
***Desktop Applications Division
3 Year Business Outlook***

Agenda

- Overview - State of the Business
- State of the Market
- Key Marketing Initiatives
- Forecasts
- Appendix

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Plaintiff's Exhibit

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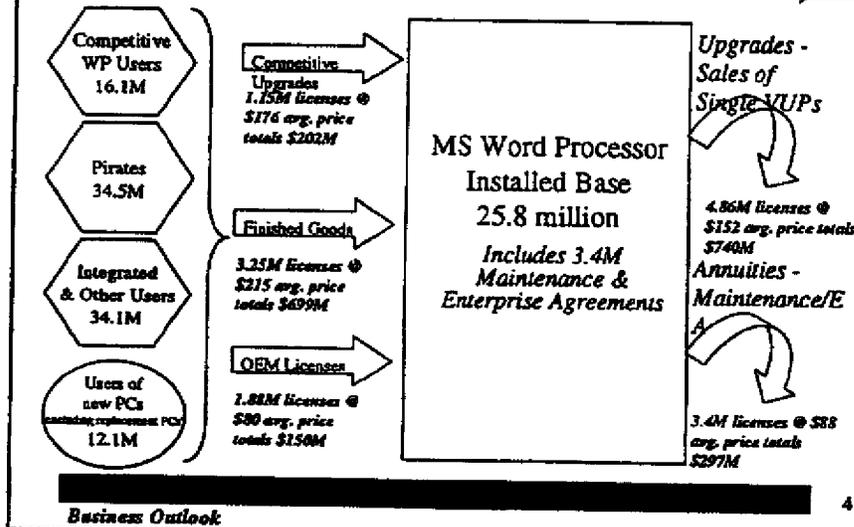
FY98 Overview

	FY97 Act.	FY98 Plan	Plan vs. FY97 Act.	Plan Growth %	FY98 Est.	FY98 Est vs. FY97 Act.	Est Growth %	FY98 Est vs. FY98 Plan	Variance %
(M)									
WWSelf-is revenues	\$ 5,332	\$ 5,689	\$ 357	7%	\$ 6,252	\$ 920	17.3%	\$ 563	9.9%
WWRevenue Market Share		83.9%					89.0%		
Net Revenue	\$ 5,017	\$ 5,258	\$ 281	6%	\$ 5,581	\$ 565	11.3%	\$ 283	5.3%
Gross Margin as % Net Revenue	93.9%	94.3%			96.0%				
Responsibility Margin \$s	\$ 3,767	\$ 4,058	\$ 292	8%	\$ 4,448	\$ 681	18.1%	\$ 390	9.6%
Responsibility Margin % Net Reven	75.1%	76.6%			79.7%				
Regular Headcount	1,700	2,215	425	24%	2,073	283	15.8%	(142)	-6.4%

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Standard/Upgrade Revenue Model (US, FY98)



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State of the Business

Business Drivers	Strategies
Limited LOGG growth	<ul style="list-style-type: none"> • Increase \$/PC by providing additional value • Push Enterprise Agreement, Office Update as annuity model • Accelerate Office deployment
Relevancy/value of new versions decreasing	<ul style="list-style-type: none"> • Drive upgrades through features that create: <ul style="list-style-type: none"> - Business value - End user excitement • Provide value through integration with MS server and platform products • Must shift to "systems" approach to provide organizational responsiveness
Office value eroding due to new competition	<ul style="list-style-type: none"> • Develop technology/products that could replace Office
Legal penetration low in growth segments	<ul style="list-style-type: none"> • Substantially reduce casual piracy • Increase OEM licensing • Build Office brand awareness & demand • Drive purchase through features that create business value

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Office 9 Product Plans

Business Drivers	Strategies
Limited LOGG growth	<ul style="list-style-type: none"> • Increase \$/PC: Office premium SKU • Push Enterprise Agreement, Office Update as annuity model • Accelerate Office deployment: TCO features
Relevancy/value of new versions decreasing	<ul style="list-style-type: none"> • Drive upgrades through features that create: <ul style="list-style-type: none"> - Business value: Web based corporate reporting - End user excitement: Web publishing, Outlook, Office Update links • Provide value through integration with MS server and platform products: Plato, SQL 7, Exchange • Must shift to "systems" approach to provide organizational responsiveness: QFE
Office value eroding due to new competition	<ul style="list-style-type: none"> • Develop technology/products that could replace Office: Web publishing
Legal penetration low in growth segments	<ul style="list-style-type: none"> • Substantially reduce casual piracy: LVP • Increase OEM licensing: Annual license test • Build Office brand awareness & demand • Drive purchase through features that create business value: SBE, Office Pro/SBS

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Office 10 Product Plans

Business Drivers	Strategies
Limited LORG growth	<ul style="list-style-type: none"> • Increase S/PC: Office Premium SKU • Push Enterprise Agreement, Office Update as annuity model: Office Update
Relevancy/value of new versions decreasing	<ul style="list-style-type: none"> • Accelerate Office deployment TGO features • Drive upgrades through features that create: <ul style="list-style-type: none"> - Business value: Notes competition - End user excitement: Speech integration, information intelligence • Provide value through integration with MS server and platform products: Sync'd ship date w/BackOffice, BO (Exchange, SQL, SieServer) as collaboration server
Office value eroding due to new competition	<ul style="list-style-type: none"> • Must shift to "systems" approach to provide business value • Develop technology products that can integrate Office, NetDocs, Web Services integration
Legal penetration low in growth segments	<ul style="list-style-type: none"> • Substantially reduce casual piracy • Increase OEM licensing: Annual license • Build Office brand awareness & demand • Drive purchase through features that create business value: SBE, Office

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Release Strategy

- Office Wave
 - Office, Publisher, FrontPage, Deco, Project, SBE
 - Align w/ BackOffice
- Consumer Wave
 - Picture It! Greetings Workshop, HomeSuite
- Internet Wave
 - Web Update, Clip Gallery Live
- Misc
 - Mac Office, NetDocs

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Major New Investments

- NetDocs: Office for online paradigm
- Deco: Business graphics
- Small Business: Customer management
- Speech: Make it real
- Office Update: Build online value
- Office QFE: Improve satisfaction
- FE: IME, Speech, Premium SKU

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Important Areas We're Not Covering in this 3YO

- Home Productivity Strategy
- Web Essentials
- Education Strategy

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State of the Market

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DAD Segment Overview-By Customer

- See Final 3YO Financial Slides.xls

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***Windows Word Processing Market Segments-
By Customer***

- See Final 3YO Financial Slides.xls

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US Pricing and License Mix Trends

- See Final 3YO Financial Slides.xls

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***Business Driver: Limited LORG
Growth***

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LORG Lowlights

- LORG Named accounts \$/PC declining to \$152 from \$166 in FY98
 - Maintenance licenses declining 42% in FY98
- Poor design decisions made on Office 97
- Slow start on corporate deployment (SR-1)
 - File format, communication
 - Deployment is only 14%
 - Cost of deployment still too high
 - Low IT awareness of business value and tools
- Not as responsive as NT/BackOffice on customer

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LORG Highlights

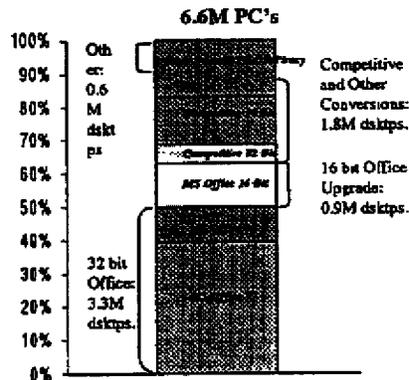
- 70% of 32-bit capable Strategic LORG desktops are licensed for Office 97
- Improved account outreach through MSOT efforts, district assignment program
- Solid PR perception of Office 97 leadership and momentum
 - 75 reviews (74 neutral to positive, one loss to SmartSuite)

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LORG Strategic Installed Base - as of 12/97

- 56% (3.7M) of PC Installed Base is 32 bit capable
- 89% of 32-bit capable desktops are licensed for a 32-bit MS suite
- 2.7M desktops available to convert
- 1.9M replacement PC's will be shipped in FY99



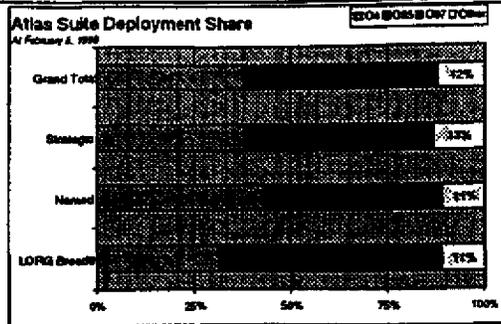
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Office 97 Migration Issues and Observations



- Office 97 deployment is only 14% in LORG's
 - Office 4.X deployed installed base is 38%
- Deployed on 1.9M, or 22% of LORGs' 32-bit capable PC's
- 37% of LORG's have added Office 97 to their standards lists

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Strategic LORG Overbuying

- Standard Word Processor sales have outpaced New PC Shipments to Strategic LORGs for the last 3 years
- Special Agreement (Gov't) sales recorded as standard inflate the number
 - 60-70% are reportedly used as upgrades
- Overbuying of other std licenses estimated at 16% in FY96 (per BCG study), caused by factors including:
 - Poor license tracking in decentralized purchasing environments
 - International sales recorded as US

<i>Actual Sales</i>				<i>Sales adjusted for Overbuying</i>			
	<i>FY96</i>	<i>FY97</i>	<i>FY98, Est.</i>		<i>FY96</i>	<i>FY97</i>	<i>FY98, Est.</i>
US Strategic LORGs				US Strategic LORGs			
Std Lic (non-Spec Agr)	408,754	485,938	507,841	Std Lic (non-Spec Agr)*	341,673	391,288	426,587
Std Spec Agr Lic	383,054	335,136	361,422	Std Spec Agr Lic**	134,069	117,848	126,488
Total Std	789,808	802,074	869,263	Total Std	475,742	509,036	553,084
New PC Shipments	613,215	610,535	593,927	New PC Shipments	613,215	610,535	593,927
WP/PC	1.29	1.31	1.46	WP/PC	0.78	0.83	0.93

* with adjustment to overbuying
** with adjustment to overbuying

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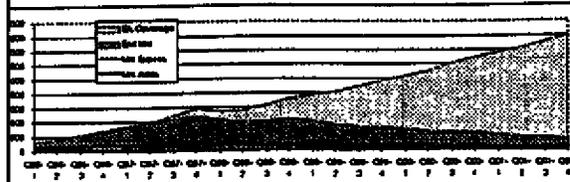
Maintenance and EA

The Power Maintenance License sold by LORG sub segment

Year	1996-Q1	1996-Q2	1996-Q3	1996-Q4	1997-Q1	1997-Q2	1997-Q3	1997-Q4	1998-Q1	1998-Q2
MC	121,066	106,632	182,818	199,839	180,873	202,002	146,345	198,843	225,203	204,426
Y	47,597	124,771	154,834	207,229	140,853	178,851	182,580	181,911	87,885	78,124
T	43,881	64,063	71,086	73,244	86,718	88,871	182,808	118,899	71,000	57,454
Total	233,544	300,365	408,650	477,106	327,780	477,724	471,514	478,452	383,989	340,012

Big declines in Named
 Breadth maintenance
 - Poor maintenance
 renewals: 9% at 9/97

LOGR Maintenance and EA Coverage



's in Strategic
 RGs have increased
 top coverage
 ranking on EA's as the
 corporate annuity vehicle
 how do we ensure
 renewals:

- Office 9 Coverage of desktops: 2.3M
- ending coverage of desktops: 7.1M
- Enterprise Agreements: 2.3M
- Enterprise Agreements: 7.1M
- Maintenance: 1.7M
- Maintenance: .9M

- Provide more business value
- Make upgrades painless
- Raise VUP pricing
- Charge for higher-end support - e.g., Hotfix

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Business Driver: Low Legal Penetration in MORG, SORG, and Home Segments

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MORG, SORG, and HOME Lowlights

- Home revenues declined 11% in FY98
- Retail revenues declined 4% in FY98
 - SBE and HE not successful at retail
 - Publisher lost 6 share points in BDTP market at retail to 42% in CY97
- Have done nothing to significantly address piracy in SORG/HOME
- Confusing SKU strategy (i.e., SBE, VAR Edition)
- Office/SBS bundle
- Manufacturing out of stock situations (SBE, Project)
- ~~Business Outlook~~ part of OCU focus last year

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MORG, SORG, and Home Highlights

- Increased growth/penetration into SORG segment
 - 22% Office growth into segment (out-paced 17% PC growth)
 - FG \$/run-rate PC has increased from \$48 to \$51
 - Overall run-rate penetration (including OEM) has increased from 25% to 28% in FY98
- Generated \$170 M of SBE OEM revenues with minimal cannibalization of Std/Pro in M/LORG volume licensing
- Pushed back Corel at retail (w/summer promo)
 - Corel unit share down from 9/96 peak of 51.7% to 23.8% in 12/97

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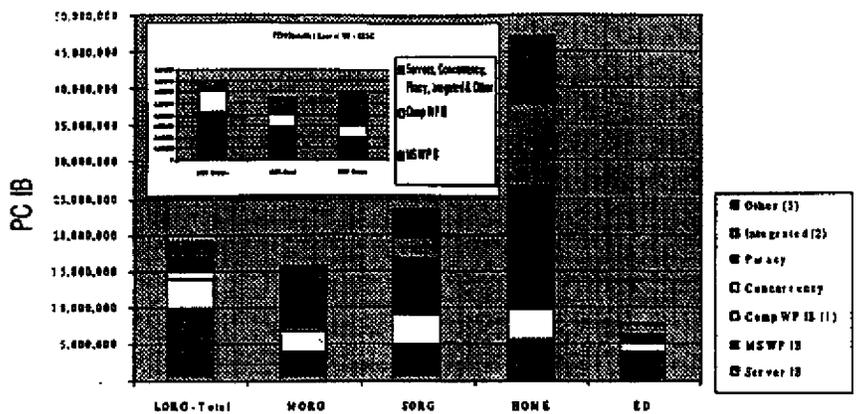
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Office Installed Base by Segment

FY98 Year-End US Installed Base of WP



Notes: (1) Com/Lobby WP License; (2) MS/Class Integrated License; (3) Non MS/Com/Lobby WP, Non MS/Class Integrated, LOB, DTP, Grapher

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Home Market Segmentation

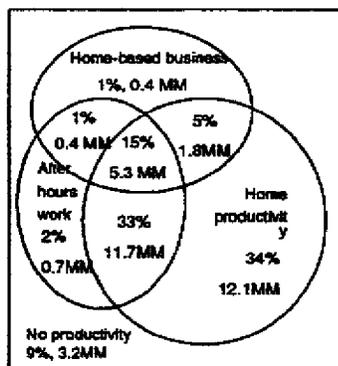
Total US Home Win PC Market - 35.6 MM

57% of the home market will be addressed through DAD's Small Business and Home Use initiatives.

Of note, 29% of the "home productivity only" segment (3.5MM HH) are currently running suites - either legal or pirated

Total Segment Sizes

- Home productivity - 87%
- After hours work - 51%
- Home based business - 22%



Source: DAD 12/97
Purchasing Behavior Study

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Key Marketing Initiatives

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Three Year Plan

Business Drivers	Initiative	Stretch US Revenue FY
New Penetration	OEM Annual License	\$275M*
	Anti-piracy program	\$360M
	SORG Penetration Effort	\$100M
	Brand Advertising	N/A
	Home Use Strategy	\$45M
Limited Growth; Decreasing Inventory	LORG/MORG Attack	\$170M
	SKU Upsell Strategy	\$46M
	Office Update	N/A

**not in FY01 stretch forecast; represents third year of implementation*

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Annual Licenses - Overview

Strategies:

Use OEM licensing to increase attach and trial; establish annuity model; substantially reduce casual piracy
Concept

Objectives:

- (1) 60+% run rate penetration at Retail, DMR and Direct OEM
- (2) Minimize leakage into M/LORGs

Purchasers of OEM machines at retail receive pre-installed copies of Office SBE that provide six months of product usage (\$18.00 OEM royalty)

On expiration, customers will need to purchase a twelve-month renewal of their Office subscription.

Customer is reminded of pending expiration via email and time-based code in the product

Customer can renew direct from [redacted]

Customer Benefits

At time of PC purchase:

TRIAL Six months of free product usage, to appreciate the features of the latest version of Office SBE

At annual renewal:

A lower cash outlay (\$79.95 for Office SBE) than required for purchasing FPP

Personal maintenance: a guarantee to always have access to the very latest version (only available to purchasers of renewal, not available on OEM)

Free membership for the Office Update at time of PC purchase.

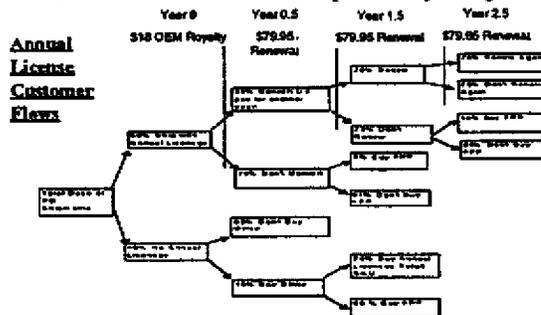
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Annual Licenses - US Forecast

Gross Incremental Revenue	\$ (134,729)	\$ 69,895	\$ 275,376	\$ 404,576	\$ 626,436
Incum. Responsibility Margin	\$ (134,625)	\$ (32,667)	\$ 213,463	\$ 180,481	\$ 318,457
% of Net Revenue	n/m	n/m	75%	44%	75%

- Cumulative Incremental Revenue - \$1,041 million
- Cumulative Incremental Responsibility Margin - \$545 million



Model assumes three year maximum PC life

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Annual License Next Steps

- Annual license technology- Must ensure that this does not increase our exposure to piracy
 - Based on LVP technology
 - Must confirm full feasibility
- Very small scale US Direct OEM test with a few thousand customers with Office 97 by 3/98
 - Leverage existing Kinko's time-bomb technology - low risk of piracy because it is "under the radar"
 - Early reads of reaction to concept: projections of trial and conversion
- Broader-scale pilot of final technology in limited geography (e.g., South Africa) with Office 9 code base - Spring 99
- Mac Test - timing and geography TBD
 - Continue to build base of learning
 - Pilot of supporting infrastructure: web-based unlocking and payments

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Anti-Piracy Opportunity and Goals

Pirated Software		Legitimate Software	
Other	MS Share	Other	MS Share
\$1.0 B	\$6.0 B	\$1.0 B	\$4.0 B
\$14.0 B			

WW Desktop Software Market

- Target casual (active) copiers in Home & SOrg
- Implement in target countries
- Increase segment revenues by conversion to legal licenses
- Minimize customer dissatisfaction, PR backlash & PSS calls
- Perceived end user value to registration -- Office Update
- Not in scope for Office 9 timeframe:
 - Counterfeiters & professional pirates - forgeries
 - Corporate non-compliance - network

*Less than DHD forecast due to IBM limited country coverage and additional DHD apps beyond model. Source: Based on IFA.

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Anti-Piracy: Enabling Technologies

Two technology approaches...

"Centralized"

- SW may be launched up to 20 times prior to registering
- Infrastructure-based, customers must contact MS to acquire registration key via:
 - internet
 - email
 - fax
 - postal mail
 - phone
- Leverages or requires new infrastructure build-out
- Establishes customer contact mechanism
- Back-end (db) can be "tuned" to increase or decrease # of allowed registrations per copy to

"Diskette"

- CD & Floppy combined in jewel case
- User can install any number of times, code checks for key at launch and limits to 3 installs/de-installs
- Policy changes require replacement media to increase allowed # of installs
- Lower anticipated long-term impact
- WW average cost per customer \$1.85

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Lower anticipated long-term impact
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Anti-Piracy: Conclusions from Research

- Research conducted in 5 countries
 - Hungary, China, US, Czech Republic, Norway
 - Brazil beginning now
- Research has provided insight, but not predictive/projectable
 - Multiple trials, relatively small samples
- Technology and infrastructure have been tested and work
- No negative end-user reaction, in fact mildly positive due to contact w/ MS
- Where tested, no negative PR
- Positive reactions when additional benefits attached to registration

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Business Outlook does well for Office Update

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Anti-Piracy: Test Recommendation Summary

- Implement hybrid of LVP centralized and diskette
- Enable in 48 countries, for those countries:

- Breakeven
 - 28k incremental units
 - Increase of 0.8% in total units
- Decision case - convert ~51/10,000 pirates to legal users
 - 65k incremental units
 - Increase of 1.8% in total units
 - \$9.6M net benefit
- Conservative - convert ~143/10,000 pirates
 - 180k incremental units
 - Increase of 5% in total units
 - \$37M net benefit

	LVP centralized	LVP diskette	Hybrid centralized & diskette
Case	7	2 partial	7 + 2 partial
Legal users	32	16	48
Total Copyright	2,071,867	1,176,847	3,248,714
Incremental units	34,388	5,875	40,263
% Increase on total	1.6%	0.3%	0.9%
LVP cost	\$ 4,762,725	\$ 882,813	\$ 5,645,538
Incremental revenue	\$ 4,762,725	\$ 882,813	\$ 5,645,538
Net benefit	\$ -	\$ -	\$ 9,999,999

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SORG Penetration Plan

- Improve product relevance
 - Increased focus on contact management
 - Integrates with existing accounting packages
- Attach to SBS sales
 - 3 year incremental \$65M, upside forecast \$100M
 - Assumes 30-35% attach to SBS sales
- Gain VAP recommendation/customization
 - Increase VAP education through Direct Access
 - Customer management bits provide incentive for VAPs to customize for customers
 - Use partners' channels (Great Plains) to reach VAPs
 - Test offer Office Pro 3-Pack BTO SKU at \$275 when sold with new PC
- Increased retail presence
 - Up-sell strategy at retail--Pro now includes small business bits
 - SBE as low end SKU in office line (to replace standard)

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Office Brand: *Challenges/Implications*

- Low Office awareness and consideration limits our SORG and Home penetration rates
 - SORG: Only 38% unaided awareness of Office vs. 72% for M/LORG
 - Suite consideration among SORGs is only 45% vs. 68% for M/LORG
 - Of those SORGs considering a suite, only 52% are most likely to consider Microsoft Office
 - No comparable data for Home, but all anecdotal info points to low Office awareness and consideration
- Implications
 - Higher Office awareness and relevance is essential to increase SORG and Home penetration
 - Our traditional enthusiast marketing model is not sufficient at building Office awareness/consideration in these markets
 - PC press only reaches 20-30% of the SORG and Home market
 - SORG and Home audiences are less moved by new versions &

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Office Brand: *Basic Strategy*

- Make everyone aware of Office and make them see it as essential for getting value from their PCs
- Focus more of our ad investment on building a single long-term Microsoft Office brand promise among key targets, esp. SORG and Home
 - Use broad media, including TV, to do a better job of reaching SORG and Home
 - Refine classic IEU marketing by taking greater advantage of more efficient vehicles (online ads; pre-sales web site; Office Update) plus PC Press
- Strategy Pros/Cons:
 - Pros: Helps us meet PC attach goals in SORG/Home; Keeps Office top-of-mind and reinforces relevance among all key targets; Builds Office as a strong long-term brand asset (enables us to expand into new work scenarios; prevents competitive inroads; increases preference/loyalty/price premium)
 - Cons: Broader Office brand messages will reach but may not sufficiently

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Office Brand: *Metrics and Next Steps*

- Increase unaided Office awareness and consideration:
 - Over 50% unaided awareness among SORGs after 18 months; 75% after 36 months
 - Office consideration/preference among SORGs: 30% after 18 months; 50% after 36 months
 - Home metrics to be defined based on better baseline data
- Media delivery necessary: Reach 75% of 50M SORG and Home Users 3+ times
- Actions/Next Steps:
 - Budgeting Assumption: Emphasis on smart reallocation of dollars—minimal increase over FY98
 - Develop brand promise and attributes
 - Develop branding system (hired Landor to make recommendation)
 - Begin campaign Sept. FY99

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Home Segment Initiatives

- Work at home segment
 - Home Use Program
 - Organization pays for home use (80% of Select VUP price)
 - Licenses applied against Select forecasts
 - \$60M in cumulative incremental USFG revenue through FY01
 - Breakeven cannibalization is 43%
- Home-based business segment
 - SORG attack marketing programs
- Home productivity DTP segment
 - Establish graphics family line strategy of "good, better, best"
 - Cover natural price points up to \$129
 - Execute well on merchandising

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Business Outlook improve family packaging and convey more value

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LORG/MORG Attack

- Strategies
 - Bolster Enterprise Agreements
 - Demonstrate business value with "Platform 99"
 - Provide better customer service through better IT evangelism and touch
 - Develop compelling Office/BO scenarios and support
- Components
 - Platform 99: Joint launch of Office 9 & NT 5
 - Attack: DAT, Solutions, Rapid Deployment,

[REDACTED]

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Things We Need To Do: Short Term

- Pre-Launch
 - Document the dependency matrix
 - Escalation support for Rapid Deployment Program
 - Insuring longer, broader QFE Process - Office vs. Back Office FY98H1
- Post-Launch - customer escalation and QFE's
 - DAD rejects more QFE requests, has a lower percent of bug fixes and has the longest average turnaround time
 - DAD is not being viewed as customer focussed
 - Potential to become problematic with

QFE Process - Office vs. Back Office FY98H1

	NT Server	Exchange	SMS	Office
Count	178	210	42	136
Percentage	1%	4%	0%	23%
Ratio	188/105%	194/92%	41/97%	92/67%
Value	5/3%	18/8%	2/4%	49/36%
Score	10	15	5	7
Score (circled)	13.2	8.3	11.3	18.3

[REDACTED]

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Things We Need To Do: Longer Term

- Product planning on LORG/MORG issues
 - Further reducing TCO and making deployment easier
 - Integrated platform release - application and tools scenarios
 - Business Value as a major design goal
- Office Co-existence
 - Mixed versions are a permanent reality
 - We must not break existing Office solutions
- LORG/MORG Product Differentiation
 - Value-added organizational features
 - Protect core business while being aggressive to SORG/Home
- Value Beyond the Code
 - Customers need more from us to help them evaluate, deploy, and build solutions
 - Technical product info, tools, and solutions examples becoming more

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Platform 99 - Overview

- Rationale
 - MS - Best way to get us to \$200 + per desktop and close enterprise deals
 - Consistent with systems enterprise launch model
- Products
 - Primary: Office 9, NT 5, IE 5
 - Secondary: BackOffice Apps and Exchange
- DAD Goal - Make Office 9 an integral part of the overall Microsoft enterprise platform sell
- Target Audience - BDMs, IT Decision Makers, IT Managers, ECU Field

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Platform 99 - Details

- Objectives
 - Prepare the field and channel to sell the Microsoft platform
 - Prepare a broad base of customers to evaluate and deploy prior to launch
 - Develop a complete integrated set of deployment guidelines and tools
- Timing
 - Using NTW 5 and Office 9 beta dates as major milestones
 - NT - 5 Beta 2 = April 15
 - Office 9 Beta 1 = April 13
 - Net: Mid April is kick-off point for majority of activities
 - "Public" Platform 99 launch
 - Scale--Enterprise equivalent of the Windows 95 launch

Business Dependencies could slow Office deployment

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Overall SKU Strategy

- SKU Strategies
 - Increase revenue per license by simplifying the upsell path
 - Differentiate the OEM offering from the balance of the line
 - Provide incentives to drive the adoption of Enterprise Agreements
- Principles: Provide equal or better value at each price point, and provide incentive to buy up
- Impact: \$29M-\$46M USFG annually by FY01; Additional benefits - Makes EAs

FOR ENTERPRISE

- Premium SKU improves the perceived value of EAs by offering additional applications in a suite with a higher individual price for the same EA price
- Increase upsell from Std and Pro via enterprise features in both Pro and new Premium SKU

SMB/SOHO

- Increase appeal by including Publisher in both Pro and premium SKUs
- Improve SBS/Office bundle positioning by including small business components and Publisher in Pro
- Increase revenue from Enthusiasts via premium SKU

• De-emphasize promotion of Standard

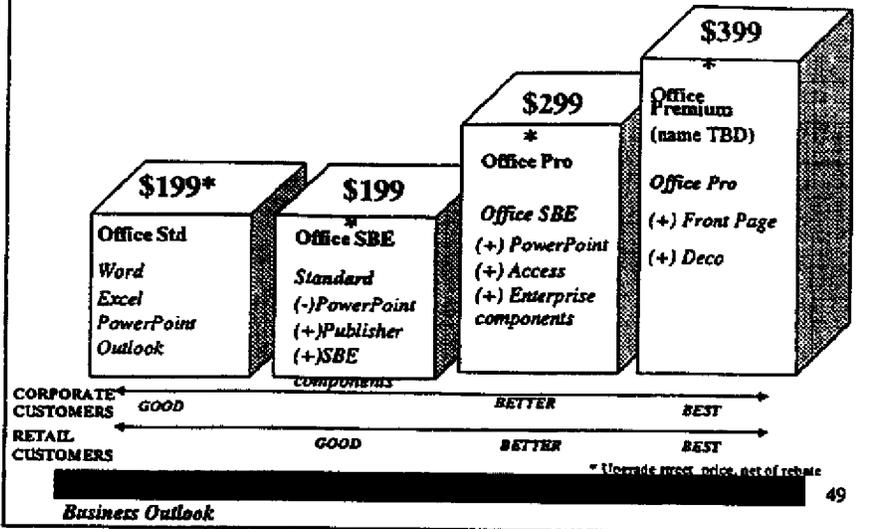
Business Dependencies

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Office 9 SKU Recommendation



Office 9 SKUs - Additional Steps

- Finalize Enterprise components
 - Personal SQL Server (Stinger)
 - Authoring privileges for DataPages
 - Exploring opportunities to incorporate additional features, sourced from BackOffice
- Resolve remaining open issues
 - Where to ship OWS, etc.
- Continue Ops SKU Reduction
 - Eliminate very slow moving SKUs
 - Office 95 FPP SKUs
 - Rationalize AE SKUs
 - Will not offer 3.5" media fulfillment for Office 9

Business Outlook

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Office Update: Objectives

- Short Term (now - 2 years):
 - Build an online customer relationship - customer behavior shifts...
 - They use the web to get more out of Office - ongoing assistance/support, enhancements
 - We know them and they like it - access to MS, responsiveness to issues, personalization
 - Exploit the web to increase our marketing efficiency
 - Substantially increase registration of Office customers, keep them visiting regularly
 - Database marketing for cross-sales and Office 9 upgrades
 - Migrate more traditional efforts to online (including online sales fulfillment)
- Long Term (2 years and beyond):

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Office Update

- Short Term Plan
 - Get as many Office users signed up as possible - make it free
 - Get them profiled - personalized content, targeted selling
 - Keep them coming - real value, assistance, regular updates (listserv, IE4 channel, start clips), Office integration, feedback response
 - Get them paying - immediate online purchase of cross sell products, upsell to Pro and Premium, test paid subscription level - post Office 9 launch
- Long Term Plan
 - Deep integration between Office and Office Update
 - Office Update = your way to personalize Office
 - Office is designed to take advantage of Office Update
 - Feedback is directed into the development process
 - Office Update takes full advantage of megaserver - It is the conduit for many business oriented megaserver apps

Business Outlook

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Office Update: Goals and Timeline

- Goals and Metrics (100% US Only)

	PY98	PY99	PY00	PY0
Members	1,920	4,344	6,439	8,13
Incremental Members	1,920	2,424	2,095	1,69
Reach/Month	576	1,303	1,932	2,44
Cross Audience/Month	1,728	3,910	5,795	7,32

- Timeline

- Now: Launched 1/28 - Natural language search, Pre/Post Sales integration, Basic Personalization, Clip Gallery, SBE Zip station
- Next 6+ Months: ongoing content updates, some site improvements
- Office 9 Launch:
 - Integration: registration, links, answer wizard, SRs, virus scanning, alerts
 - LORG administration
 - SORG targeted content
- Office 9 +6 Months: test paid level

Business Outlook

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Forecasts

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DAD Forecast Overview

- WW FY01 Revenues:
 - \$8.0B from \$6.25B, 8.5% CAGR
- USFG FY01 Revenues:
 - \$2.7B from \$2.1B FY98, 8.8% CAGR
- US Key Drivers:
 - Overall PC Shipment Growth of 14%, 12%, 10%
>> driven by replacement PC's, new PC shipments decline
 - Enterprise Agreements coverage of 31% of LORG IB by FY01
 - Declining run rate penetration in non EA LORG
 - Penetration gains in MORG, SORG
 - Continuing decrease in run rate penetration in HOME

Business Outlook

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3 Year Outlook DAD Segment Overview- By Customer

- See Final 3YO Financial Slides.xls

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***3YO Windows WP Market Segments-By
Customer***

- See Final 3YO Financial Slides.xls

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***USFG DAD Business Growth:
FY98/FY01***

- See Final 3YO Financial Slides.xls

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3 Year Worldwide Revenue Outlook (Base Case)

	(\$MM)						Growth					
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	Actual FY18	Actual FY19	Forecast FY20	Forecast FY21	Forecast FY22	Forecast FY23
WORLDWIDE												
US	1,817,204	1,422,046	1,791,652	2,111,580	2,225,720	2,397,239	18%	25%	10%	9%	9%	9%
Canada	185,226	113,276	141,240	171,054	189,018	200,024	8%	19%	21%	-7%	10%	2%
Worldwide Total	1,992,500	1,535,322	1,932,892	2,282,634	2,414,738	2,597,263	18%	23%	10%	9%	9%	9%
Europe	1,088,643	1,428,820	1,888,871	1,982,778	2,188,130	2,228,917	22%	17%	20%	6%	4%	3%
Far East	388,777	373,748	398,276	497,267	611,288	676,677	58%	36%	8%	6%	7%	7%
ICM	388,680	377,899	402,888	482,438	585,882	671,623	28%	37%	35%	25%	27%	28%
IT Total	3,103,881	3,918,875	4,844,828	5,768,122	6,338,717	6,828,871	7,348,117	7%	7%	10%	9%	8%
ODI												
WFO/ODI Total	18,213	282,819	457,288	488,225	525,248	588,891	642,848	16%	14%	6%	12%	12%
Total	3,220,387	4,211,726	5,322,388	6,256,847	6,863,965	7,416,152	7,990,965	7%	7%	17%	9%	8%

Key Base Case Factors:

- US
- Shift in focus on US, shift to US and FPP to LE
- Europe
- Strong PC growth: 12%, 11%, 9%
- High margin products
- Increased penetration in MORG and SORG
- Far East
- Strong PC growth: 6%, 10%, 11%
- Increased penetration in LORG, MORG and SORG
- ICM
- Continued high PC growth: 27%, 32%, 34%
- Increased penetration in LORG, MORG and SORG

Note: All USD (\$MM) unless otherwise noted. FY = Fiscal Year; Q = Quarter; M = Month; S = Sales; I = Income

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Product Release Plan - Base Case

• See Final 3YO Financial Slides.xls

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Major New Investments Headcount

Effort	FY98 App	FY98 Inc	FY99 Inc	Growth %
NetDocs	69	31	100	189.9%
Deed ⁽¹⁾	67	0	5	7.5%
Small Business	18	0	15	83.3%
Speech	0	27	24	100.0%
Office Update	17	0	19	111.8%
Office CPE	6	0	10	166.7%
FE	166	0	23	13.9%
Mac Office	104	0	12	11.5%
Unified Storage	0	4	6	100.0%
Other	1616	12	85	6.0%
Total	2063	74	299	18.1%

⁽¹⁾ ImageComposer + Picture It! Teams (mostly) reallocated

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3 Year Headcount: Base Case

Major Investment	1998				1999				2000				2001			
	Headcount	Change	% Change	Cost	Headcount	Change	% Change	Cost	Headcount	Change	% Change	Cost	Headcount	Change	% Change	Cost
Regular Employees																
Chief / President	58	5*	10%	102	187	130	187	82%	12%	60%	60%	100%	100%	100%	100%	100%
Executives	88	68	10%	154	159	159	159	100%	4.4%	3.7%	0.8%	0.8%	1.0%	1.0%	1.0%	1.0%
Managers	172	103	10%	365	367	367	367	100%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Special Projects	28	28	0%	28	28	28	28	100%	0%	0%	0%	0%	0%	0%	0%	0%
MS/CP/SP	36	36	0%	40	40	40	40	100%	0%	0%	0%	0%	0%	0%	0%	0%
Office Management	7	7	0%	7	7	7	7	100%	0%	0%	0%	0%	0%	0%	0%	0%
Office Cost	124	26	21%	253	260	260	260	100%	2.1%	1.9%	0.8%	0.8%	1.0%	1.0%	1.0%	1.0%
VA/Security	34	21	61%	30	30	30	30	100%	0%	0%	0%	0%	0%	0%	0%	0%
Workshop/Consulting	38	48	126%	48	48	48	48	100%	26%	44%	92%	92%	100%	100%	100%	100%
Int - Regional	38	38	100%	40	40	40	40	100%	0%	0%	0%	0%	0%	0%	0%	0%
Int - Federal	128	128	100%	128	128	128	128	100%	0%	0%	0%	0%	0%	0%	0%	0%
Int - Other	18	18	100%	18	18	18	18	100%	0%	0%	0%	0%	0%	0%	0%	0%
Locations	23	23	100%	23	23	23	23	100%	0%	0%	0%	0%	0%	0%	0%	0%
TEMP/REGISTRATION	7	0	0%	0	0	0	0	0%	0%	0%	0%	0%	0%	0%	0%	0%
Office Other	42	42	100%	42	42	42	42	100%	0%	0%	0%	0%	0%	0%	0%	0%
Mac Office	1	1	100%	1	1	1	1	100%	0%	0%	0%	0%	0%	0%	0%	0%
Mac Office	91	91	100%	91	91	91	91	100%	0%	0%	0%	0%	0%	0%	0%	0%
Project	84	84	100%	77	77	77	77	92%	0%	0%	0%	0%	0%	0%	0%	0%
SP	5	5	100%	5	5	5	5	100%	0%	0%	0%	0%	0%	0%	0%	0%
Subtotal	38	48	126%	48	48	48	48	100%	26%	44%	92%	92%	100%	100%	100%	100%
Subtotal	17	17	100%	17	17	17	17	100%	0%	0%	0%	0%	0%	0%	0%	0%
Professionally Managed	7	7	100%	7	7	7	7	100%	0%	0%	0%	0%	0%	0%	0%	0%
Time Study/Estimation	124	124	100%	124	124	124	124	100%	0%	0%	0%	0%	0%	0%	0%	0%
Productivity	28	28	100%	28	28	28	28	100%	0%	0%	0%	0%	0%	0%	0%	0%
Productivity	38	38	100%	38	38	38	38	100%	0%	0%	0%	0%	0%	0%	0%	0%
Digital Imaging	48	48	100%	48	48	48	48	100%	0%	0%	0%	0%	0%	0%	0%	0%
CAD/Modeling	88	88	100%	88	88	88	88	100%	0%	0%	0%	0%	0%	0%	0%	0%
Office Update	2	2	100%	2	2	2	2	100%	0%	0%	0%	0%	0%	0%	0%	0%
DAB Management/Support	7	7	100%	7	7	7	7	100%	0%	0%	0%	0%	0%	0%	0%	0%
Total Regular Headcount	1798	1798	100%	1798	1798	1798	1798	100%	0%							
Other Employees																
Contractor Staffing	28	28	100%	28	28	28	28	100%	0%	0%	0%	0%	0%	0%	0%	0%

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3 YR P&L Outlook (%) - Base Case

	1995			1996			1997			1998			1999		
	Rev	Exp	Net	Rev	Exp	Net	Rev	Exp	Net	Rev	Exp	Net	Rev	Exp	Net
Operating Revenue	5,204	1,238	3,966	4,281	827	3,454	7,392	1,714	5,678	11,414	2,514	8,900	12,414	2,514	9,900
Operating Expenses	(3,182)	(8,890)	(5,708)	(2,000)	(9,890)	(7,890)	(2,000)	(9,890)	(7,890)	(2,000)	(9,890)	(7,890)	(2,000)	(9,890)	(7,890)
Operating Profit	2,022	(7,652)	(1,742)	2,281	(10,467)	(4,436)	5,392	3,964	2,788	9,414	2,514	1,110	9,900	2,514	2,010
Operating Margin	39%	(62%)	(44%)	53%	(24%)	(13%)	73%	53%	38%	82%	21%	21%	80%	21%	20%
Cost of Revenue	24%	72%	17%	47%	23%	33%	27%	24%	33%	17%	21%	23%	16%	21%	23%
Direct Operating Costs															
Payroll	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Materials	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Contractual	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Product Development	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Research & Development	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Product Marketing	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other Operating Costs	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Product Related Costs															
Contract Marketing	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Product Support Services	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Travel, Incentives, Bad Debt	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
R&D Shared Resources	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Professional Fees	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Operating Expenses	62%	72%	55%	47%	73%	53%	27%	24%	33%	17%	21%	23%	16%	21%	23%
Operating Margin	39%	(62%)	(44%)	53%	(24%)	(13%)	73%	53%	38%	82%	21%	21%	80%	21%	20%
Operating Margin \$M	1,072	(2,300)	(1,236)	1,211	(2,467)	(1,436)	2,788	2,064	1,438	3,964	628	270	3,964	628	401

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3 Year Worldwide Revenue Outlook

(Stretch Case)

	Actual				Forecast		Growth						
	FY07 Actual	FY08 Actual	FY09 Actual	FY08 Forecast	FY09	FY10	Actual FY07	Actual FY08	Forecast FY09	Forecast FY09	Forecast FY10	Forecast FY11	
GLOBAL													
US	1,397,224	1,428,871	1,498,382	2,143,348	2,557,443	2,861,231	9%	25%	19%	21%	19%	18%	
Canada	125,258	113,213	145,742	188,824	207,124	211,898	8%	22%	21%	21%	19%	19%	
North America (excl. US)	1,522,482	1,542,084	1,644,124	2,332,172	2,764,567	3,073,129	10%	23%	19%	21%	19%	18%	
Europe	1,189,842	1,427,833	1,652,871	1,981,170	2,282,887	2,538,271	27%	17%	20%	19%	19%	17%	
Far East	299,772	571,786	768,326	871,847	894,214	1,412,238	55%	38%	8%	43%	44%	14%	
ROW	233,888	277,389	483,648	842,125	871,227	1,487,667	28%	29%	30%	30%	27%	28%	
NA Total	1,647,734	1,655,367	1,789,866	2,521,022	2,971,694	3,285,029	21%	24%	19%	20%	19%	18%	
EMEA													
EMEA Total	125,213	389,881	487,589	488,723	588,818	674,749	181%	59%	1%	29%	32%	33%	
Total	1,772,947	2,045,248	2,277,455	2,999,745	3,560,512	3,959,778	28%	29%	17%	20%	19%	18%	
				Item sales	6,891,898	7,498,210	7,897,497				18%	8%	8%
				Volume from base case	628,348	1,207,848	1,602,388				11%	8%	8%
					9%	17%	22%						

Key Stretch Case Factors:

Market Status

- 62% Enterprise Agreement coverage (LORD) (4% - 21% in base case)
- Pro-rata attach up 10 points for FY07 for MORG and SCORG
- Term penetration up 1 point each year
- Higher Penetration/PC SCORG
- OSM Annual Revenue not included in the stretch case

Europe

- Stronger PC growth 17%, 45%, 45%
- Higher penetration in LORD, MORG and SCORG
- Loss of 400,000 premium
- Pricing gain

Far East

- Stronger PC growth 52%, 13%, 13%
- Higher penetration MORG and SCORG
- Loss of investment in Human resources
- Pricing gain

ROW

- High PC growth 28%, 32%, 25%
- Higher penetration in MORG and SCORG
- Higher OSM Penetration
- Pricing gain
- OSM revenue supports PC growth by 62%

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Business Outlook

3 Year Product Release Plan: Stretch Case

- See Final 3YO Financial Slides.xls

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Appendix to DAD 3 Year Outlook

- Overview
- State of the Market
- Key Marketing Initiatives
- Forecasts

Business Outlook

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Upgrade Rates and Maintenance Coverage

	FY06	FY07	FY08
LORG Strategic			
Maintenance Coverage	23%	20%	21%
Upgrade rate (non-smart devices.)	26%	35%	30%
LORG Named			
Maintenance Coverage	35%	43%	37%
Upgrade rate (non-smart devices.)	20%	24%	27%
LORG Broadband			
Maintenance Coverage	19%	30%	19%
Upgrade rate (non-smart devices.)	20%	21%	21%
MORG			
Maintenance Coverage	13%	11%	8%
Upgrade rate (non-smart devices.)	20%	16%	14%
SORG	17%	15%	16%
HOM E	18%	18%	16%
ED	18%	21%	25%
Total Upgrade rate (non-smart devices.)	19%	21%	21%

Business Outlook

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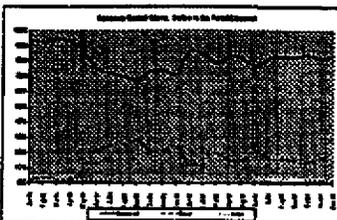
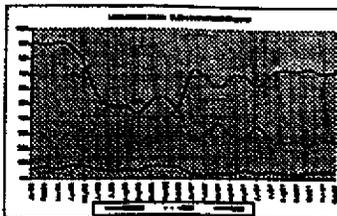
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US Suites at Retail



- Retail remains primary channel for Corel
- Corel unit share down from 9/96 peak of 51.7% to 23.8% in 12/97
- MS unit share increased from 9/96 of 43.4% to 72.1% in 12/97

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State of the Market

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*DAD Revenue Summary -- USA Total
Sell In*

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***DAD Market Segment Overview-By
Channel***

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Business Outlook

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***Windows WP Market Segment-By
Channel***

- See Final 3YO Financial Slides.xls

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***FY98 US Reseller MS Market Shares,
Revenue and Uncaptured Business***

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Price Waterfall

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WW Metrics

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Business Outlook

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MYR Slide 9a (DAD Business Growth)

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Strategic LORG Enterprise Agreement

Accounts

- See Final 3YO Financial Slides.xls

Business Outlook

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Publisher Competition

- Word processors (46%) and copy shops/consultants (70%) used for creation of marketing materials (Small Bus Market Study Nov. 97)
- Low-end DTP Moving Up
 - Mindscape PrintMaster Gold line, Broderbund PrintShop line, My Software line, Corel PrintHouse
 - Intense price pressure, line strategy working well for Broderbund and Mindscape
- Strong DTP Players in Small Business Market
 - Broderbund PressWriter and Publishing Suite, Design Intelligence I-Publish, and PageMaker low-end users,
- Low cost (under \$100), dedicated web site creation apps

Market Segment	Nov 97	Dec 97	Jan 98	Feb 98	Mar 98	Apr 98	May 98
Word Processor	47%	47%	46%	46%	46%	46%	46%
Design	21%	20%	20%	20%	20%	20%	20%
IT Infrastructure	6%	6%	6%	6%	6%	6%	6%
My Software	6%	11%	6%	6%	6%	6%	6%
Other	20%	16%	16%	16%	16%	16%	16%
Total Category Growth			2%				-2%

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Key Marketing Initiatives

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Business Outlook

OEM Annual License - Sensitivities

- Cumulative Incremental Revenue - \$1B
- Cumulative Incremental Responsibility Margin - \$545M

Base Assumption (model input)	Change	Impact on Responsibility Margin
OEM Royalty (\$18.0)	+/- \$5	+/- \$237 million
Conversion Rate (30%)	+/- 5%	+/- \$ 200 million
Max PC Life (3.0 yrs.)	-1 yr	-\$145 million
% of SKU Mix at Retail (25%)	+/- 25%	+/- \$106 million
Max PC Life (3.0 yrs.)	+ 1 yr	+\$60 million
PSS Calls for Renewal (25%)	+/- 25%	+/- \$50 million
Exercise Upg. Rights (75%)	+/- 25%	+/- \$51 million

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Anti-Piracy Recommendation Summary

Implement hybrid of centralized (infrastructure) and diskette methods

Rule: centralized
 Exceptions: diskette
 Of 65 countries, 13 (Ops) regions:

	# of Countries	In # of Regions	# of Languages Supported
Using centralized methods	31	7	17
Using diskette methods	16	2 Partial	11
Total	47	7	28

WW cost benefit per customer & breakeven:

Case	LVP centralized		LVP diskette		Hybrid centralized & diskette		Hybrid centralized & diskette	
	Breakdown	29%-20%-50%	Breakdown	29%-20%-50%	Breakdown	29%-20%-50% centralized, 29%-20%-50% diskette	Breakdown	29%-15%-50% centralized, 29%-15%-100% diskette
Countries	7	7	2 partial	2 partial	7 + 2 partial	7 + 2 partial	7 + 2 partial	7 + 2 partial
Total budgeted units	3,473,887	3,473,887	1,174,847	1,174,847	3,447,914	3,447,914	3,447,914	3,447,914
Incremental units	24,305	33,655	1,579	1,579	5,462	27,886	65,027	180,561
% increase in total units	0.7%	0.9%	0.1%	0.1%	0.2%	0.8%	1.9%	5.2%
LVP cost	\$ 1,782,735	\$ 5,080,421	\$ 892,813	\$ 910,862	\$ 5,635,588	\$ 5,851,303	\$ 6,033,435	\$ 6,033,435
Incremental	\$ -	\$ 13,019,713	\$ 892,813	\$ 2,513,186	\$ 5,635,588	\$ 15,532,801	\$ 43,207,154	\$ 43,207,154
Net benefit	\$ -	\$ 7,980,284	\$ -	\$ 1,602,324	\$ -	\$ 9,677,498	\$ 36,923,719	\$ 36,923,719

Business Outlook

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Office Pro Build To Order (BTO) Test

- Office Professional 97:
 - No "sniffer-code" (installs on any PCs)
 - Includes MS Support
 - Media
 - Documentation and License
- Only sold pre-installed on new PC
- \$275/unit via multi-pack (3)
- Pre-installation tools provided

Business Outlook

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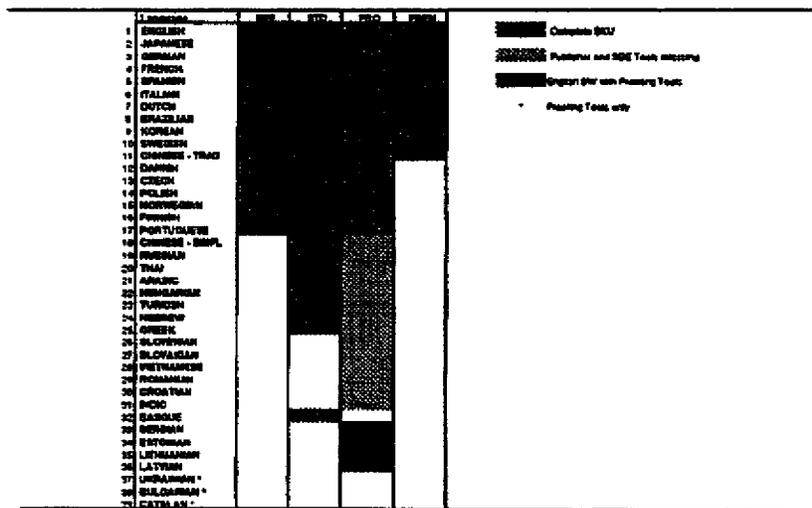
IT Touch Initiative

- Strategy
 - Support IT Central with in-depth technical information on Office
 - Evaluation, deployment, maintenance, and solutions for Office
 - Entire site distributed on CD for customer internal use (Empowerment Pack)
 - Aggressively increase reach and frequency to 200K Desktop IT
 - Build relevant business value and deployment/migration tools
- Future Plans
 - Establish secure sites for better testing of content and info delivery infrastructure
 - Build web based feedback loop for product/marketing

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Business Outlook

Office 9 International SKU Plan



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Business Outlook

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Academic Market Update

- DAD Windows academic sales increased 18% to \$97M in FY98
 - DAD \$/run rate PC penetration holding steady at \$47
 - 25% of total Office FG volume is academic (50% of Pro Standard licenses are AE)
 - Office Pro Std/Upg shift from FPP to volume licensing as part of our anti-leakage efforts
 - 26% FPP, 74% licenses
 - FY98 average price of AE Office Pro FPP is \$141 compared to AE license of \$41
- Current Plans:
 - Customize educational content/templates for Office 97/98 to address K12 market
 - Teacher/student productivity and curriculum templates/clipart
 - Office *Productivity in the classroom* booklets
 - Include academic logo on CD art

Business Unit better identify intended customer

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