investment took place in June 1994, and the balance was funded in Q95-1.
- ASCII NT's mission is to provide smaller and medium-size participants in the Japanese Solution Provider program and ISVs with education, support, network software distribution, localization, and maintenance services for Windows NT and other MS products. As of March 31, 1995, the company had 35 employees on its payroll.
- ASCII NT's strategy is to focus on Windows NT. Its main business activities are as follows:
  - Windows NT training program
  - Windows NT consulting services
  - Windows NT software development and sales
  - On-line applications and management services for Windows NT
- Further, the company's major longer term goals are to become profitable in two years, achieve cumulative positive retained earnings in four years, and go public in 2000.
- The joint venture's business results for the period June 17, 1994, to March 31, 1995, were as follows:
  - Sales of approximately ¥203 million
  - Net loss of approximately ¥232 million
  - Total assets of ¥436 million
  - Shareholders equity of approximately ¥268 million
  - Cash of approximately ¥250 million

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