

## Mission Plan—Draft

To: Executive Staff, Regional Directors  
 From: Jim Allchin  
 Cc: CSG Marketing  
 Re: Organizational Computing Mission—Draft

Today Microsoft is known as a company that sells personal productivity applications and systems. The next challenge is to become a company that can help customers solve *organizational* or *business computing* problems. As this mission details there is a huge opportunity for addressing this \$50B market.<sup>1</sup> Likewise, there is a huge threat from competitors (notably Novell, Lotus, and Oracle) if we don't address this market.

Business computing today is done in one of three ways: terminals connected to a mini/mainframe, PCs connected to servers with PC-based applications using file sharing locking, or PCs connected to servers using client-server applications.<sup>2</sup> There are several important trends/facts that should be kept in mind:

1. Companies want to save money by leveraging the price/performance changes available with the PC revolution. They want inexpensive servers which approximate the same reliability and support of previously much more expensive machines.
2. They want server software that approximates feature-wise (i.e., scalability, administration, security) what was provided before for the expensive machines, but they want it easier to use and more powerful and flexible.
3. Since there is impressive computing power at both the client and server, dramatic performance gains can be accomplished by appropriately balancing where computation occurs (the so called "client-server" model). Increased performance is an important motivation to change if it is dramatic.
4. Server applications sell the server platform and server sales mean more places to sell server applications. This was true for the desktop and it is true for the server as well. However, the world appears a little bit funny today because file/device sharing, *the* catalyzing server application, comes bundled with every server operating system. Unlike 1-2-3 which was never bundled with MS-DOS. Novell wins today because it had the first and still the best selling server application (NetWare file/device sharing). The important point is that just having a better platform (e.g., VINES) doesn't cut it. As always, applications sell systems.
5. Customers want an integrated solution. This means that we need to tightly integrate with the Desktop. Office Missions and the Solution Providers channel in particular to single "image" to our customers.

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\* Many thanks to mikenash, brentca, lauraj, toddw, billso, richt, jonro, tomev, normanto, garyvot, gregl, v-brianb, bobmu and others for doing a tremendous amount of work beyond reason for this document.

<sup>1</sup> Market size and other data from the Solution Providers FY95 Vision memo.

<sup>2</sup> We will specifically exclude "peer sharing" environments from this mission for both simplicity as well as believing that as soon as a peer computer is used as a key company resource, it is dedicated and essentially becomes a "server".

Plaintiff's Exhibit

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Comes V. Microsoft

## Customers

Our customers are end-users<sup>3</sup>, support/administrative personnel, and application/solution developers. One could get confused and think that the only customer for this mission is the support/administrators. This is a fatal strategic error. Focus groups clearly point out that MIS departments will buy what end-users want. They need to ensure that a system is manageable, but that's not the primary driving decision. A key aspect of this mission is to drive end-user value so that end-users are telling the MIS organizations they want our solution.

To drive this point home consider the adoption of NTAS within Microsoft. What value did it offer end-users? None. In fact, it introduced pain. Unless everyone was forced to move to NTAS accounts, would they? No. MIS customers who have mini/mainframes have a significant dollar incentive to move; customers who are using Novell or Lotus do not. We must give them one.

Support/administrator personnel need to save money. Downsizing hardware is driven by this. Advantages in reduced cost in administration is important to our products, but it will be the driving decision for few sales.

And as noted above applications sell systems and therefore applications/solution developers are key in order to provide the applications (and solutions) end-users want. Internally, we have a set of server applications that provide real value, but we need horizontal business solutions (e.g., manufacturing, accounting, HR, and customer/sales tracking), vertical solutions (e.g., Law office document management packages), and tools for writing custom business automation and processing systems.

Solution Providers fit into this model by providing the following three functions: they train support staffs, they supply support and they provide total solutions. In other words, they fulfill the functions of the Corporate Developer and MIS Professional. They are part of the virtual corporation.

| Target Audiences  | Their Needs   | Role in the decision  |
|---|---|---|
| Influential End User or Business Decisionmaker                    | Demonstrate Specific Benefit (Access to Info, Time and Money)   | Initiate the cycle. Tell MIS or SP they are interested and have business need.                                      |
| Corporate Developer or SP if contracted out                       | Rapid development tools for things like database infra-structure and front end report generation tools.                     | Verify that the platform is robust enough and development can be done or is available.                              |
| Network Administrator or MIS Professional or SP if contracted out | Post Sale Support. Specifically, administration tools including back-up utilities, load balancing, account management, etc. | Integral to successful evaluation and subsequent deployment. Also concerned with longer term viability of solution. |

The multi-user sales cycle is more complex than the traditional influencer end-user model. The Windows 3.0 "grassroots" IEU simply had to buy Excel, address Lotus conversion issues, and then he or she was able to demonstrate a tangible benefit. They did not need active involvement of numerous parts of the company to champion their cause. On the other hand, the Windows NT AS sales cycle required the active involvement of all of the parties above.

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<sup>3</sup> By end-user here I mean the group of people who have a "problem" they are trying to solve (e.g., payroll, information retrieval, inventory, sales tracking, lack of disk space, access to expensive plotter, etc.).

## Synergy Required

Novell is entrenched. Lotus is slowly becoming entrenched. Oracle wants to get into the game. In order to win this mission, we must offer a *compelling* solution for the problems end-users, support/administrators, and developer/solution providers have today. Given this condition, we need synergy with the Client OS, Desktop applications, and between the Server applications in order to really win. The client side of this equation is critical because this is the *only* place where end-user value can be surfaced.

This is not the typical shrink-wrapped business—it is a solutions business. By leveraging Solution Providers, we can avoid the “do it all” syndrome of the mini and mainframe companies. We can focus on the product and feeding the product and training to our the Solution Providers.

## The Mission Summary

Our mission is to provide the total solution for solving organizational business problems (vs. individual desktop productivity). This includes the platform, appropriate server applications, and appropriate infrastructure. The heart of this mission is *access to and management of information*. If we can succeed in defining Microsoft as a leader in organizational computing, we can build a \$1B business in the next three years.

## Success Metrics

### Financial

- FY97 Revenue: \$1B
- FY97 BOI: \$200MM

### Product

- Unified product plan across all products supporting this mission
- Recognized compelling end-user benefits
- Higher customer satisfaction vs. our competitors

### Marketing<sup>4</sup>

- FY97 Server operating system unit market share: 17%
- FY97 Database server unit market share: 13%
- FY97 Messaging+Groupware server unit market share: 22%
- FY97 Microsoft server application revenue per new server hardware unit shipped: \$650

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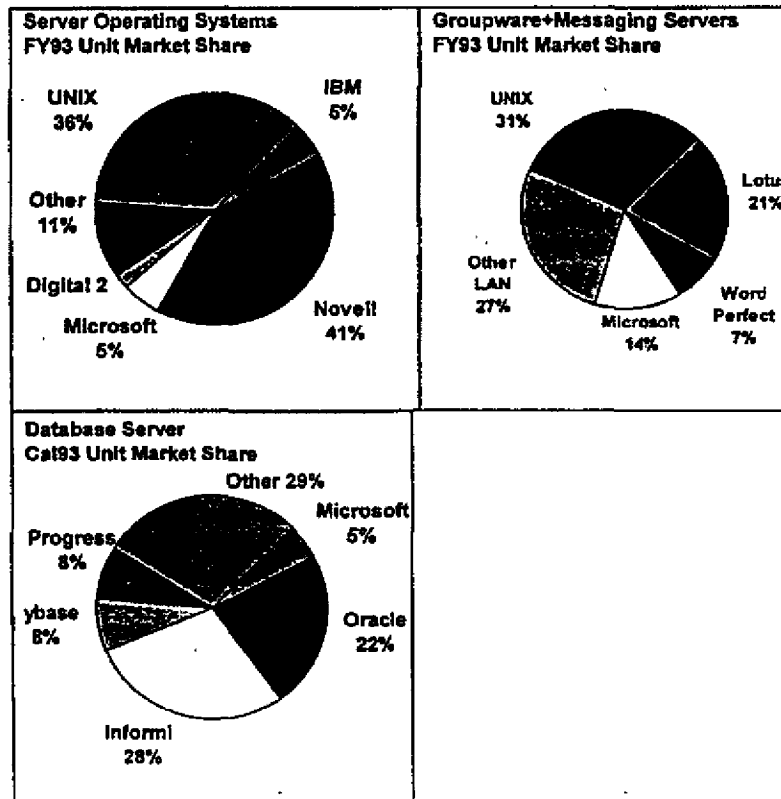
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<sup>4</sup> See appendix for how these are calculated (what SKUs are included in numerator and what competitors are in denominator).

# I. MARKET SIZE

| WORLDWIDE SERVER HARDWARE, OPERATING SYSTEM AND APPLICATION MARKET SIZE |           |           |           |           |      |
|---|-----------|-----------|-----------|-----------|------|
| (Per IDC, in units - absolute #s)                                       |           |           |           |           |      |
|   | FY94      | FY95      | FY96      | FY97      | CAGR |
| NOS/File & Print Servers  | 736,344   | 765,061   | 794,899   | 825,900   | 3%   |
| Application servers (primarily Unix-class hardware)                     | 384,506   | 516,691   | 624,334   | 745,560   | 18%  |
| Server Hardware shipments   | 1,120,850 | 1,281,752 | 1,419,233 | 1,571,460 | 8%   |
| Database Applications   | 342,200   | 422,617   | 521,922   | 644,586   | 17%  |
| Mail & Groupware (Now today) Applications                               | 275,107   | 339,398   | 420,906   | 525,363   | 18%  |
| INA Applications  | 30,000    | 35,000    | 60,500    | 66,550    | 7%   |
| Management Applications   | 4,909     | 6,136     | 7,670     | 9,588     | 18%  |
| Total Server Applications w/ NOS/F&P                                    | 672,216   | 823,151   | 1,011,001 | 1,246,087 | 17%  |
| Server Applications (w/ F&P) / Hardware shipments                       | 0.6       | 0.6       | 0.7       | 0.8       | 7%   |

Marketshare detail is critically important to understanding this business. However, to date we have been both inexact, careless, needlessly different between the server applications, and hindered significantly by no separate body (e.g., SPA) establishing industry metrics. In the Appendix is more information about how we will perform these measurements consistently from now on. Novell and many flavors of Unix are used for the basic operating system. In groupware, Lotus dominates the business while we are neck and neck in the vanilla mail business.



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## A. Novell

Novell's revenue for our FY93 was \$1.12 Billion. For server operating systems only their revenues were:

|                      | Unit Volume<br>Server Units[1] | % of Market | Revenue to<br>Vendor [2] | Avg. Revenue<br>to Vendor [3] | Average<br>Nodes Per<br>Server |
|----------------------|--------------------------------|-------------|--------------------------|-------------------------------|--------------------------------|
| Novell               |                                |             |                          |                               |                                |
| NetWare 4.x          | 16,667                         | 2%          | \$65,000,000             | \$3,900                       | 30                             |
| NetWare 3.x          | 308,000                        | 32%         | \$657,900,000            | \$2,136                       | 23                             |
| NetWare 2.x          | 61,400                         | 6%          | \$29,000,000             | \$472                         | 6                              |
| <b>Total NetWare</b> | <b>386,067</b>                 | <b>41%</b>  | <b>\$751,900,000</b>     | <b>\$1,948</b>                |                                |

(Source: IDC for Units, Lehman Bros for Revenues, all values in MSFT FY93 Terms)

### 1. Novell Product Strategy in FY95

FY95 will be a critical year for the company to legitimize the PC LAN as an information-systems foundation<sup>5</sup> rather than a year of new product introductions. Their overall goal is to provide network services via NetWare, applications services via UnixWare and networked development tools via AppWare to create a "virtual mainframe." The key initiatives they expect to push in FY95 are:

- **NetWare 4.x.** The primary goal for FY95 will be to move the entire NetWare 3.x base to NetWare 4.x. NetWare 4.1 scheduled for late FY94/early FY95 delivery will be primarily focused on 3.x bindery and NetWare Directory Services coexistence. This is a key feature needed to make migration easier.
- **NetWare reseller channel.** They will improve 4.x training and plan new sales partnership programs to help deal with larger installations. This is a focus given the sales effort is 3x greater for NetWare 4.x than for 3.x
- **UnixWare.** They view this as the primary competitor for Windows NT as an application server. UnixWare gets SMP in early FY95 and by mid FY95 will get NetWare 4.x services. In FY96, they plan to create a single environment (e.g., microkernel) that will let NetWare and UnixWare coexist on a single processor.
- **AppWare.** They have WordPerfect, Borland and Gupta talking about writing to this object-oriented cross development platform. They currently have an SDK.
- **NetWare Distributed Management Services.** This was announced 10/93, NetWare hopes to reinvigorate sales of NMS by having a common management information pool that can be accessed by third-party applications through a common API.
- **Miscellaneous.** They will finalize their Storage Management Services, deliver SFT III on NetWare 4.x, ship processor independent NetWare, deliver APIs to integrate NDS with X.500 and MHS.

Novell will focus on moving customers to NetWare 4.x. This will keep customers from moving to Windows NT AS. They will minimize our key benefits SMP and portability introduced into NetWare and SMP into UnixWare. And, try to reduce our advantage with developers through AppWare. They will attempt to position NDS vs. Cairo as late and slow. Overall, they are using NDMS's lowering of support costs to combat the large our price-performance disadvantage that they have.

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<sup>5</sup> Excerpt from LAN Times, 1/24/94 summarizing the Novell analyst meeting. Other data from Rick Sherland and David Readerman reports.

## 2. Microsoft competitive strategy

Our strategy is three-fold:

- Demonstrate compatibility and coexistence with NetWare. Currently half of all Windows NT AS is sold into IPX networks and we need to "surround" NetWare 3.x and prevent NetWare 4 deployments.
- Make early "NT AS champions" so that will serve as reference accounts for future wins.
- Long-term, sell strategic benefits of migrating applications to higher level protocols with Exchange<sup>6</sup> and Cairo OFS. This will give customers another set of "killer" applications that will tilt the balance towards us.

### B. Lotus Notes and cc:Mail<sup>7</sup>

Goldman Sachs estimates Lotus communications product revenue at \$140 million in the year ended 12/31/93, or 14% of revenue, split roughly evenly between cc:Mail and Notes. After years of selling Notes entirely direct, Lotus now engages the channel in 80-90% of Notes and cc:Mail sales, continuing to cut aggressive direct deals with very large customers. Support is now fee-based for both Notes and cc:Mail, with per-incident and "Premier" models very similar to ours. cc:Mail implemented this just in the last month.

Lotus is moving aggressively with a strategy similar to ours. Starting with a 1/12/93 announcement of the LCA, Lotus has made it clear they intend to support the enterprise-wide needs of large organizations with a architecture aimed at helping customers integrate desktops, operating systems and network protocols. The architecture builds on three existing Lotus products: cc:Mail, the world's most popular electronic mail family, Lotus Notes, Lotus' workgroup applications environment; and DataLens, Lotus' access service for traditional, structured data.

### 1. Lotus Product Strategy in FY95

Their overall strategy with strategic objective with Notes is:

- make their shell the "place you live" instead of Windows and Macintosh or other operating system shells
- be the preeminent workgroup API, one which no developer can afford *not* to write to
- use Notes support to differentiate SmartSuite
- establish a new and profitable app category at \$495 per user

Lotus wants to move 4 million cc:Mail users onto the more profitable Notes platform through Lotus Communications Server. LCS integrates the cc:Mail and Notes back-ends and message stores - it is actually a Notes server which can multitask a cc:Mail message transfer agent. The document sharing/viewing interface is Notes, with the cc:Mail interface invoked for sending and managing email. We expect LCS coincident with a Notes 4.0 release CalQ195, on OS/2 and NLM platforms first. They may deliver "LCS/DOS," an update to their cc:Mail DOS MTA sooner.

### 2. Microsoft competitive strategy

We will stop the growth of Notes as an "information platform" by Chicago and Exchange. As Cairo becomes more visible, we must articulate our broad strategy for information management and retrieval at the operating system

<sup>6</sup> In this discussion, Exchange will refer to both EMS and MS Mail.

<sup>7</sup> Please see separate Workgroup Mission memo from Tom Evslin for detailed information about Lotus and our strategy for competing with them.

level and the benefits this approach will provide to users of all applications. We need to reposition Notes as a proprietary technology, with proprietary APIs, poor programmability (although this gets much better in FY95). Overall we must reposition Notes as a limited solution for information sharing applications while showing a broad array of our own solutions running on Exchange and then Cairo.

### C. Oracle

With revenues of \$1.5B, Oracle Corporation is the world's largest database company. Oracle's derives more than half of its annual revenues from service and consulting, its license revenues include \$230M in construction tools sales and \$486M in relational database sales.

### 1. Oracle product strategy in FY95

Oracle's business strategy is to break out of the DBMS market and recast itself as a strong, integrated provider of enterprise software and services.

- **ORACLE7 RDBMS** - Oracle will leverage its strong lead in parallel processing to ride a wave of growth in large systems supporting massive multimedia databases. And they will outflank Microsoft and Sybase at low end with OracleWare on NetWare.
- **CDE - Cooperative Development Environment** - a graphical development framework and toolset for client-server applications, Oracle is opening its architecture and positioning CDE for use with non-Oracle systems. For tools, Oracle is solidly on the Windows bandwagon.
- **ORACLE Office** - workgroup and enterprise messaging - Oracle's strategy for Office 2.0 is to buy market share by bundling it with every copy of OracleWare.
- **ORACLE Glue** - client-server APIs and middleware software for both database access and messaging. Oracle pitches Glue as universal replacement for ODBC, IDAPI, MAPI, VIM, etc.
- **SQL\*Net and Open Gateways** - communications and gateway software - Oracle is attempting to elevate SQL\*Net into something close to a universal communications architecture with ties to Glue, Office, etc.
- Oracle also has a wide range of organization software including financial packages built on their RDBMS.
- Oracle's key competitive advantage lies in its sales approach. They have a strong, highly trained direct sales force *and* a credible integrator channel. Oracle is strong in the high-end market segment and have invested heavily to build a base of turnkey business applications.

### 2. Microsoft Competitive Strategy

Oracle has for a long time considered Microsoft a bigger competitor than we have realized. They are highly concerned that we will dominate the Windows NT market and cannibalize their UNIX business, and that this time *it will matter*. Microsoft's strategy must be focused around the following themes:

- Own Windows NT/Cairo DBMS position and bet on platform shift away from UNIX/NetWare.
- Avoid going head-to-head at the high end and leverage the 2 million users of Access, FoxPro, VB--and many more Office users--coming up from the desktop. Already Access users express a preference for SQL Server over Oracle by 40% to 17%. We need much tighter integration in our products and targeted bundles aimed at specific segments--for example, Fox/SQL aimed at migrating DOS/dBASE users.
- Differentiate by building closer and closer ties to the OS - leverage everything in Cairo, OLE2, etc. On UNIX, Oracle must actively avoid this in order to offer consistency across many platforms.
- On UNIX, Informix has successfully beat Oracle among VARs. MS has an opportunity to secure a similar lead on Windows NT in the turnkey market with SQL Server, Exchange, Office and DDT tools. To do this we need a coordinated marketing/sales strategy targeting VARs *as customers* (not just influencers) focused on key products including SQL Server and EMS--with evangelism, developer support, and embedded redistribution licensing. *Unlike ISVs, the strategic battleground for VARs is not the Windows API--it is the DBMS and 4GL toolset.* The selection of database and messaging platform will drive much of the rest of the solution.

## II. PRODUCT STRATEGY

*The key to winning overall is achieving volume with Windows NT AS:*

- Getting the basics right: addressing performance and other areas in Daytona where we received "bad marks" in past reviews.
- Leveraging our server applications to drive sales -- in particular, SQL-Server and Hermes in FY94 and Exchange in FY95.
- Providing for free a NetWare 3.x compatibility server in early FY95 with additional compatibility in Cairo.
- Creating a far better file/device sharing "server application" than NetWare by leveraging the power of OFS -- a file system on steroids. Specifically, searching the network for files could be up to 100x faster in this environment as well as include more flexible browsing, replication, etc. It is important to remember that many NetWare sites use a file server only as private bulk storage -- not for file *sharing* per se. Thus, having a better storage system for private use is critical to win.
- Making Chicago run better with Daytona AS and Cairo AS than with NetWare. A high priority must be to enumerate key features that could be done.
- Making Office run better in this environment. Examples include OLE 2 network link tracking and much higher performance on OLE 2 documents stored in OFS. Another idea would be to have Office use the account information directly from NT AS or make network installs easily on NTAS. A high priority is expand this list.
- Providing simple (yet powerful) administration using an integrated global directory service, comprehensive distributed security system, etc. Specifically, the goal is to reduce administrator cost.
- Ensure that we have not only best-of-breed Server applications, but also a best-of-breed solution when all the applications are used together. Examples include: leveraging *one* security system for account information; integrated administration, etc.
- Ensure that tools are available for LOB custom application creation that leverages all the server applications.

Windows NT AS will win by 1) being the most solid, multi-functional operating system offering excellent price/performance vs. NetWare and Unix 2) being a consistent standard available on a wide variety of hardware 3) leveraging the shared programming model and UI with Windows 4) being the most cost-effective to operate 5) integrating well into NetWare environments, and 6) encouraging the use of richer semantic levels of protocols (e.g., OFS).

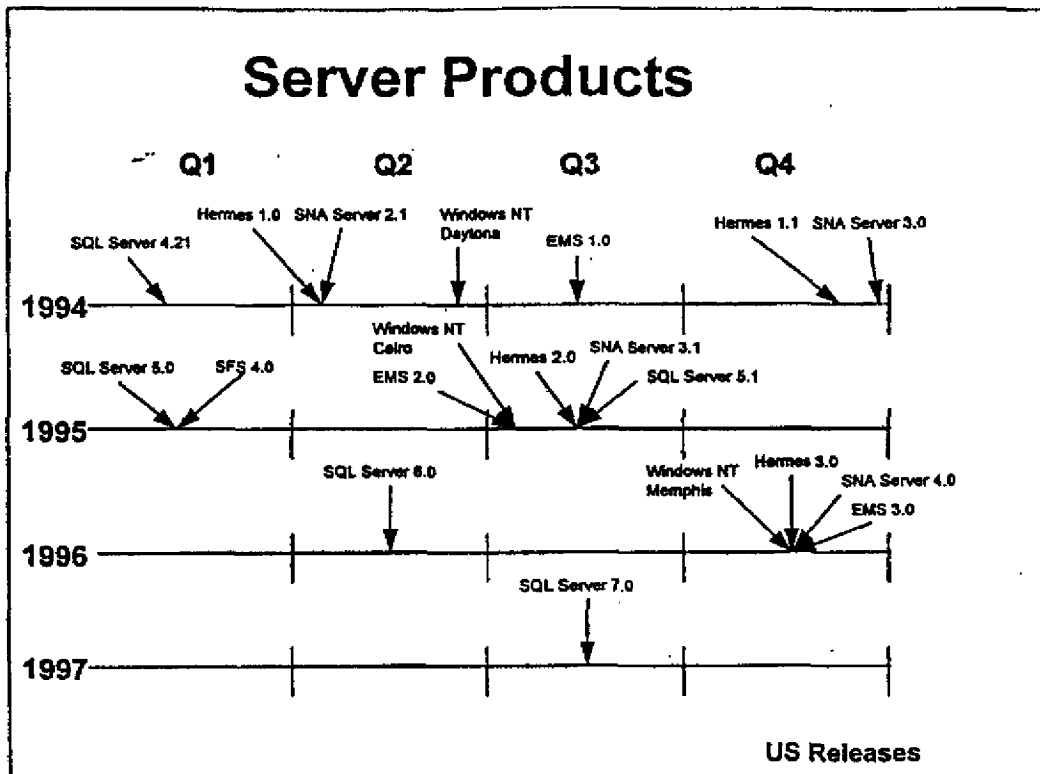
SQL-Server will win by 1) being integrated seamlessly with Windows NT AS 2) offering better price/performance 3) leveraging our relationship with Sybase for cross-platform use and 4) leveraging our desktop tools.

Exchange will win in messaging by: 1) providing state-of-the-art user interface and end-user features 2) advancing administrative capabilities which rival those found in powerful host-based systems 3) incorporating best-of-breed group scheduling into our messaging products, and 4) expanding the role of messaging from primarily a person-to-person communications tool to a workgroup communications and applications development platform.

Exchange will win against Lotus Notes by 1) providing a more feature-rich and easier to use client than Notes, 2) far superior administrative capabilities, 3) a more scalable and powerful development environment and 4) by being a better email system than Notes. Today Notes is generally a second infrastructure within a corporation rather than leveraging the existing messaging infrastructure.

Hermes will win by 1) providing the most comprehensive framework for desktop management 2) integrating with Enterprise Management systems, and 3) being integrated seamlessly with Windows NT AS.





### III. SALES AND MARKETING STRATEGY

The marketing of Microsoft's Organizational Computing Mission requires the following ingredients for a successful implementation:

- Customers need evidence that it will save them time and money. They also need assurance it is easy and proven so that they have little risk
- In addition, the customer needs a complete solution. The solution is comprised of three components: Microsoft products, third party products, and custom developed solutions. These three components can live on clients or servers depending on the implementation technique.
- Finally, customers need support. Support has two attributes, low-cost and timeliness.

These ingredients need to be delivered to the following target audiences:

- Business decision makers and influential end-users who see the possibilities of a new server platform.
- MIS/Network administrators who make up the support staff must be convinced that they can support the implementation of the overall solution.
- Application developers who write the basic code and solution developers who provide the customization and business solutions for specific industries that must be convinced our platform is a viable one.

Our organization solution will work for everyone from the doctors office to the Department of Defense. The challenge is to deliver these ingredients to our full range of customers in a cost efficient way. For our largest

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accounts we have our direct corporate sales force that manages the overall sales process. In specific cases, MCS will act as the general contractor to build the overall solution, subcontracting components to various SPs. Finally, the Solution Providers may supply support and training, or supplement internal resources. In medium and small organizations a variety of SPs fulfill the sales, general contracting, and subcontractor rolls.

To summarize our major strategies:

- Leverage our unique server applications breadth
- Get other people to sell and support our servers
- Get applications and solutions developers to write for our Organizational Computing products
- Generate end-user demand (as well as administrator demand)
- Focus on category growth rather than installed base of our competitors

Corporate marketing provides the PR, advertising, and support tool aircover necessary to generate end user demand and increase channel efficiency. Corporate's number one priority is to win reviews, analysts reports, and get positive editorial coverage. In addition they need to execute on case studies and testimonial advertising.

The key to achieving success with our total business solution is to "jump start" a positive cycle of customer wins that generate good word-of-mouth which generates more customer wins:

- **Initial wins.** First, we need to start with an initial set of customer wins, applications/solutions that work and support that is reliable. How do we get there? First, by making sure that every early adopter of our platform is satisfied. We need a high rate of success pilots, sales growth for early application/solution developers and easy support. This will validate our solution and remove the "unproven" stigma that we now suffer. The majority of our wins to date have come from Microsoft Windows and applications users. In a recent focus group literally every signal participant using Windows NT was also using Windows For Workgroups and Microsoft Applications. Leveraging our desktop application and operating system strengths is critical to our success.
- **Accelerate pilots.** The next step is to increase get the word out and generate more pilots. This will increase the demand for applications/solutions that developers will respond to, increase demand for training and support that solution providers will respond to. Initially, these will have to be targeted pilots in segments that we have good solutions. Over time, we can broaden the range of our pilot programs.

If we can get 10,000 pilot operating rolling in FY95, then we are well on our way to developing market momentum. Current Windows NT AS customer studies in the US show that success rate is over 75% today, we must increase the quantity of pilots and their success rate. See Solutions Provider vision statement for more details.

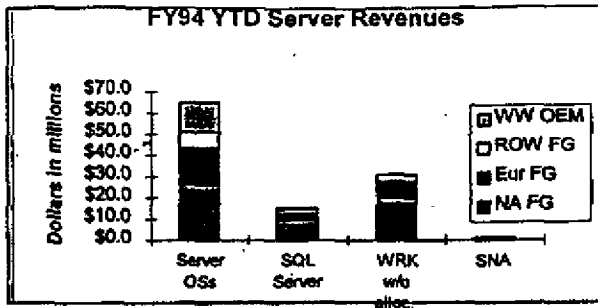
### Preliminary Packaging and Pricing Proposal

We are preparing a proposal to revamp our current server and server application packaging. We will be doing focus groups, end-user research and other feedback to validate this work so it is far from final. The goal is to simplify the purchase, installation and administration of these products. The draft scheme will mean each server application will have two types of SKUs. See the attached appendix for more details.

## IV. BUSINESS STRATEGY

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Combined server product revenues grew significantly from \$94 million in FY92 to \$164 million in FY93. Current projections for FY94 are ~\$250 million. Year to date revenues for our server businesses are as follows. Note that WPG revenues do not include allocations from Office or Windows for Workgroups.



Based on the proposed packaging and pricing strategy mentioned above, we forecast market shares at:

**MICROSOFT SERVER APP MARKET SHARE**  
(incl. BackOffice Sales)

|   | FY94 | FY95 | FY96 | FY97 |
|---|------|------|------|------|
| <i>NOS/F&amp;P Servers</i>                                    | 5%   | 6%   | 9%   | 13%  |
| <i>Application Servers</i>                                    | 1%   | 2%   | 3%   | 4%   |
| <i>Total NTIAS</i>  | 6%   | 8%   | 12%  | 17%  |
| <i>Database Applications</i>                                  | 5%   | 7%   | 9%   | 12%  |
| <i>Mail &amp; Groupware Applications</i>                      | 16%  | 20%  | 20%  | 23%  |
| <i>SNA</i>  | 9%   | 11%  | 15%  | 20%  |
| <i>Management Applications</i>                                | 0%   | 20%  | 25%  | 32%  |
| <i>Weighted Avg Server App. Mkt Share (excl. NOS/F&amp;P)</i> | 19%  | 17%  | 33%  | 41%  |

**MICROSOFT SERVER APP UNIT SHIPMENTS**

(All products, office sales listed separately and excludes maintenance)

|  | FY94    | FY95    | FY96    | FY97    | CAGR |
|--|---------|---------|---------|---------|------|
| <i>NTIAS</i>   | 62,411  | 99,398  | 154,829 | 240,958 | 40%  |
| <i>SQL</i>   | 17,110  | 22,536  | 37,045  | 60,960  | 37%  |
| <i>EMS (used for mail &amp; groupware)</i>               | 0       | 16,682  | 28,923  | 50,577  | 45%  |
| <i>SFS</i>   | 44,975  | 45,713  | 46,462  | 47,224  | 1%   |
| <i>SNA</i>   | 4,250   | 6,171   | 8,960   | 13,010  | 32%  |
| <i>Hermes</i>  | 0       | 1,227   | 1,933   | 3,044   | 35%  |
| <i>Total Server Shipments (excl. Office)</i>             | 128,746 | 191,727 | 278,153 | 415,775 | 34%  |
| <i>BackOffice Units</i>                                  | 0       | 1,991   | 10,516  | 18,336  | 45%  |
| <i>BackOffice - # of Server Applications &amp; NTIAS</i> | 0       | 29,953  | 52,579  | 91,679  |      |
| <i>Total Server Shipments</i>                            | 128,746 | 221,680 | 330,732 | 507,454 | 37%  |

**MICROSOFT SERVER REVENUES**

(In \$000 - Office sales listed separately, includes Select & Maintenance)

|  | FY94      | FY95      | FY96      | FY97        | CAGR |
|--|-----------|-----------|-----------|-------------|------|
| <i>NTIAS</i>                               | \$89,555  | \$137,348 | \$212,241 | \$327,260   | 35%  |
| <i>SQL</i>                                 | \$67,682  | \$88,642  | \$144,704 | \$236,095   | 37%  |
| <i>EMS (used for mail &amp; groupware)</i> | \$0       | \$34,395  | \$93,411  | \$161,550   | 46%  |
| <i>SFS</i>                                 | \$114,323 | \$115,542 | \$116,624 | \$117,529   | 1%   |
| <i>SNA</i>                                 | \$4,134   | \$5,968   | \$8,606   | \$12,390    | 32%  |
| <i>Hermes</i>                              | \$0       | \$12,073  | \$18,884  | \$29,489    | 35%  |
| <i>BackOffice (ships in Q3 of FY95)</i>    | \$0       | \$45,290  | \$78,952  | \$136,493   | 46%  |
| <i>Total Revenue</i>                       | \$175,663 | \$409,260 | \$673,421 | \$1,020,806 | 30%  |

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Based on these assumptions, the following BOI is forecasted:

|                           | FY95                |                     |                            | FY94 YTD            |                     |                            | FY92                              |
|---------------------------|---------------------|---------------------|----------------------------|---------------------|---------------------|----------------------------|-----------------------------------|
|                           | WNT<br>Product Unit | OCS<br>Product Unit | Workgroup<br>Business Unit | WNT<br>Product Unit | OCS<br>Product Unit | Workgroup<br>Business Unit | Continued Server<br>Business Unit |
| Net Revenues              | \$7,359             | \$68,230            | \$61,030                   | \$43,600            | \$30,610            | \$46,111                   | \$670,000                         |
| Cost of Revenues          | \$3,183             | \$14,018            | \$7,088                    | \$11,678            | \$5,788             | \$5,262                    | \$157,000                         |
| Gross Profit              | \$4,176             | \$54,212            | \$53,941                   | \$31,922            | \$24,822            | \$40,849                   | \$513,000                         |
| Operating Expenses        |                     |                     |                            |                     |                     |                            |                                   |
| People                    | \$34,385            | \$3,077             | \$24,677                   | \$28,885            | \$1,148             | \$14,145                   | \$58,000                          |
| Facilities                | \$13,485            | \$1,245             | \$8,022                    | \$5,710             | \$214               | \$3,028                    | \$11,000                          |
| Marketing                 | \$16,385            | \$4,251             | \$8,826                    | \$11,578            | \$884               | \$4,800                    | \$48,000                          |
| Product Development       | \$13,004            | \$1,131             | \$7,275                    | \$8,607             | \$286               | \$3,472                    | \$25,000                          |
| PSS                       | \$3,484             | \$8,918             | \$4,642                    | \$7,373             | \$3,442             | \$3,708                    | \$100,000                         |
| Other                     | \$1,337             | \$1,622             | (\$788)                    | \$888               | \$1,282             | \$384                      | \$18,000                          |
| Shared Resources          | \$25,851            | \$3,271             | \$2,821                    | \$8,554             | \$1,072             | (\$482)                    | \$70,000                          |
| Total Operating Expenses  | \$108,121           | \$24,576            | \$64,864                   | \$70,500            | \$6,270             | \$28,103                   | \$342,000                         |
| Responsibility Margin     | (\$103,943)         | \$29,637            | (\$10)                     | (\$38,578)          | \$18,552            | \$11,746                   | \$71,000                          |
| Allocations               | \$20,400            | \$23,529            | \$21,057                   | \$13,800            | \$8,835             | \$12,378                   | \$248,000                         |
| Budgeted Operating Income | (\$124,354)         | \$53,166            | (\$21,670)                 | (\$24,778)          | \$27,387            | (\$16,357)                 | \$222,000                         |

WNT includes Windows NT, Advanced Server, SNA Server, and SCL Server for NT  
OCS includes Lan Manager, SCL Server for OS/2, CommServer, Net, and OS/2

## V. DEPENDENCIES AND ISSUES

As noted earlier, we are totally dependent on the SP group/channel, client OS, and some integration from the productivity applications. In the latter two cases, favoritism is *required* vs. the competition in order to win. Supporting the least common denominator for network server functions means it is impossible to demonstrate new features and therefore show end-user value which is necessary to win.

## VI. SUMMARY

Thinking about this combined business is new for Microsoft. Further, Windows NT AS and applications (e.g., Hermes, Exchange, OFS) are new. In short, there are still many unanswered questions. Each week we get smarter and I'm sure we're going to adjust our tactics as we learn what does and doesn't work. Nevertheless, key aspects of this strategy have been clear for years (that's why OFS has been under construction for a couple of year). Unification through this mission is a *huge* advantage and so is the opportunity!

There are several key implementation objectives for FY95:

1. Establish one voice in the marketplace for this mission
2. Launch Daytona, Hermes, and Exchange and win reviews; get Cairo ready to launch
3. Ensure rich set of horizontal business solutions, vertical solutions, and tools for custom business automation and processing exist on NTAS

There are 3 key strategic things to remember from this paper:

1. End-user appeal is critical to our success in this business
2. Business solutions drive our sales
3. To win in the organizational computing marketplace we must execute as a total business: one vision (product, marketing, support, etc.), one implementation plan, and as one unified force in front of customers.

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## APPENDIX A. COMPETITIVE DETAILS

Competitive Analysis

FY93 Data For NOS and Messaging, CY93 for database

|                                | Unit Volume<br>Server Units[1] | % of Market | Revenue to<br>Vendor [2] | Avg. Revenue<br>to Vendor [3] |
|--------------------------------|--------------------------------|-------------|--------------------------|-------------------------------|
| <b>Novell</b>                  |                                |             |                          |                               |
| NetWare 4.x                    | 18,667                         | 2%          | \$65,000,000             | \$3,900                       |
| NetWare 3.x                    | 308,000                        | 32%         | \$657,900,000            | \$2,136                       |
| NetWare 2.x                    | 61,400                         | 6%          | \$29,000,000             | \$472                         |
| <b>Total NetWare</b>           | <b>386,067</b>                 | <b>41%</b>  | <b>\$751,900,000</b>     | <b>\$1,948</b>                |
| <b>IBM</b>                     |                                |             |                          |                               |
| IBM                            | 45,760                         | 5%          | n/a                      |                               |
| <b>Microsoft</b>               |                                |             |                          |                               |
| Microsoft                      | 50,700                         | 5%          | \$31,082,646             | \$613                         |
| <b>Banyan</b>                  |                                |             |                          |                               |
| Banyan                         | 22,350                         | 2%          | \$30,900,000             | \$1,383                       |
| <b>Digital</b>                 |                                |             |                          |                               |
| Digital                        | 17,300                         | 2%          | n/a                      |                               |
| <b>Other</b>                   |                                |             |                          |                               |
| Other                          | 80,800                         | 9%          | n/a                      |                               |
| <b>Total NOS</b>               | <b>602,967</b>                 | <b>64%</b>  | <b>n/a</b>               |                               |
| <b>UNIX</b>                    |                                |             |                          |                               |
| UNIX                           | 345,247                        | 36%         | n/a                      |                               |
| <b>Total Number of Systems</b> | <b>948,214</b>                 | <b>100%</b> | <b>n/a</b>               |                               |
| <b>Oracle</b>                  |                                |             |                          |                               |
| Oracle                         | 61,000                         | 22%         | \$297,000,000            | \$4,869                       |
| <b>Microsoft</b>               |                                |             |                          |                               |
| Microsoft                      | 13,823                         | 5%          | \$16,722,000             | \$1,210                       |
| <b>Sybase</b>                  |                                |             |                          |                               |
| Sybase                         | 20,800                         | 8%          | \$102,000,000            | \$4,904                       |
| <b>Informix</b>                |                                |             |                          |                               |
| Informix                       | 77,500                         | 29%         | \$97,500,000             | \$1,258                       |
| <b>Ingres</b>                  |                                |             |                          |                               |
| Ingres                         | 8,300                          | 3%          | \$54,000,000             | \$6,506                       |
| <b>Progress</b>                |                                |             |                          |                               |
| Progress                       | 20,900                         | 8%          | \$20,500,000             | \$981                         |
| <b>Other</b>                   |                                |             |                          |                               |
| Other                          | 69,550                         | 26%         | \$136,000,000            | \$1,955                       |
| <b>Total Database</b>          | <b>271,873</b>                 | <b>100%</b> | <b>\$723,722,000</b>     | <b>\$2,662</b>                |
| <b>Lotus cc:Mail</b>           |                                |             |                          |                               |
| Lotus cc:Mail                  | 33,362                         | 16%         | \$55,000,000             | \$1,649                       |
| <b>Lotus Notes</b>             |                                |             |                          |                               |
| Lotus Notes                    | 10,582                         | 5%          | \$58,200,000             | \$5,500                       |
| <b>Microsoft Mail+Sched+</b>   |                                |             |                          |                               |
| Microsoft Mail+Sched+          | 28,416                         | 14%         | \$63,000,000             | \$2,217                       |
| <b>WordPerfect</b>             |                                |             |                          |                               |
| WordPerfect                    | 15,000                         | 7%          | \$16,875,000             | \$1,125                       |
| <b>Other LAN</b>               |                                |             |                          |                               |
| Other LAN                      | 55,223                         | 27%         | \$52,228,000             | \$946                         |
| <b>Other UNIX</b>              |                                |             |                          |                               |
| Other UNIX                     | 64,320                         | 31%         | \$167,520,000            | \$2,604                       |
| <b>Total Messaging</b>         | <b>206,903</b>                 | <b>100%</b> | <b>\$412,823,000</b>     | <b>\$1,995</b>                |

- [1] IDC Data for OS and Messaging. Computed from IDC for Database  
 [2] Shearson for Novell, Lotus, Oracle. IDC for Others  
 [3] [2] Divided by [1]

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## APPENDIX B. REVENUE PER HEADCOUNT FOR MICROSOFT DIVISIONS

Revenue per

| Revenue per WEG Head    | FY92    | FY93    | FY94    |
|-------------------------|---------|---------|---------|
| File and Print Services | \$129   | \$151   | \$353   |
| Database Applications   | \$336   | \$535   | \$1,285 |
| Messaging Applications  | \$68    | \$189   | \$237   |
| SNA Applications        | n/a     | n/a     | \$288   |
| Management Applications | n/a     | n/a     | n/a     |
| Consumer Division       | \$418   | \$426   | \$635   |
| DAD Division            | \$1,515 | \$1,988 | \$2,306 |

## APPENDIX C. COMPUTING MARKET SHARES

Market shares for our top server products will be an important metric for measuring our success. For the purpose of analyzing the server business, market share is defined as follows:

| Products                   | Unit Market Share  | Revenue Market Share   |
|----------------------------|--|--|
| Windows NT Advanced Server | Number of Server Operating Systems Shipped as a percentage of server hardware shipments            | Revenue to Microsoft for Server Operating systems as a percentage of the total server market revenue (including user licenses, but not including client-side software) |
| SQL Server                 | Number of SQL Server units as a percentage of number of client-server RDBMS shipped                | Revenue to Microsoft for SQL Server as a percentage of the total client-server RDBMS market revenue to vendors   |
| Exchange (EMS and SFS)     | Number of EMS and SFS servers shipped as a percentage of total mail and groupware server shipments | Revenue to Microsoft for EMS and SFS as a percentage of the total market for mail and groupware  |

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## APPENDIX D. SERVER BENEFITS TO OFFICE USERS

| Server Application           | Benefit for Office/Windows users   |
|------------------------------|--|
| Windows NT AS                | <ol style="list-style-type: none"><li>1. Single place to load applications saving hard disk on workstations</li><li>2. Easy way to update to new versions of Office and Windows</li><li>3. Central hard disk so that you don't have to replace PC disks when users run out of storage</li><li>4. Central backup of critical data</li><li>5. Easy to access your files when at home or when using a notebook on the road.</li><li>6. Protection of your businesses critical information with auditing and passwords</li></ol> |
| SQL Server                   | <ol style="list-style-type: none"><li>1. Use Excel beyond the desktop making it a front end to access corporate data with pivot tables</li><li>2. When you outgrow XLS, store Excel databases and share them.</li><li>3. Grow Access applications to full multiuser systems with full backup, error recovery and logging</li></ol>   |
| Exchange                     | <ol style="list-style-type: none"><li>1. Store Word, Excel, and PowerPoint documents in a central location that can be shared over the enterprise</li><li>2. Rout and collaborate on common documents.</li><li>3. Extend Mail with sophisticated sorting, and central storage.</li></ol>   |
| SNA Server                   | <ol style="list-style-type: none"><li>1. Use Access to browse information on IBM AS/400s and ES/3090s</li><li>2. Enables SQL Server to access DB2 data</li><li>3. View host data and copy and paste into Excel, Word or PowerPoint.</li></ol>  |
| Systems Management<br>Hermes | <ol style="list-style-type: none"><li>1. Faster diagnosis of end-user problems through auditing of hardware and software installations</li><li>2. View screen of an end-user with a problem without having to go to that person's office.</li><li>3. Easy way to run the Office off of the network</li><li>4. Simplify downloading of critical Excel and Access databases to each user.</li><li>5. Simple update of software from a single console in the network.</li></ol>   |

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APPENDIX E. FINANCIAL PROJECTIONS

**MICROSOFT SERVER REVENUES**  
(In \$000 - Office sales listed separately, includes Select & Maintenance)

|                                  | FY94             | FY95             | FY96             | FY97               | CAGR       |
|----------------------------------|------------------|------------------|------------------|--------------------|------------|
| NT/AS                            | \$89,535         | \$137,348        | \$212,241        | \$327,260          | 30%        |
| SQL                              | \$67,642         | \$81,642         | \$144,704        | \$236,095          | 37%        |
| EMS (used for mail & groupware)  | \$0              | \$54,395         | \$93,411         | \$161,550          | 44%        |
| SFS                              | \$114,323        | \$115,542        | \$116,624        | \$117,529          | 1%         |
| SNA                              | \$4,134          | \$3,948          | \$8,606          | \$12,390           | 32%        |
| Hermes                           | \$0              | \$12,073         | \$18,884         | \$28,489           | 35%        |
| Backoffice (ships in Q3 of FY95) | \$0              | \$45,290         | \$78,952         | \$136,493          | 44%        |
| <b>Total Revenue</b>             | <b>\$275,633</b> | <b>\$439,288</b> | <b>\$673,421</b> | <b>\$1,016,806</b> | <b>39%</b> |

**MICROSOFT SERVER APP UNIT SHIPMENTS**  
(All products, office sales listed separately and excludes maintenance)

|   | FY94           | FY95           | FY96           | FY97           | CAGR       |
|---|----------------|----------------|----------------|----------------|------------|
| NT/AS   | 62,411         | 99,398         | 154,829        | 240,958        | 40%        |
| SQL   | 17,110         | 22,336         | 37,045         | 60,960         | 37%        |
| EMS (used for mail & groupware)               | 0              | 16,682         | 28,923         | 50,577         | 43%        |
| SFS   | 44,975         | 45,713         | 46,462         | 47,224         | 1%         |
| SNA   | 4,250          | 6,171          | 8,960          | 13,010         | 32%        |
| Hermes  | 0              | 1,227          | 1,933          | 3,044          | 35%        |
| <b>Total Server Shipments (excl. Office)</b>  | <b>124,746</b> | <b>191,527</b> | <b>278,153</b> | <b>415,775</b> | <b>34%</b> |
| Backoffice Units                              | 0              | 5,991          | 10,516         | 18,336         | 45%        |
| Backoffice - # of Server Applications & NT/AS | 0              | 29,953         | 52,579         | 91,679         | 44%        |
| <b>Total Server Shipments</b>                 | <b>124,746</b> | <b>227,471</b> | <b>330,732</b> | <b>507,454</b> | <b>41%</b> |

**MICROSOFT SERVER APP UNIT SHIPMENTS**  
(All products, office sales listed by APP, excludes maintenance)

|  | FY94           | FY95           | FY96           | FY97           |
|--|----------------|----------------|----------------|----------------|
| <b>NT/AS</b>                               | <b>62,411</b>  | <b>99,398</b>  | <b>154,829</b> | <b>240,958</b> |
| Office Sales                               | 0              | 5,991          | 10,516         | 18,336         |
| <b>Total NT/AS</b>                         | <b>62,411</b>  | <b>105,389</b> | <b>165,345</b> | <b>259,294</b> |
| <b>SQL</b>                                 | <b>17,110</b>  | <b>22,336</b>  | <b>37,045</b>  | <b>60,960</b>  |
| Office Sales                               | 0              | 5,991          | 10,516         | 18,336         |
| <b>Total NT/AS</b>                         | <b>17,110</b>  | <b>28,327</b>  | <b>47,561</b>  | <b>79,296</b>  |
| <b>EMS (used for mail &amp; groupware)</b> | <b>0</b>       | <b>16,682</b>  | <b>28,923</b>  | <b>50,577</b>  |
| Office Sales                               | 0              | 5,991          | 10,516         | 18,336         |
| <b>Total NT/AS</b>                         | <b>0</b>       | <b>22,673</b>  | <b>39,439</b>  | <b>68,913</b>  |
| <b>SFS</b>                                 | <b>44,975</b>  | <b>45,713</b>  | <b>46,462</b>  | <b>47,224</b>  |
| <b>SNA</b>                                 | <b>4,250</b>   | <b>6,171</b>   | <b>8,960</b>   | <b>13,010</b>  |
| Office Sales                               | 0              | 5,991          | 10,516         | 18,336         |
| <b>Total NT/AS</b>                         | <b>4,250</b>   | <b>12,162</b>  | <b>19,476</b>  | <b>31,346</b>  |
| <b>Hermes</b>                              | <b>0</b>       | <b>1,227</b>   | <b>1,933</b>   | <b>3,044</b>   |
| Office Sales                               | 0              | 5,991          | 10,516         | 18,336         |
| <b>Total NT/AS</b>                         | <b>0</b>       | <b>7,218</b>   | <b>12,449</b>  | <b>21,380</b>  |
| <b>Total Server Shipments</b>              | <b>124,746</b> | <b>221,688</b> | <b>330,732</b> | <b>507,454</b> |

**AVERAGE REVENUE TO MICROSOFT**  
(Office sales listed separately, includes maintenance and select)

|                                 | FY94    | FY95    | FY96    | FY97    | CAGR |
|---------------------------------|---------|---------|---------|---------|------|
| NT/AS                           | \$1,435 | \$1,382 | \$1,371 | \$1,338 | -1%  |
| SQL                             | \$3,956 | \$3,653 | \$3,906 | \$3,873 | -1%  |
| EMS (used for mail & groupware) | n/a     | \$3,261 | \$3,230 | \$3,194 | -1%  |
| SFS                             | \$2,542 | \$2,524 | \$2,510 | \$2,489 | -1%  |
| SNA                             | \$973   | \$967   | \$960   | \$952   | -1%  |
| Hermes                          | n/a     | \$9,838 | \$9,770 | \$9,686 | -1%  |
| Backoffice                      | n/a     | \$7,560 | \$7,508 | \$7,444 | -1%  |

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**APPENDIX E. FINANCIAL PROJECTIONS (CONT'D)**

| WORLDWIDE SERVER HARDWARE, OPERATING SYSTEM AND APPLICATION MARKET SIZE<br>(Per IDC, in units - absolute %) |           |           |           |           |      |
|---|-----------|-----------|-----------|-----------|------|
|   | FY94      | FY95      | FY96      | FY97      | CAGR |
| NOS/Files & Print Servcs  | 716,344   | 765,061   | 794,899   | 825,900   | 3%   |
| Application servers (primarily Unix-class hardware)   | 384,566   | 516,691   | 624,334   | 745,560   | 18%  |
| Server Hardware shipments   | 1,128,450 | 1,281,752 | 1,419,233 | 1,571,460 | 9%   |
| Database Applications   | 342,200   | 422,617   | 521,932   | 644,586   | 17%  |
| Mail & Groupware (Notes today) Applications   | 275,107   | 319,398   | 420,906   | 525,363   | 18%  |
| SNA Applications  | 50,000    | 55,000    | 60,500    | 66,550    | 7%   |
| Management Applications   | 4,909     | 6,136     | 7,670     | 9,583     | 18%  |
| Total Server Applications w/o NOS/F&P   | 672,216   | 823,151   | 1,011,008 | 1,246,087 | 17%  |
| Server Applications (as F&P) / Hardware shipments   | 0.6       | 0.6       | 0.7       | 0.8       | 7%   |

| MICROSOFT SERVER APP MARKET SHARE<br>(incl. Office Select) |      |      |      |      |
|--|------|------|------|------|
|  | FY94 | FY95 | FY96 | FY97 |
| NOS/F&P Servers  | 3%   | 4%   | 5%   | 13%  |
| Application Servers  | 1%   | 2%   | 3%   | 4%   |
| Total NT/AS  | 4%   | 6%   | 12%  | 17%  |
| Database Applications                                      | 5%   | 7%   | 9%   | 12%  |
| Mail & Groupware Applications                              | 16%  | 20%  | 20%  | 22%  |
| SNA  | 9%   | 11%  | 15%  | 20%  |
| Management Applications                                    | 0%   | 20%  | 25%  | 32%  |
| Weighted Avg Server App. Mkt Share (excl. NOS/F&P)         | 19%  | 27%  | 33%  | 41%  |

| MICROSOFT STREET PRICES<br>(incl. Select and Maintenance) |                      |                  |                                      |
|---|----------------------|------------------|--------------------------------------|
|   | FY95<br>Naked Server | FY95<br>Per User | FY95<br>Starter Pack<br>(10 Users) * |
| NT/AS   | \$995                | \$50             | \$1,353                              |
| SQL   | \$1,494              | \$187            | \$2,842                              |
| EMS (used for mail & groupware)                           | \$1,494              | \$120            | \$2,357                              |
| SFS   | \$371                | \$120            | \$1,234                              |
| SNA   | \$446                | \$56             | \$850                                |
| Hermes  | \$1,869              | \$37             | \$2,128                              |
| Backoffice  | \$2,992              | \$315            | \$5,257                              |

\* Assumes 10 clients at MLP Prices

| MICROSOFT RELEVANT METRICS  |       |       |       |       |      |
|---|-------|-------|-------|-------|------|
|   | FY94  | FY95  | FY96  | FY97  | CAGR |
| MS App. per total Servers shipped (excl. SFS & assuming 2 Apps/Office unit) | 0.3   | 0.6   | 0.6   | 0.6   | 17%  |
| Jump to FY95 is due to release of EMS, Hermes & Office                      |       |       |       |       |      |
| MS Rev / New Hardware Unit Shipped (Total Market)                           | \$246 | \$358 | \$474 | \$650 | 27%  |

| SERVER HARDWARE MARKET<br>(Includes Peer-to-Peer, Fiscal Years per IDC through FY96 + extrapolation of growth rates thereafter) |                |                |                  |                  |                  |                  |      |
|---|----------------|----------------|------------------|------------------|------------------|------------------|------|
|   | Actual<br>FY92 | Actual<br>FY93 | Forecast<br>FY94 | Forecast<br>FY95 | Forecast<br>FY96 | Forecast<br>FY97 | CAGR |
| PC Desktop Server   | 579,871        | 842,697        | 691,334          | 712,829          | 698,545          | 774,578          | 3%   |
| PC Server   | 167,500        | 271,580        | 384,082          | 506,211          | 633,741          | 701,716          | 27%  |
| Super Server (high-end micro/SMP)   | 21,860         | 27,007         | 35,684           | 48,713           | 69,223           | 76,647           | 21%  |
| Other small-scale server (minicomputer)   | 4,860          | 6,950          | 8,750            | 13,000           | 18,725           | 18,519           | 25%  |
| Total   | 774,091        | 1,148,234      | 1,120,850        | 1,281,752        | 1,419,233        | 1,571,460        | 17%  |
| %growth   | 36.4%          | 22.5%          | 18.2%            | 14.4%            | 10.7%            | 10.7%            |      |

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## APPENDIX F NOVELL P&amp;L (RESTATED IN MSFT FY93)

|  | Q1             | Q2             | Q3             | Q4             | Total            |
|--|----------------|----------------|----------------|----------------|------------------|
| <b>Netware Products Groups</b>         |                |                |                |                |                  |
| NetWare 3.11                           | \$174.5        | \$162.0        | \$137.7        | \$146.7        | \$620.9          |
| NetWare 3.11/SFTIII                    | \$0.0          | \$12.0         | \$12.0         | \$13.0         | \$37.0           |
| NetWare 4.0                            | \$0.0          | \$0.0          | \$40.0         | \$25.0         | \$65.0           |
| NetWare royalties                      | \$0.0          | \$10.0         | \$10.0         | \$5.0          | \$25.0           |
| NetWare 2.2                            | \$12.0         | \$13.0         | \$2.0          | \$2.0          | \$29.0           |
| <b>Subtotal NetWare Products</b>       | <b>\$186.5</b> | <b>\$197.0</b> | <b>\$201.7</b> | <b>\$191.7</b> | <b>\$776.9</b>   |
| Portable NetWare /UNIX                 | \$6.0          | \$1.0          | \$1.0          | \$2.0          | \$10.0           |
| <b>Sub-total NetWare Product Group</b> | <b>\$192.5</b> | <b>\$198.0</b> | <b>\$202.7</b> | <b>\$193.7</b> | <b>\$786.9</b>   |
| <b>NetWork Product Group</b>           |                |                |                |                |                  |
| <b>Desktop Product Group</b>           |                |                |                |                |                  |
| DR/DR-DOS                              | \$9.0          | \$4.2          | \$4.3          | \$1.0          | \$18.5           |
| NetWare Lite and Others                | \$2.0          | \$4.8          | \$5.0          | \$1.0          | \$12.8           |
| TCP/IP Products                        | \$12.8         | \$13.0         | \$14.0         | \$9.0          | \$48.8           |
| <b>Total Desktop Systems Group</b>     | <b>\$23.8</b>  | <b>\$22.0</b>  | <b>\$23.3</b>  | <b>\$11.0</b>  | <b>\$80.1</b>    |
| <b>Interoperability System Group</b>   |                |                |                |                |                  |
| Multiprotocol router, Mesaging         |                |                |                |                |                  |
| NetWare NFS/Access Server              | \$10.2         | \$17.0         | \$18.0         | \$15.0         | \$60.2           |
| LANalyzer                              | \$6.0          | \$8.0          | \$12.0         | \$13.0         | \$39.0           |
| NetWare for SAA and other              | \$6.8          | \$0.0          | \$8.7          | \$6.0          | \$21.5           |
| <b>Total Interop Systems Group</b>     | <b>\$23.0</b>  | <b>\$25.0</b>  | <b>\$38.7</b>  | <b>\$34.0</b>  | <b>\$120.7</b>   |
| <b>Other/Remainder</b>                 |                |                |                |                |                  |
| Hardware royalties                     | \$5.8          | \$2.5          | \$3.0          | \$9.0          | \$20.3           |
| Taining                                | \$12.0         | \$12.7         | \$13.0         | \$13.0         | \$50.7           |
| Other                                  | \$3.0          | \$0.0          | \$0.0          | \$1.1          | \$4.1            |
| <b>Total Remainder</b>                 | <b>\$20.8</b>  | <b>\$15.2</b>  | <b>\$16.0</b>  | <b>\$23.1</b>  | <b>\$75.1</b>    |
| <b>Total Novell NetRevenues</b>        | <b>\$260.1</b> | <b>\$260.2</b> | <b>\$280.7</b> | <b>\$261.8</b> | <b>\$1,062.8</b> |
| USL                                    | \$0.0          | \$0.0          | \$0.0          | \$11.0         | \$11.0           |
| <b>Novell/USL Net Revenues</b>         | <b>\$260.1</b> | <b>\$260.2</b> | <b>\$280.7</b> | <b>\$272.8</b> | <b>\$1,073.8</b> |
| <b>Cost of Revenues</b>                | <b>\$53.3</b>  | <b>\$50.5</b>  | <b>\$49.4</b>  | <b>\$56.7</b>  | <b>\$209.9</b>   |
| <b>Sales &amp; Marketing</b>           | <b>\$59.6</b>  | <b>\$53.6</b>  | <b>\$61.5</b>  | <b>\$71.7</b>  | <b>\$246.4</b>   |
| <b>Research and Development</b>        | <b>\$32.9</b>  | <b>\$34.2</b>  | <b>\$37.1</b>  | <b>\$42.3</b>  | <b>\$146.5</b>   |
| <b>General and Admin</b>               | <b>\$14.7</b>  | <b>\$21.0</b>  | <b>\$18.4</b>  | <b>\$17.8</b>  | <b>\$71.9</b>    |
| USL                                    | \$0.0          | \$0.0          | \$0.0          | \$320.6        | \$320.5          |
| <b>Total Marketing Expense</b>         | <b>\$160.5</b> | <b>\$159.3</b> | <b>\$166.4</b> | <b>\$188.5</b> | <b>\$995.2</b>   |
| <b>Operating Income</b>                | <b>\$99.6</b>  | <b>\$100.9</b> | <b>\$114.3</b> | <b>\$84.3</b>  | <b>\$78.6</b>    |
| Net Interest Income                    | \$4.5          | \$6.9          | \$6.0          | \$6.5          | \$23.9           |
| Net Other Income                       | \$1.3          | (\$0.4)        | \$1.3          | \$0.7          | \$2.9            |
| <b>Pre-tax Income</b>                  | <b>\$105.4</b> | <b>\$107.4</b> | <b>\$121.6</b> | <b>\$91.5</b>  | <b>\$105.4</b>   |
| Tax Rate                               | 34%            | 34%            | 34%            | 29%            | 131%             |
| <b>Net Income</b>                      | <b>\$69.8</b>  | <b>\$70.9</b>  | <b>\$80.3</b>  | <b>\$65.2</b>  | <b>(\$32.1)</b>  |

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## APPENDIX G. LOTUS INCOME STATEMENT (RESTATED TO MSFT'S FY93)\*

|   | FY93    |         |         |         | Total   |
|---|---------|---------|---------|---------|---------|
|   | Q1      | Q2      | Q3      | Q4      |         |
| <b>Spreadsheet Products</b>             |         |         |         |         |         |
| PC-DOS, 1-2-3/2.x, 3.x                  | \$81.3  | \$80.0  | \$70.0  | \$51.0  | \$282.3 |
| Windows spreadsheets                    |         |         |         |         |         |
| 3.x                                     | \$40.0  | \$55.0  | \$51.6  | \$30.8  | \$177.4 |
| 4.0 and est Smart Suite                 | \$0.0   | \$0.0   | \$0.0   | \$17.0  | \$17.0  |
| Upgrades                                | \$0.0   | \$0.0   | \$0.0   | \$28.0  | \$28.0  |
| Total Windows Spreadsheets              | \$40.0  | \$55.0  | \$51.6  | \$75.8  | \$222.4 |
| Other Spreadsheets                      | \$11    | \$15    | \$12    | \$5     | \$44    |
| Total Spreadsheets Products             | \$132.3 | \$150.1 | \$134.0 | \$131.8 | \$548.2 |
| <b>Communications Products Division</b> |         |         |         |         |         |
| Notes                                   | \$17.0  | \$20.0  | \$14.0  | \$16.0  | \$67.0  |
| cc:Mail                                 | \$15.0  | \$18.0  | \$14.0  | \$17.0  | \$64.0  |
| Consulting                              | \$1.0   | \$1.5   | \$4.0   | \$2.5   | \$9.0   |
| Total Communications Products           | \$33.0  | \$39.5  | \$32.0  | \$35.5  | \$140.0 |
| <b>Acquired Applications</b>            | \$0     | \$0     | \$0     | \$0     | \$0     |
| Graphic/Free Lance                      | \$20.0  | \$27.0  | \$33.0  | \$35.0  | \$115.0 |
| Word Processing/AMI Pro                 | \$15.0  | \$21.0  | \$20.0  | \$23.0  | \$79.0  |
| Database/Approach                       | \$0.0   | \$0.0   | \$0.0   | \$0.0   | \$0.0   |
| Sub Total Acquired Apps                 | \$35.0  | \$48.0  | \$53.0  | \$58.0  | \$194.0 |
| Organizer                               | \$6.4   | \$8.4   | \$8.0   | \$10.5  | \$33.3  |
| Total Lotus Revenues                    | \$206.7 | \$246.0 | \$227.0 | \$235.8 | \$915.5 |
| <b>Total Costs and Expenses</b>         |         |         |         |         |         |
| Costs of Sales                          | \$47.4  | \$54.1  | \$50.4  | \$51.0  | \$202.9 |
| Research and Development                | \$27.5  | \$33.2  | \$31.8  | \$30.1  | \$122.6 |
| Sales and Marketing                     | \$103.6 | \$119.6 | \$106.1 | \$112.1 | \$441.4 |
| General and Administrative              | \$16.9  | \$17.6  | \$18.0  | \$17.2  | \$69.7  |
| Samna/Approach R&D                      | \$0.0   | \$0.0   | \$0.0   | \$19.9  | \$19.9  |
| Layoff/Restructuring                    | \$0.0   | \$0.0   | \$0.0   | \$0.0   | \$0.0   |
| Total Operating Expense                 | \$195.4 | \$224.5 | \$206.3 | \$230.3 | \$856.5 |
| Operating income                        | \$11.3  | \$21.5  | \$20.7  | \$5.5   | \$59.0  |
| Int/Other Income (net)                  | \$33.6  | \$0.2   | \$0.1   | \$0.5   | \$34.4  |
| Pretax Income                           | \$44.9  | \$21.7  | \$20.8  | \$6.0   | \$93.4  |
| Effective Tax Rate                      | 33%     | 33%     | 41%     | 178%    | 285%    |
| Net Income                              | \$30.1  | \$14.5  | \$12.3  | (\$4.7) | \$52.2  |

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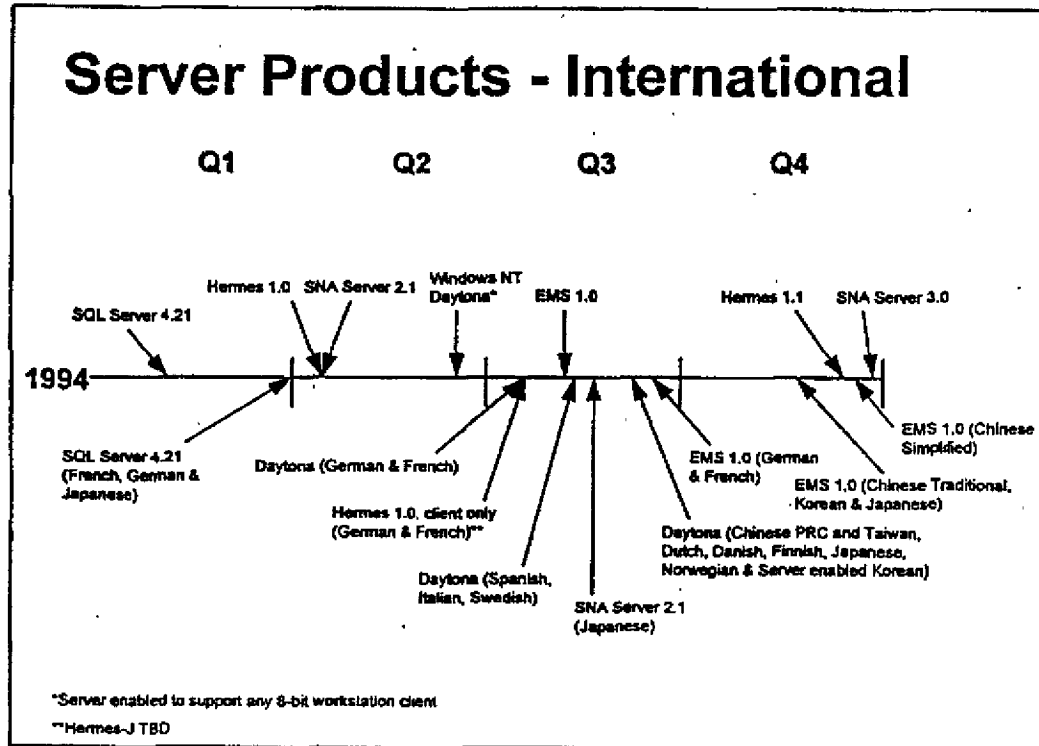
**APPENDIX H. ORACLE INCOME STATEMENT (RESTATED TO MSFT'S FY93)<sup>1</sup>**

|  | Fiscal 1993     |                |                |                | Total            |
|--|-----------------|----------------|----------------|----------------|------------------|
|  | Q1              | Q2             | Q3             | Q4             |                  |
| <b>Revenues</b>                        |                 |                |                |                |                  |
| License Revenues                       |                 |                |                |                |                  |
| UNIX                                   | \$102.0         | \$128.0        | \$139.0        | \$190.0        | \$559.0          |
| Desktop                                | \$19.0          | \$26.0         | \$27.0         | \$38.0         | \$110.0          |
| Proprietary Systems                    | \$30.0          | \$31.0         | \$37.0         | \$48.0         | \$146.0          |
| <b>Sub-total NetWare Product Group</b> | <b>\$151.0</b>  | <b>\$185.0</b> | <b>\$203.0</b> | <b>\$276.0</b> | <b>\$815.0</b>   |
| <b>Service Revenues</b>                |                 |                |                |                |                  |
| Support                                | \$69.0          | \$66.0         | \$70.0         | \$79.0         | \$284.0          |
| Consulting and Education               | \$67.0          | \$81.0         | \$78.0         | \$97.0         | \$323.0          |
| Other (1)                              | \$20.0          | \$21.0         | \$19.0         | \$21.0         | \$81.0           |
| <b>Total Service Revenues</b>          | <b>\$156.0</b>  | <b>\$168.0</b> | <b>\$167.0</b> | <b>\$197.0</b> | <b>\$688.0</b>   |
| <b>Total Revenue</b>                   | <b>\$307.0</b>  | <b>\$353.0</b> | <b>\$370.0</b> | <b>\$473.0</b> | <b>\$1,503.0</b> |
| <b>Operating Expenses</b>              |                 |                |                |                |                  |
| Sales & marketing                      | \$151.4         | \$153.9        | \$150.0        | \$191.0        | \$646.3          |
| Cost of services                       | \$79.7          | \$84.6         | \$83.8         | \$98.5         | \$346.6          |
| Research & development                 | \$30.4          | \$34.0         | \$38.1         | \$43.7         | \$146.2          |
| General and administrative             | \$29.6          | \$29.0         | \$30.2         | \$33.9         | \$122.7          |
| Restructuring costs                    | \$0.0           | \$0.0          | \$24.0         | \$0.0          | \$24.0           |
| <b>Total operating expenses</b>        | <b>\$291.1</b>  | <b>\$301.5</b> | <b>\$326.1</b> | <b>\$367.1</b> | <b>\$1,285.8</b> |
| <b>Operating Income</b>                | <b>\$15.9</b>   | <b>\$51.5</b>  | <b>\$43.9</b>  | <b>\$105.9</b> | <b>\$217.2</b>   |
| Other Income (Expense)                 | (\$0.7)         | (\$0.1)        | \$1.0          | \$0.8          | \$1.0            |
| Income before income taxes             | \$15.2          | \$51.4         | \$44.9         | \$106.7        | \$218.2          |
| Provision for income taxes             | \$5.4           | \$18.0         | \$15.7         | \$37.1         | \$76.2           |
| <b>Net Income</b>                      | <b>\$9.8</b>    | <b>\$33.4</b>  | <b>\$29.2</b>  | <b>\$69.6</b>  | <b>\$142.0</b>   |
| Extraordinary Charges                  | (\$43.5)        | \$0.0          | \$0.0          | \$0.0          | (\$43.5)         |
| <b>Net income net of charges</b>       | <b>(\$33.7)</b> | <b>\$33.4</b>  | <b>\$29.2</b>  | <b>\$69.6</b>  | <b>\$98.5</b>    |

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<sup>1</sup> Source Lehman Brothers

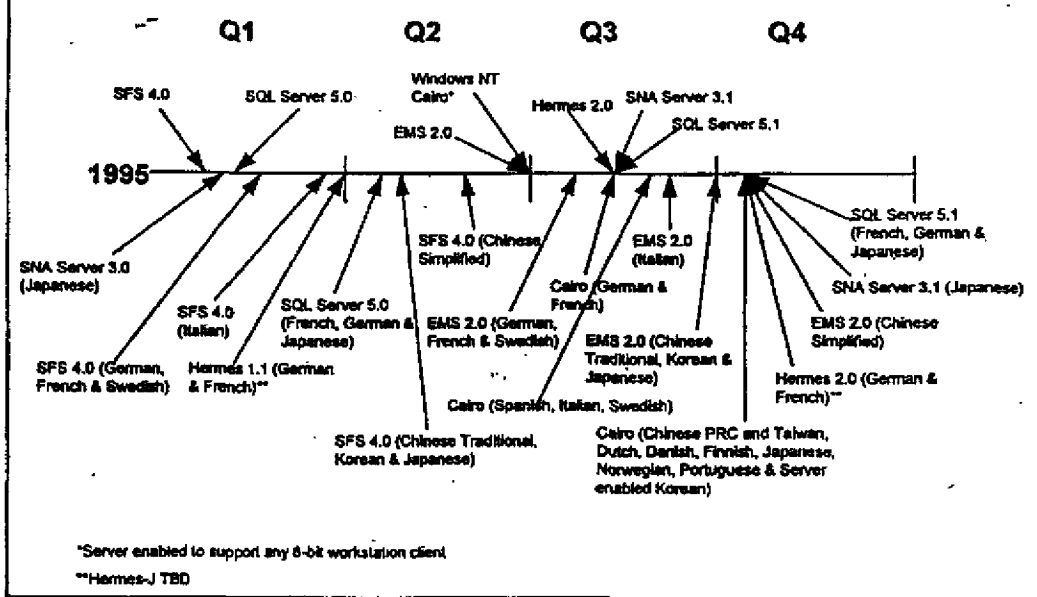
## APPENDIX I. INTERNATIONAL RELEASE SCHEDULES



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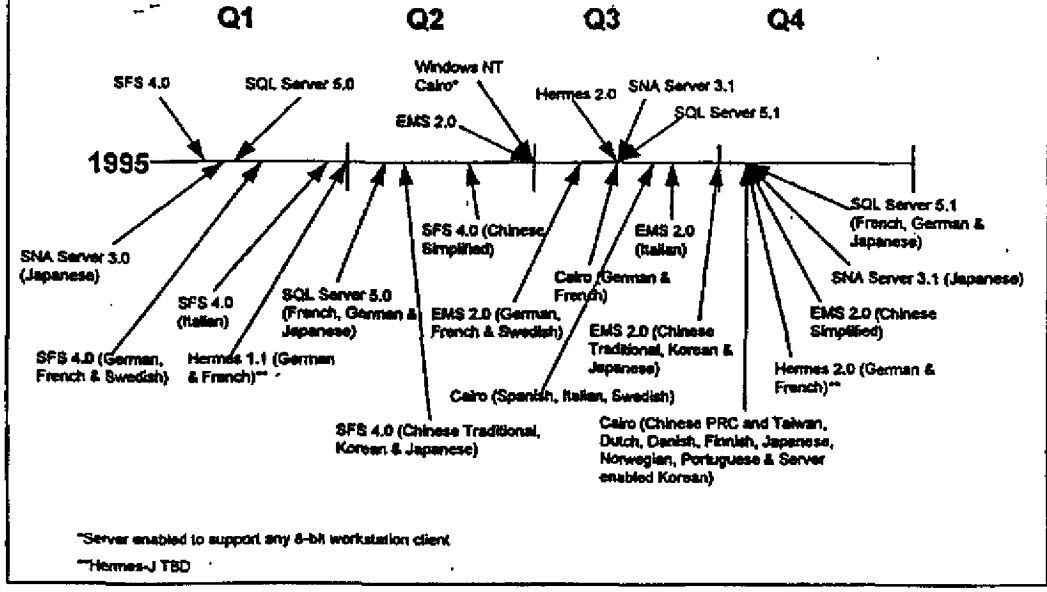
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# Server Products - International



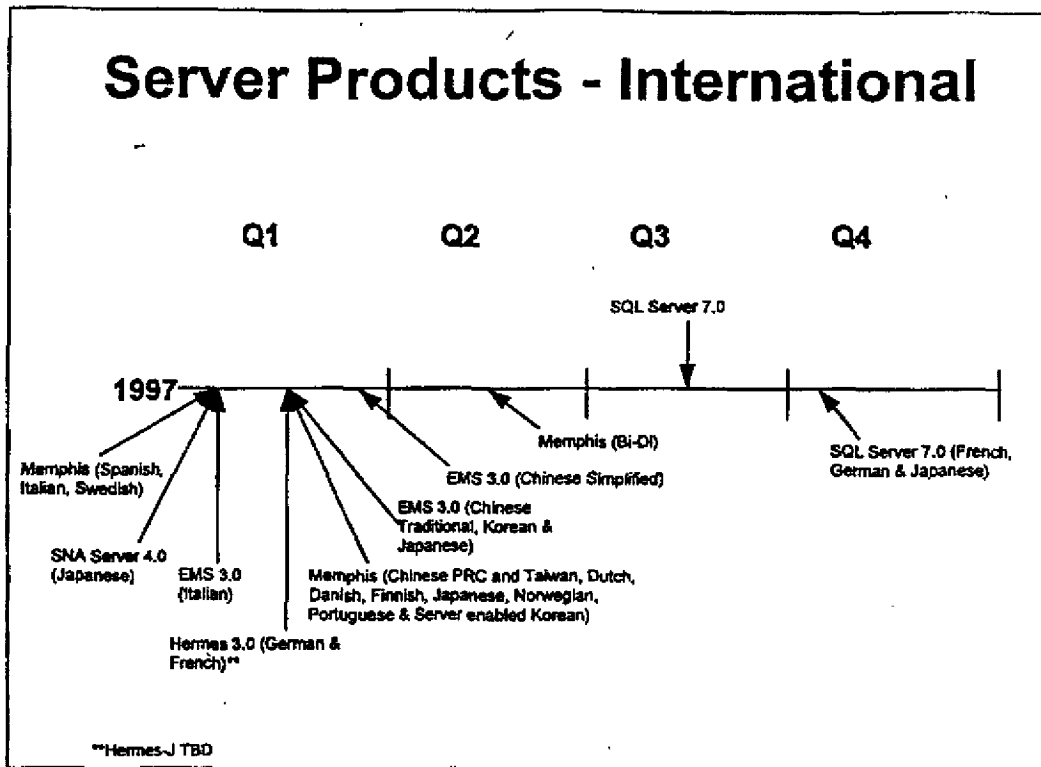
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# Server Products - International



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# Server Products - International



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## APPENDIX J. PRICING AND PACKAGING PROPOSAL DETAILS

This is a brief summary of the pricing and packaging proposal.

**Server SKUs.** This SKU will allow a customer to install a single copy of a server software (Windows NT AS, Hermes, SNA Server, SQL Server or Exchange) on a single machine. Unlike our current scheme, this does not include the right to connect any users to that server. This is handled in the second SKU.

**User Capacity SKUs.** There will be a user capacity SKU for each server application that will give a user in a Windows NT AS domain the right to use any server in the network with that application. For example, if ITG buys richt@redmond an SQL Server user capacity SKU, he will be able to access any SQL Server in the Redmond domain (or domains that trust Redmond).

We would use the existing MMLP mechanism to allow customers to install a number of user capacity SKUs at a time. We are also thinking about a software enforcement scheme where the Windows NT AS domain controllers would keep track of user rights to access server applications. There would be a floppy disk that would allow customers to increase the number of users who could access a server.

When we ship Exchange, we are considering a "BackOffice" product. Its server SKU would allow a customer to install Windows NT AS, SQL Server, SNA Server, Hermes and Exchange on a single machine. There would also be User Capacity SKU that will allow a user access to all Microsoft server applications. This means he can use any number of SQL Server, SNA Server applications, have his machine managed by Hermes and use the Exchange backend as well. This again needs to be studied carefully.

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