

MEMO

TO: Russ Werner  
FROM: Rich Abel *RA*  
SUBJECT: Windows Marketing Status, January 1990  
DATE: March 3, 1990

cc: list

Summary

Substantial efforts were focused on the implementation of the Windows Push I programs approved in December: US Marketing's product rollout program for expanded breadth of Windows distribution, the Windows 3.0 announce event and the expanded update / upgrade program. The expanded beta test of the retail windows product was conducted in January. "Street knowledge" of Windows 3.0 continued to build increasing the level of frustration amongst those under NDA concerning "the worst kept secret in the industry". Windows was covered at the USSMD Regional Kickoff Meetings. Worldwide Windows revenues were 106% of fiscal year to date plan with USSMD accounting for the positive variance. USSMD Windows business fell short of a plan which assumed that Win 3.0 would be shipping. In light of the knowledge level of Win 3 and the associated anticipation, our business is holding up quite well. Additional headcount (both full time and contract) was added in January to staff up for the increasing Win 3 launch workload.

Business

USSMD Revenue Continuing strong Windows /386 sales were not sufficient to enable USSMD Windows to make plan in January. USSMD Revenues totaled \$2.1 million vs. plan of \$2.8 million. The majority of the backlog was cleared in January and we entered February in a stock situation on all SKUs except for 386 which remains to be tight. Year to date, USSMD Windows now sits at 111% of plan or \$1.3 million ahead. In general, most products saw a decrease in sell through from December to January. Windows /286 dropped 31% from 9,368 units to 6,491 units in January. Windows /386 sell though decreased from 10,247 to 9,476. Note that in terms of sell though, Windows /386 now leads Windows /286. At January sales levels, we have 1.9 months of Win /286 and 1.1 months of Win /386 in the channel.

USSMD Profitability January USSMD Windows gross profit margin was 75% vs. plan of 61.6%. Actual cost of revenues were 25% of net vs. 38.4% plan due to the 386 heavy sales mix and the absence of IBM ACIS business this month. Operating expenses were 77% of plan due to under spending in marketing and development. Burdened operating income for January USSMD Windows was 25.5% and achieved 89% of fiscal year plan due to the variances in costs and operating expenses. See attached Tables.

Marketing

Beta Test The expanded beta test program was conducted throughout January. Field Sales was dissatisfied with the NDA requirements, among other things. Better administration and coordination of large beta tests is probably in order for the future, although the fundamental conflict of "beta for sales purposes" and "beta for test purposes" will still exist even with the best coordination. A fundamental error was made by including Win Word and Excel 2.1c executables along with the Win 3 beta distributed to the expanded beta sites. The intent of Windows Program Management to provide substantial applications in order to give beta sites the ability to fully exercise the Win 3 beta was sound, however we should have been more sensitive to the ISV issues. As it was, some ISVs caught wind of the test and got the ear of Will Zachmann who called us on it. To resolve the issue, we offered the Win 3 expanded beta list to ISVs with applications competitive to Excel or WinWord. As would be expected,

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Samna took us up on the offer and conducted a sales mailing to the beta list offering a Win 3 compatible version of Amf Professional. In the future we should: 1) recruit beta testers with the understanding that their names will be offered to other ISVs, 2) make the list or portions of the list available to a select, balanced set of ISVs in advance, and 3) throughout the program emphasize the "test" part of the program and cover the "sales" aspects via other preview-type programs.

### ISV

Efforts began in January to collect better data covering product status and upgrade plans on the top ISVs in our pre-release program. The OS/2 ISV group and the USSMD Telemarketing group provided assistance with this time consuming activity.

### OEM Status

#### Signed:

Acer: per system on 286 and 386 US systems.

Atari: per system on 286 and 386 systems.

Commodore: per system on 286 and 386 systems.

Grid: per system on 386 laptop plus one additional system.

NEC: per system on US 386 systems.

Northgate: signed per system deal on all systems which also includes MS Mouse, Win 3 and mouse with every add-on keyboard sold as well.

Tandem: per system on 33MHz 386.

Tandy: signed for three month packaged product promotional deal on one 386 system.

Zenith: per system on all systems; will pre-install on all 286 and 386 desktop machines.

#### Unsigned:

AT&T: in negotiations for per copy deal.

AST: in negotiations for packaged product promotional bundle.

Compaq: unlikely that they will do a Win 3 deal.

CompuAdd: not signed yet, anticipate getting per system deal on all 386 systems.

Dell: in negotiations for deal on high end 386 system.

Everex: unlikely that they will sign prior to Win 3 announce.

HP: in negotiations for per system 386 deal, also discussing a six month packaged product bundle.

Novell: in negotiations to bundle Win 3 with network management software.

Tandon: Win 2.1 licensee, in negotiations.

Toshiba: in negotiations for per system deal on 386 systems.

Unisys: not signed yet, per system on all 286 and 386 systems anticipated, winner of DT3 Air Force procurement.

### Announce Event

Fixing a new date proved to be difficult after slipping the April 17 date due to the logistical complexity of a multi-city announcement event. Tentative lists of key ISVs to invite have been drawn up. Ray Bolch productions of NY was selected to produce the event. Firming up budget and other details hinges upon selection of final announce date and central location.

### Channel Rollout

US Marketing is finalizing a plan which focuses on increasing Windows 3.0 distribution and education of retail sales people. MS Applications has elected to run a parallel trade distribution program targeting the 400 accounts that currently stock Windows but do not stock Windows applications.

### Upgrade / Update Program

Jon Roberts is putting the final touches on an aggressive Windows 3.0 update and upgrade program which will employ direct response advertising, 800 # ordering and coordinated mail offers with key ISV applications to go well beyond the registered owner base of Windows 2.1.

### **Other Business**

Corporate accounts are now starting to postpone product decisions and purchases in anticipation of Windows 3.0 shipment. We hear this from both USSMD and ISVs. A corporate visit by ADT has turned into a very promising lead for the NYC office. ADT Brokerage Information Services provides quotes services to Prudential Bache. Bache has directed ADT to move to a Windows based system for 12,000 workstations over three years. This is apt to turn into some very significant business for Win 3, WinWord and Excel.

### **Staffing and Organization**

- Laura Donohue, our campus candidate from Sloan declined our offer. We will continue to work with HR to locate a suitable candidate.
- John Fitzpatrick accepted our offer to join Windows Product Marketing as Manager of Developer Relations.
- Jonathon Lazarus is providing valuable consulting to us on strategy and tactics relating to the Win 3 announce.
- Janet Church has been hired on a contract basis to coordinate ISV marketing programs and ISV participation in the Win 3 launch event.
- We have obtained approval to make the ISV admin position permanent to eliminate the turnover problem we were experiencing with temporaries.

### **Attachments:**

USSMD Windows P&Ls: December 1989, Q2 FY90, 1H FY90 and January 1990

Windows Unit and Revenue Data and Charts

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USSMD - Windows Results

	USSMD - December '89		
	Budget	Actual	
<b>Revenues</b>			
Gross Revenues	2,300	2,553	
less adjustments	93	157	
Net Revenues	2,207	2,396	108.6%
	100.0%	100.0%	
<b>Cost of Revenues</b>			
Product COGS	801	544	
Other COGS	120	-64	
Total Cost of Revenues	921	480	52.1%
	41.7%	20.0%	
Gross Profit Margin	1,286	1,916	
	58.3%	80.0%	
<b>Operating Expenses</b>			
R and D	264	240	
Marketing	219	338	
Other Op. Expenses	22	25	
Total Operating Expenses	505	603	119.4%
	22.88%	25.17%	
Contribution	781	1,313	168.1%
<b>Allocated Expenses</b>			
Sales Allocation	485	463	
Other Allocation	59	66	
Total Allocated Expenses	544	529	97.2%
	24.6%	22.1%	
Burdened Operating Income	237	784	330.8%
	10.7%	32.7%	

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USSMD - Windows Results

	USSMD - Q2 FY 1990		
	Budget	Actual	
<b>Revenues</b>			
Gross Revenues	5,240	6,606	
less adjustments	244	517	
Net Revenues	4,996 100.0%	6,089 100.0%	121.9%
<b>Cost of Revenues</b>			
Product COGS	1,833	1,497	
Other COGs	347	94	
Total Cost of Revenues	2,180 43.6%	1,591 26.1%	73.0%
Gross Profit Margin	2,816 56.4%	4,498 73.9%	
<b>Operating Expenses</b>			
R and D	794	660	
Marketing	762	764	
Other Op. Expenses	51	65	
Total Operating Expenses	1,607 32.17%	1,489 24.45%	92.7%
Contribution	1,209	3,009	248.9%
<b>Allocated Expenses</b>			
Sales Allocation	1,448	1,312	
Other Allocation	187	185	
Total Allocated Expenses	1,635 32.7%	1,497 24.6%	91.6%
Burdened Operating Income	-426 -8.5%	1,512 24.8%	

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USSMD - Windows Results

	USSMD - 1st Half FY 1990		
	Budget	Actual	
<b>Revenues</b>			
Gross Revenues	8,482	11,134	
less adjustments	446	803	
Net Revenues	8,036 100.0%	10,331 100.0%	128.6%
<b>Cost of Revenues</b>			
Product COGS	2,887	2,771	
Other COGs	635	437	
Total Cost of Revenues	3,522 43.8%	3,208 31.1%	91.1%
Gross Profit Margin	4,514 56.2%	7,123 68.9%	
<b>Operating Expenses</b>			
R and D	1,590	1,342	
Marketing	1,449	1,459	
Other Op. Expenses	83	117	
Total Operating Expenses	3,122 38.85%	2,918 28.25%	93.5%
Contribution	1,392	4,205	302.1%
<b>Allocated Expenses</b>			
Sales Allocation	2,884	2,594	
Other Allocation	377	357	
Total Allocated Expenses	3,261 40.6%	2,951 28.6%	90.5%
Burdened Operating Income	-1,869 -23.3%	1,254 12.1%	

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USSMD - Windows Results

	USSMD - January '90		
	Budget	Actual	
<b>Revenues</b>			
Gross Revenues	2,757	2,105	
less adjustments	67	141	
Net Revenues	2,690 100.0%	1,964 100.0%	73.0%
<b>Cost of Revenues</b>			
Product COGS	923	377	
Other COGS	110	114	
Total Cost of Revenues	1,033 38.4%	491 25.0%	47.5%
Gross Profit Margin	1,657 61.6%	1,473 75.0%	
<b>Operating Expenses</b>			
R and D	274	220	
Marketing	228	168	
Other Op. Expenses	27	21	
Total Operating Expenses	529 19.67%	409 20.82%	77.3%
Contribution	1,128	1,064	94.3%
<b>Allocated Expenses</b>			
Sales Allocation	499	503	
Other Allocation	70	61	
Total Allocated Expenses	569 21.2%	564 28.7%	99.1%
Burdened Operating Income	559 20.8%	500 25.5%	89.4%

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**Systems/Windows Business Unit Financial Results January/90**

Product	Actual Units	Budget Units	% of Budget	Actual Revenue	Budget Revenue	% of Budget Revenue
<b>Windows/286</b>						
IBM USSMD	0	5,000	0%	\$0	\$124,988	0%
Domestic Retail (non-IBM)	10,321	14,100	73%	\$492,930	\$725,868	68%
Total Domestic Retail	10,321	19,100	54%	\$492,930	\$850,856	58%
International Retail	14,567	17,426	84%	\$1,130,411	\$1,503,195	75%
World Wide OEM	113,831	58,490	195%	\$612,143	\$625,072	117%
All Channels	138,719	95,016	146%	\$2,235,484	\$2,879,123	78%
<b>Windows/386</b>						
IBM USSMD	31,749	68,000	47%	\$793,725	\$1,699,831	47%
Domestic Retail (non-IBM)	67,511	61,300	110%	\$3,555,845	\$3,155,724	113%
Total Domestic Retail	99,260	129,300	77%	\$4,359,570	\$4,855,555	90%
International Retail	90,390	115,072	78%	\$7,009,593	\$9,718,484	72%
World Wide OEM	987,297	1,038,775	95%	\$6,647,545	\$6,954,600	100%
All Channels	1,176,947	1,283,147	92%	\$18,016,708	\$21,228,719	85%

<b>Windows/386</b>						
IBM USSMD	0	700	0%	\$0	\$31,504	0%
Domestic Retail (non-IBM)	12,789	7,500	171%	\$1,317,592	\$760,500	173%
Total Domestic Retail	12,789	8,200	156%	\$1,317,592	\$792,004	166%
International Retail	9,092	5,648	161%	\$1,398,142	\$869,174	173%
World Wide OEM	22,754	10,475	217%	\$430,033	\$276,500	156%
All Channels	44,635	24,323	184%	\$3,145,767	\$1,877,678	168%
<b>Windows/486</b>						
IBM USSMD	11,710	8,500	138%	\$526,851	\$382,552	138%
Domestic Retail (non-IBM)	68,315	33,900	202%	\$7,195,410	\$3,437,460	209%
Total Domestic Retail	80,025	42,400	189%	\$7,722,261	\$3,820,012	202%
International Retail	44,850	36,898	122%	\$6,245,754	\$5,211,105	120%
World Wide OEM	148,823	149,256	98%	\$2,788,751	\$3,204,355	87%
All Channels	271,698	228,554	119%	\$18,756,766	\$12,235,472	137%

<b>Windows/SDK</b>						
Domestic Retail	1,051	500	210%	\$276,978	\$128,700	215%
International Retail	337	232	145%	\$108,849	\$72,750	150%
World Wide OEM	0	0	NA	\$0	\$0	NA
All Channels	1,388	732	190%	\$385,827	\$201,450	192%
<b>Windows/386/486</b>						
Domestic Retail	3,800	4,350	87%	\$995,354	\$1,119,690	89%
International Retail	3,328	1,752	190%	\$915,963	\$537,369	170%
World Wide OEM	0	0	NA	\$0	\$0	NA
All Channels	7,128	6,102	117%	\$1,911,317	\$1,657,059	115%

Note: "NA" indicates item not forecasted

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**System/Windows Business Unit Financial Results - January 90**

Product	Actual Units	Budget Units	% of Budget Units	Actual Revenue	Budget Revenue	% of Budget Revenue
<b>Windows Updates</b>						
Domestic Retail	608	34,425	2%	\$7,035	\$1,245,700	1%
International Retail	922	0	NA	\$31,897	\$0	NA
World Wide OEM	0	0	NA	\$0	\$0	NA
All Channels	1,528	34,425	4%	\$38,932	\$1,245,700	3%
<b>Windows Executive</b>						
Domestic Retail	6,536	55,175	12%	\$106,002	\$2,160,700	5%
International Retail	17,217	0	NA	\$520,903	\$0	NA
World Wide OEM	53	0	NA	\$460	\$0	NA
All Channels	23,806	55,175	43%	\$627,365	\$2,160,700	29%

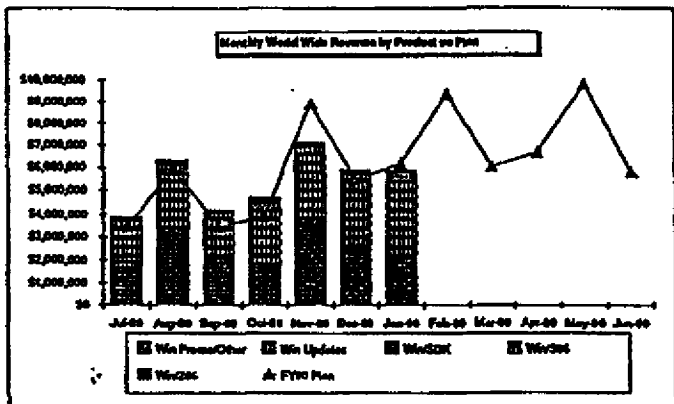
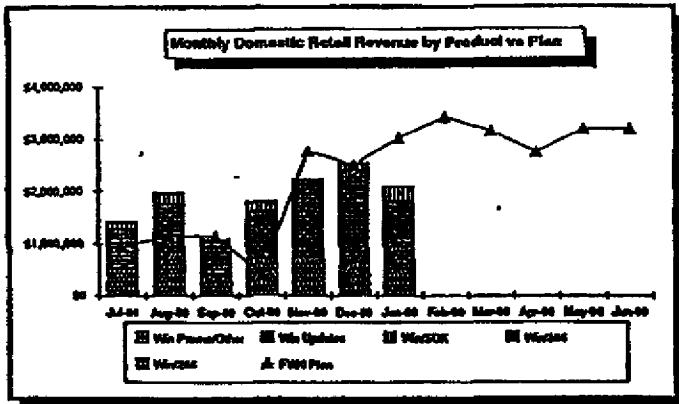
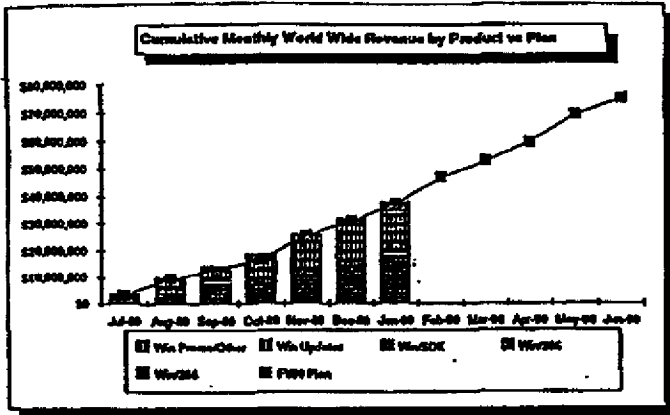
<b>Windows Promp/Other</b>						
Domestic Retail	3,240	0	NA	\$10,776	\$0	NA
International Retail	11,049	0	NA	\$67,642	\$0	NA
World Wide OEM	1	0	NA	\$25	\$0	NA
All Channels	14,290	0	NA	\$78,443	\$0	NA
<b>Win Promp/Other Base - 90</b>						
Domestic Retail	41,781	0	NA	\$54,395	\$0	NA
International Retail	49,055	0	NA	\$643,546	\$0	NA
World Wide OEM	501	0	NA	\$55,032	\$0	NA
All Channels	91,337	0	NA	\$752,973	\$0	NA

<b>Language Product Line</b>						
IBM USSMD	0	5,700	0%	\$0	\$156,492	0%
Domestic Retail (non-IBM)	28,007	56,525	50%	\$2,105,311	\$2,860,768	74%
Total Domestic Retail	28,007	62,225	45%	\$2,105,311	\$3,017,260	70%
International Retail	35,967	23,306	154%	\$2,758,941	\$2,365,119	116%
World Wide OEM	136,586	68,985	198%	\$1,042,201	\$901,572	130%
All Channels	200,560	154,496	130%	\$5,904,453	\$6,203,951	95%

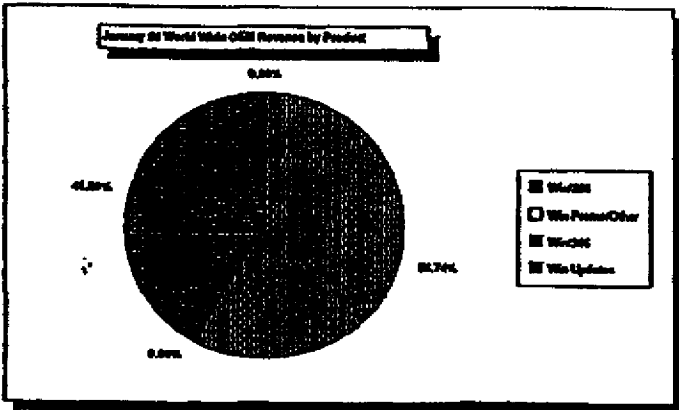
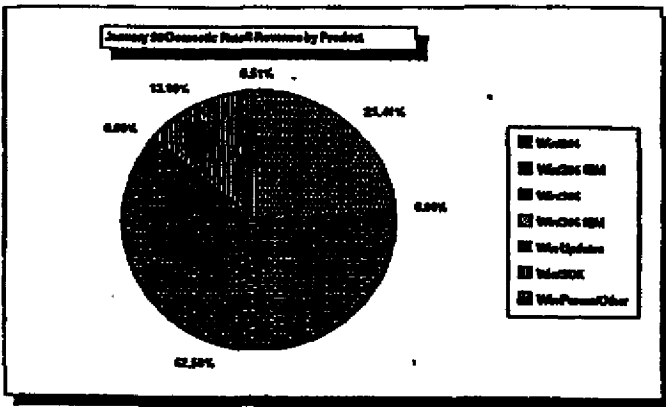
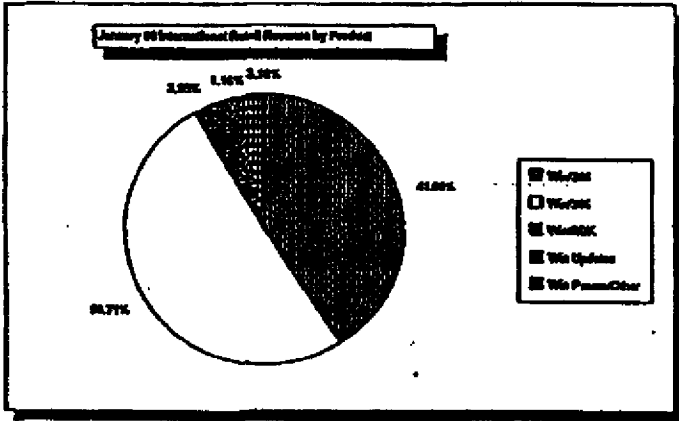
<b>ATD Product Line</b>						
IBM USSMD	43,459	76,500	57%	\$1,320,576	\$2,062,363	63%
Domestic Retail (non-IBM)	187,923	154,725	121%	\$11,919,006	\$9,873,574	121%
Total Domestic Retail	231,382	231,225	100%	\$13,239,582	\$11,955,957	111%
International Retail	204,840	153,722	133%	\$15,335,759	\$15,488,958	99%
World Wide OEM	1,134,674	1,188,031	96%	\$9,491,788	\$9,899,035	96%
All Channels	1,570,896	1,572,978	100%	\$38,067,129	\$37,281,950	102%

Note: "NA" indicates item not forecasted

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