

MICROSOFT INTEROFFICE MEMORANDUM

AB

TO: Debbie Dean, Stewart Konzen, Gordon Letwin, Scott McGregor
Leo Nikora, Steve Rowe, John Sabol, Tandy Trower, Greg Whitten

FROM: Steve Ballmer

DATE: December 10, 1984

SUBJECT: Systems Retreat Summary

cc: Paul Allen, Bill Gates, Jon Shirley

Attached for your information is a summary of our retreat held on December 1st and 2nd.
Direct any questions you may have to me.

dgh

also: Scott Oki
Jim Harris
Adrian King
Steve Snyder
Chris Larson

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Plaintiff's Exhibit

5002

Comes V. Microsoft

DOS and GWB

Per System Money = units x \$/unit - old advances +
new advances

OEM Forecast

	FY1985		FY1984
Major Accounts	12.0MM + 3	(Fudge)	7.5
Strategic	6.5		2.5
	\$21.5MM	vs	\$10.0MM this year

Traditionally 60-65% of systems OEM
50% of total OEM revenue

Compaq

25-30% of non-IBM OEM
160,000 machines/year \$14/machine

AT&T, Olivetti, DEC, TT are building up unused advances
(only major customers)
DEC at \$2MM AT&T at \$1MM by end fiscal year 1985

How do we make more per system money?

- More \$/machine
- More/copy revenue (extensions)
- Home market
- More units
- More from IBM
- Dumb Terminals

Japan

Mostly DOS & GWB	
OA = DOS 3 plus Xenix plus Windows	5MM
HHC	2MM
NEC 8800	1.2MM
Funny	2.5MM
MSX	2.5MM

International

Japan : 9800 (Apple II/IBM PC cross)
12,000/month. ~50% have disks

UK : ACT 40K units/year
NT 20K units/year
IBM 42K units/year

France : Bull 12K units/year
Goupil 12K units/year
Matron 4K units/year
IBM 42K units/year

Apple

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Germany: Siemens 30K units/year

Japan : Sanyo 16K units/month exported to US

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Technical Trends

Markets

Handheld: 8 bit \$399
8 bit \$799
16 bit \$1400 (if it exists)
no disk
16 bit \$1500 - \$2000
disk

Home Market: UK Sinclair, Acorn, Commodore (10%
others)
Japan: Not big. Nintendo, PC-6000
MSX (300K units)
US: Atari, Commodore, Color
Computer, Jr, Apple II

Next generation home: 68K Sinclair QL
Atari
Commodore Amiga (\$700)

Key: Shared images, live animation
500K units MSX in US in 1985.

Office Markets

Display Devices
High resolution 640 x 350 minimum
LCD likely
Monochrome \$60
Color \$250

Memory
All 256K chips - 512K standard
386 will have - 1 meg memory standard
Megabit chips

Networks
50-60% networked ~ \$200/connection

Performance
6 - 10 market 286
386 is four times faster

I/O
3.5" disk standard with vertical recording
1 meg storage

Voice
Maybe

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Design Points

< 10% penetration - ignore
> 80% penetration - assume
10 - 80 optional

Next Generation
512K Optional Mouse
286 Optional Wet
EGA Card Optional Color

OS must evolve
Greater structure in file system
Data dictionary, DCA/DIA

DRI
Strong in special deals, IBM Austin,
Motorola, Atari, AT&T
\$53MM in sales (larger than MS?)

Businesses	
MS-DOS	MS wins
XENIX	MS wins
Languages	MS wins
Windows	-
Multitasking	DRI Ahead
8 bit	-

Net

We make money by selling one redirector/net card
Goal: \$2MM per year

Key Businesses

BASIC and DOS non-IBM
BASIC and DOS IBM
Windows (problems keyboard, Topview, VDI,
standalone?)
XENIX
MSX
Retail Languages

Goal
Deliver \$55M in sales for next two years
60% pre-tax

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INSTALLED BASE
(in thousands)

	1983		1984		1985		1986		1987	
	US	WW	US	WW	US	WW	US	WW	US	WW
PC JR.	---	---	268	---	720	800	1,340	1,495	2,159	2,432
PC JR. Comp.	---	---	---	---	296	329	793	881	1,524	1,707
PC	589	633	1,148	1,298	1,668	1,948	2,172	2,620	2,675	3,339
PC Comp.	50	56	251	298	556	683	982	1,237	1,415	1,856
PCXT	92	100	339	388	564	668	787	966	1,008	1,282
PCXT Comp.	11	12	81	93	245	298	469	597	707	937
PC Portable	---	---	57	60	161	178	382	455	722	907
PC Port. Comp.	76	80	315	352	672	772	1,131	1,346	1,668	2,061
PC AT	---	---	70	73	518	600	1,150	1,420	1,972	2,595
PC AT Comp.	---	---	---	---	92	---	434	---	992	---

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Low on WW

3/2 IBM
non-IBM
We believe
higher

ACTUAL SALES
(in thousands)

	1984		1985		1986		1987	
	US	WW	US	WW	US	WW	US	WW
PC JR.	268	---	452	800	620	695	819	937
PC JR. Comp.	---	---	296	329	497	552	731	826
PC	559	665	520	650	504	672	503	719
PC Comp.	201	242	305	385	426	554	433	619
PCXT	247	288	225	280	223	298	221	316
PCXT Comp.	70	81	164	205	224	299	283	340
PC Portable	57	60	104	118	221	277	340	452
PC Portable Comp.	239	272 ^{high}	357	420	459	574	537	715
PC AT	70	73	348	527	632	820	822	1,175
PC AT Comp.	---	---	---	---	---	---	---	---

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933
520 595
1020

FY 1985 OEM Projection 2MM
Company 14 (160,000 machines/yr)
AT&T V-75.

Bill 1985 600,000

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P F
 smaller
 allocate
 to DOS/BASIC

	OEM	IBM	INT OEM	RETAIL	INT RETAIL	ROYALTIES	TOTAL
Pascal	347	98	83	221			749
Fortran	282	101	286	1,107			1,776
C	6	0	40	315		90	361
ALDS	242	0	52	196			490
BASIC	2,963	43	2,490	418			5,496
BASCOM	415	59	209	528			1,211
Mac + Retail	0	0	0	798			798
COBOL	284	26	139	203			652
Sort	151	25	87	18			281
Mu's	0	0	0	101			101
MS-DOS	1,761	0	462	7			2,230
Xenix	1,476	0	142	0		811	1,618
Windows	190	0	183	0			373
Net	354	0	86	0			440
MSX	0	0	877	0			877
Ed/Asm	22	0	0	0			22
TASC	0	0	0	33			33

	8,493	352	5,136	3,524		901	17,505
B&D	4,724	43	2,952	0			7,719
MS-DOS&	1,727	309	896	2,588			5,520
CP/M Compilers							
SL	877	199	461	1,839			3,376
BL	3,613	153	3,576	1,547			9,089
OS	3,781	0	873	7		MSC 00671885	4,661
OS& BASIC's	7,159	102	4,449	7			11,717
Whole Company ll.c							

Last Year ^{this year}
 OEM: 6.5 9.0

10.3
 7.9
 10.3
 7.9
 10.3
 7.9

4MM
 8-bit Japan
 1MM
 HHC

	OEM	IBM	INTEL OEM	RETAIL	RETAIL ROYALTIES	TOTAL
Pascal	758	371	224	707	0	2,060
Fortran	831	362	260	2,058	0	3,511
C	0	0	0	1,295	375	1,295
ALDS	336	0	28	228	0	592
BASIC	10,173	143	10,323	0	0	20,639
(incl HHC/Color)						
BASCOM	953	775	394	1,617	0	3,739
Mac BASIC (retail)	0	0	0	2,962	0	2,962
COBOL	389	331	224	1,039	0	1,983
Sort	168	25	56	77	0	326
Mu's	0	0	0	233	0	233
MS-DOS	5,170	0	3,931	45	0	9,146
Xenix	4,399	0	142	0	1,836	4,541
Windows	977	0	252	0	0	1,229
Net	593	0	0	0	0	593
MSX	0	0	1,641	0	0	1,641
Ed/Asm	91	0	0	24	0	115
Misc.	135	0	755	0	0	890
Tasc	0	0	0	123	0	123
	24,923	2,007	18,230	10,408	2,211	55,568
						MSC 00671886
B&D	15,343	143	15,895	3,007	0	34,388
MS-DOS &	3,435	1,864	1,186	7,021	375	13,506
CP/M Compilers						
SL	1,925	733	512	4,288	375	7,458
BL	11,683	1,274	12,638	5,695	0	31,294
OS	11,139	0	4,325	45	1,836	15,491
OS & BASIC's	22,265	918	16,683	4,579	0	44,445
Whole Company	29,911	4,300	21,148	37,809	8,376	97,100
	Minus 4 Million	5,600				

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IMPORTANT MARKET TRENDS '85

- o COMPATIBILITY WITH IBM
 - H.P., T.I., DEC, NCR, SPERRY, TANDY, OTHERS
 - NOT WANG, WHO ELSE?
- o RETAIL DISTRIBUTION OPPORTUNITY GONE
 - DEC, T.I., COLUMBIA DATA, IIT, ATT(?), MOST CLONES
 - NO NEW PLAYERS WILL GET IN ①
- o VOLUME CORPORATE BUYS IN '85 (Fortune 500)
 - + SPERRY, NCR, IIT, BURROUGHS, HONEYWELL, ATT(?), DG(?)
 - CDC, PRIME, DG(?), COMPAQ(?)
 - SEEQUA, CORONA, COLUMBIA DATA, MOST MICRO CLONES
- o OS "EXTENSIONS" BATTLE
 - NETWORKS VS. A CAST OF THOUSANDS
 - WINDOWS VS. TOPVIEW VS. GEM VS. ?
- o MULTIUSER SYSTEMS
 - NET AND XENIX/UNIX
- o DOS SHAKEOUT WILL CONTINUE AND GET WORSE
 - COLUMBIA DATA, SEEQUA, CORONA(?), TELEVIDEO(?), NS, VECTOR GRAPHIC, ETC.
 - SURVIVORS WILL MAKE MUCH SMALLER COMMITMENTS

Zenith
Wang
OFC
AP
TI

Compaq +
1 other
says Jon
less
dependence
on IBM

Net will win

get out

Lose Sperry
Lose Phillips
only bus

(1) 12/1/84 JH

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IMPORTANT MARKET TRENDS (MORE)

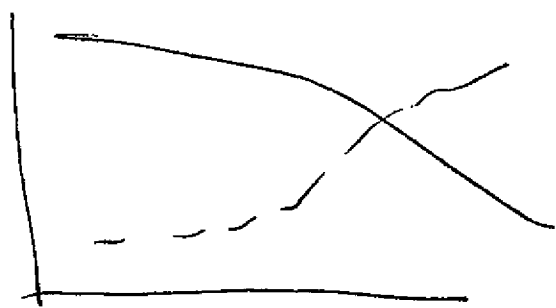
- o XENIX STARTUPS WILL GROW FOR 286 AND 386
 - SPECTRA, ETC.
- o VAR CHANNEL WILL GROW IN IMPORTANCE
 - MULTIUSER APPS
 - NETWORK APPS
- o WILL THERE BE ANY NON-EMBEDDED APPLICATIONS FOR NON-INTEL CHIPS? WHAT WILL HAPPEN TO ZILOG AND NATIONAL?

Fewer proportionately

* Lang. business

Embedded

Non embel



Eng/Sci
AT
Multiple
286 design

Devt Systems
key

\$500/copy 10,000
units

386 kills the
68K siblings.

(2) 12/1/84 JH

UNIX OS. BASIC

M S - D O S

WINNERS IN '85

COMPAQ	15,000 u/mo.	Retail Only	Solid (if anybody)
T.I.		Retail/Direct	Solid
H.P.		Direct	Solid
DEC		Direct	Solid (?)
WANG (?)		Direct	(?)
ZENITH		Direct	Solid
TANDY		Direct	Solid
DATA GENERAL		Direct/Retail	Solid
SPERRY		Direct	Solid
AT&T		Retail/Direct	Solid
BURROUGHS		Direct	Solid
NCR		Direct	Solid

40,000 u/mo.

LOSERS IN '85

TELEVIDEO (What will they do?)
COLUMBIA DATA (Going nowhere)
KAYPRO (Management)
EAGLE (Already gone)
ITT (Corporate arrogance only)
HONEYWELL (DOA)
DATAPOINT
PRIME (DOA)
SEEUQA
XEROX
MANY NO-NAMES

Bill at 50,000 units/month total

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MS-DOS ISSUES

- o BATTLE IS OVER FOR OS - WE WON
 - WINDOWS VS. GEM - WE HAVE NOT WON
 - ISV PROGRAM IS KEY
- o MULTITASKING DOS
 - SOLID SCHEDULE COMMITMENT NOW
- o NETWORKS
 - XENIX IS BEST LEVERAGE
- o BUNDLING/PRICING
 - CHARGE MUCH MORE FOR DOS - 2, 3 X
 - LESS FOR BASIC
 - BUNDLE DOS/BASIC/WINDOWS/NET (?)
 - STOP FAMILY PRICING, GET SEPARATE COMMITMENTS PER PRODUCT
 - ACCELERATE 1ST YEAR QUARTERLY PAYMENTS OR 1 YEAR UP-FRONT
- o MAYBE WE SHOULD SKIP MT-DOS AND GO FOR DOS 5.0
 - SCHEDULE IMPACT ?
 - GREAT PRICING OPPORTUNITY!! DOS, WIN
- o ROLL OVER FLAT FEES, WATCH INSTALLED BASE

Xenix key to DOS | Compat. our only value-added
AT key to Net.

Multitasking in Windows

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X E N I X

WINNERS/LOSERS IN '85

- o TOO SOON TO CALL - LET'S PICK FROM ATTACHED LIST
 - o 150,000 UNITS IN '85
 - o KEY PAYERS
- ALTOS (+) 16,000
 - AT&T (+)
 - SPERRY (+)
 - SPECTRA (?)
 - DURANGO (-)
 - NCR (+)
 - TANDY (+)
- 75-100*

SEE ATTACHED LIST

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XENIX ISSUES

- o IF THIS IS KEY REVENUE FOR MS, WHY ARE WE WORKING WITH AT&T?
 - OMFs
- o LANGUAGES ARE CRITICAL ~~AND LATE~~
 - BASIC AND COBOL
 - DEBUGGING TOOLS (SOURCE LEVEL)
- o RETARGETABLE COMPILERS WILL HELP KILL OTHER PORTS OF UNIX
- o CHARACTER WINDOWS PRODUCTS MAY BE BETTER THAN MS-WIN STRATEGY:
TECHNOLOGY NOT THERE, 386 BETTER TIMING. (IF I WAS DRI I
WOULD ATTACK MS HERE!) *Character BASED for*
- o GRAPHICS MODE APPS MARKET UNCLEAR *Xenix*
 - CHARACTER MODE BETTER SHORT TERM ('85-'86) ?
- o XENIX NET IS KEY TO STANDARD FOR DOS TOO.
- o VERY FEW NON-COMPATIBLES WILL EMERGE *Windows*
 - SELL ALL PACKAGED GOODS *Release 2*
- o TRAINING, TRAINING, TRAINING.

Key Windowsable Xenix
↳ SCO

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PLANNED 80286 MACHINES

OEM	Model Name	Announce Date	Account Manager	Mode Switch	MS-DOS ?	XENIX ?
Altos	986	Q185	anthonyw	NO	NO	YES
AT&T-IS	Safari 5	Q285	peterb	theirs	EMULATE	SYS V
Burroughs	planning		mikeg			
Compaq	planning		anthonyw			
CompuPro	286	Q484	lindab	NO	DOS 8-16	NO
Computone	CC3-MP	Q484	roseke	NO	CS-DOS	?
Convergent	?		billbr			
Corona	A2T	Q385	chrisu	?	YES	YES
Daisy	Maestro	?	lindab	NO	MTOS-86	NO
Data General	planning		mikeg	?	YES	YES
Datapoint	planning		billbr			
DEC	Rnbw 125	Q385	bobgr	?	?	?
Durango	Poppy	Q484	anthonyw	NO	YES	YES
Eagle	?		chrisu			
Erikson	planning		carls			
Fortune	?		glenha			
Fujitsu	unknown	Q385	ascii	?	?	YES
Gould	?		billbr			
Honeywell	Vulcan	Q285	dalech	?	YES	?
HP	Viceroy	Q385	bobgr	?	YES	HP-UX
IBM	PC-AT	Q384	stevesn	YES	YES	YES
IBM Japan	unknown	Q385	stevesn	YES	YES	YES
Intel	286/310	Q184	jonda	NO	RMX	YES
ISC	Pinnacle	?	lindab	?	YES	NO
ITT	planning	Q285	glenha			
MAD	unknown	?	glenha	?	YES	YES
Micro Five	S 4000	Q185	roseke	NO	NO	YES
Mitsubishi	unknown	Q285	ascii	?	YES	YES
NCR	Pretzel	Q285	billbr	?	YES	YES
NEC	unknown	Q385	ascii	?	?	?
Nixdorf	planning		carls			
Northern Telcom	planning		carls			
Olivetti	?		chrisu			
OSM	?		glenha			
Phoenix	various	?	roseke	NO	?	?
Prime	planning		billbr			
Rair	unknown	?	anthonyw	NO	CONC	SYS V
Recognition Equip.	?		anthonyw			
Roam	planning		steveg			
STD	PC-286	Q484	none	NO	NO	NO
Seikosha	planning		steveg			
Spectra	unknown	Q185	dalech	NO	NO	YES
Sperry	unknown	Q285	mikeg	?	YES	YES
Sritek	unknown	?	jeffl			

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OEM	Model Name	Announce Date	Account Manager	Mode Switch	MS-DOS ?	XENIX ?
Tandem	planning		billbr			
Tandon	?		chrisu			
Tandy	unknown	Q385	joev			
Televideo	planning		glenha			
Telex	?		dalech			
TI	Excalibur	Q285	gregg	?	YES	YES
Tomcat	3200-AT	Q484	ascii	?	?	?
Victor	?		glenha			
Visual	2000	Q384	jeffl	NO	NO	YES
Wang	MPC	Q185	paulbo	?	NO	NO
Xerox	planning		anthonyw			
Zenith	Z-200	Q285	jeffl	?	YES	YES
Zentec	unknown	Q285	steveg			

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