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## PSD 3 Yr Outlook

To: BOOP  
From: Brad Silverberg  
Cc: Brad Silverberg's Direct Reports  
Subject: 3 Yr Outlook

### Current Business Status

Despite a delay in releasing Windows 95, the Personal Systems Division business continues to see robust growth. For the FYTD through December, gross revenue was 129% of plan and Operating Margin was 148% of plan. YTD OEM revenue was 116% of plan while YTD FG revenue was 205% of plan. The USFG channel has shown impressive strength at \$99 MM YTD or 286% of plan. Following is a summary of FG and OEM gross revenues:

Gross Revenues	Actual \$	Budget \$	% Plan
NAFG	99	35	286%
Europe FG	48	26	184%
ROW FG	31	26	118%
WW OEM	576	497	116%
Total	753	584	129%

The following table summarizes current and projected operating performance:

(\$ millions)	1H FY95	% Plan	FY95 Bud	FY95 F/C	% Plan
Net Revenue	\$738	127%	\$1,553	\$1,553	100%
Operating Margin	\$564	148%	\$1,106	\$1,188	107%
Percent	76%	--	71%	77%	--

(Broad Reach campaign expenses not included)

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Here are some of the key factors in our performance

- Record shipments of nearly 4.0 MM PC's per month by OEM's in the first two quarters.
- Stronger than expected retail demand for both Windows and Windows for Workgroups — 1H95 FG revenue is 207% of plan. The overall retail monthly run-rate for Windows for Workgroups for Q2 FY '95( 598,445 units) now exceeds the run-rate for Windows (543,993 units).
- Continued conversion of the OEM run rate from Windows to Windows for Workgroups at an incremental royalty — WFW now running at 37% of total OEM Windows reports. Royalties from Windows and MS-DOS are up from \$38.72 in FY94 to \$40.33 in 1H95, due to Windows for Workgroups uplifts.<sup>1</sup>

## Market Overview and Trends

We see the following significant market and technological trends affecting our business planning:

### Market Trends:

- The home market is exploding. According to Computer Intelligence the number of machines being shipped into the home in the US has more than doubled in the last four years from 2.8MM to 6.4MM per year.
- Multimedia has arrived as a mainstream technology. Our OEM group estimates that 35% of new PC's worldwide in 1994 shipped with CD-ROM and sound, and 75% of home machines are so equipped.
- Notebook PCs, which are ideal Windows 95 platforms, have now become mainstream as well, with a market share of 22% worldwide. The growth rate for 1994 is estimated to be 30%.
- While the "sweet spot" of new machine sales is moving quickly from 486 to Pentium it has yet to move above the 8MB RAM mark.
- The Internet and Online services are expanding very rapidly. More than 40% of Windows customers today have modems — the overall market for online services is expected to grow to \$2 billion within five years.
- The \$4 billion dollar cartridge game market is transitioning from 16-bit to 32-bit systems causing customers to buy new hardware and game cartridges and offering the Windows PC an opportunity to increase it's current 10% share of the market.
- PDA's still haven't taken off in a broad way and likely won't until they are cheaper, lighter, more capable, and better connected. While the vision of the PDA as a device with completely new user interface is shattered, the popularity of small, cheap machines that offer a favorable cost effectiveness (a subset of features for a fraction of the cost of a notebook) is growing. However, price sensitivity is very high.

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<sup>1</sup> Royalty numbers excluding IBM reporting and embedded DOS

### Technological Trends:

- The PC is becoming more credible as a home information appliance -- simpler, easier to use. PnP support is becoming pervasive in systems and accessories. The industry is building on this and pushing to make the PC even simpler -- removing the need for an on/off switch, eliminating the need to crack the case (Serial Bus, P1394).
- The PC is becoming more connected -- at home, in the workplace, on the road. Communications technologies continue to penetrate the market more deeply, and the breadth of options continues to grow. ISDN, IR, RF LANs, PCs, Narrowband PCs, Paging nets, CDPD, Voiceview, faster modems, AT+V Modems, DSVD Modems, ATM, faster LANs -- all are contributing towards the availability of high bandwidth voice/data/video services anytime, anyplace. On top of this plumbing, communications and information services are becoming more and more popular -- the Internet, on-line services, conferencing.
- Mobile PCs continue to grow in capabilities and supplant desktop machines. There is very little gap in processor power, memory capacity, display capability, extensibility, or storage capacity between desktops and portables. Multimedia capability is becoming available on portables.
- Our OEMs continue to innovate in the area of simple family shells. Easy to use entry level UI's are standard now on Compaq, Packard Bell, AST, and other machines.
- The Intel architecture continues to be the "king" of the PC. Current opportunities for RISC are at the very high end (servers, technical workstations) and the very low end (PDA's).
- While the success of PDAs has been minuscule so far, a lot of progress has been made in cheaper, faster, fully static CPU's, small LCD technology, energy products and RF components.
- In the hardcopy arena, ppm and resolution continue to increase while unit costs decrease. Color ink jet devices continue to drive market growth with CAGR over 130%, representing 40% of annual unit sales. Stand alone fax and copier businesses are under assault from rapid PC fax adaptation, the emergence of low end MFP devices, and the gradual migration of paper volume away from copiers towards high end network page printers.

### Competition

Our two biggest competitors are IBM OS/2 and the Apple Macintosh. The following sections deal with their product offerings, strengths and weaknesses and possible future marketing strategies.

OS/2 Strengths	OS/2 Weaknesses
<ul style="list-style-type: none"><li>• 32-bit OS with ability to preemptively multitask Win16, OS/2, MS-DOS applications</li><li>• Highly customizable shell with object-oriented design</li><li>• High-value with Internet Connection applications and inclusion of BonusPak</li><li>• Labeled as technically superior to Windows by press and analysts</li></ul>	<ul style="list-style-type: none"><li>• Very little OEM, IHV &amp; ISV support, few native applications or drivers available</li><li>• Poor performance running Win16 applications relative to WFW, Windows 95</li><li>• Partial or complete incompatibility with some Win16 applications, OLE, VxDs, Win32s apps</li><li>• No Win32 support, poor Plug and Play</li><li>• Confused strategy with WARP, WorkPlace, AIX, Mac relationship</li></ul>

#### OS/2 Status

- Warp sales = 1 million units (announced 1/18/95) since launch (11/4/94)

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- Warp was reported as the top selling retail OS by several resellers, and one of the top selling overall SKUs around the end of 1994. As of late in Q195 sales momentum appears to be slowing
- OS/2 Installed base approx. 6 million units

**Current OS/2 Marketing Tactics**

- Marketing currently focused primarily on consumer/end user, rather than corporate.
- Massive ad campaign. 1994 OS/2 print budget: \$16 MM
- Big incentives offered to get OEMs to preinstall OS/2 Warp on their PCs: pre-install success to date with Vobis, Osborne, & Escom. Offered on customer request by Comtech, IBM, CompuAdd, & Toshiba.
- Huge reseller incentives
- Convince ISVs to write OS/2 applications. IBM is currently giving away development tools, Win16 to OS/2 porting tools, marketing assistance, etc. to convince developers to move to their platform
- Take advantage of delays in Windows 95 and attack the architectural decisions made for Windows 95

**Future OS/2 Product Evolution**

- Launching new OS/2 products in 1995 (see Appendix I)
- Integrating LAN Server with Warp in late 1995
- Adding SPEC 1170 AIX personality to OS/2 for PowerPC (which will ship with DOS, Windows and OS/2 personalities) late 1995 or 1996
- Developed and introduced DIVE API's targeted at game developers and offering better graphics performance in response to WinG and game announcements from MS

**Future OS/2 Marketing Strategy / Issues**

- What's OS/2's future? Lots of confusion out there.
- Targeting OS/2 Warp (with and without Windows code) at consumers
- Targeting OS/2 Warp LAN Client products and OS/2 for SMP at corporate market
- Push OS/2 for PowerPC as #1 OS for PREP (PowerPC Reference Platform) systems in 1995, and a strong alternative OS for CHREP (Common Hardware Reference Platform - with Apple) systems in 1996

Macintosh Strengths	Macintosh Weaknesses
<ul style="list-style-type: none"> <li>• Apple owns the "ease of use" and "innovator" labels</li> <li>• OS is integrated with the hardware design providing easy setup and use</li> <li>• Strong presence in multimedia, publishing, education and home markets</li> </ul>	<ul style="list-style-type: none"> <li>• Underlying OS is very dated; no preemptive multitasking or memory protection</li> <li>• ISV's deserting Mac; Weak ISV support for new technologies like QuickDraw GX</li> <li>• Slow innovation</li> <li>• Dated UI</li> <li>• Limited hardware choices; single vendor</li> </ul>

**Macintosh Status**

- Annual run-rate in the 3-4MM units range; 1 Million PowerMacs sold in 1994.
- Mac US installed base ~ 14 million units

**Current Macintosh Marketing Tactics**

- Licensing Mac OS and designs to clone makers to increase share, but with very little success
- Continue to market the Mac's advantages in ease of use vs Windows PCs via infomercials and ads
- 1994 Mac print ad budget = \$33.5 million (all Mac products)
- "Stand out / fit in strategy" Make the Mac stand out with ease of use and innovative features, but fit better into PC-dominated organizations.
- "Multimedia You Can Use" campaign initiated around Christmas selling season to tout traditional Mac strengths here.

**Future Macintosh Product Evolution**

- Copland (recently delayed until mid-1996) will be a major PPC-only rewrite of the Mac OS adding preemptive multitasking, OpenDoc, updated UI
- Gershwin (1997 at best) is still only vaguely defined

**Future Macintosh Marketing Strategy / Issues**

- How to introduce new features to the Mac OS that make the Mac unique, while addressing developer demand that the features be replicated on Windows
- How to retain developer support in the face of Windows' success
- Use OpenDoc to enable new class of software written as small, easy to assemble parts - to reduce Microsoft's application dominance and attract new ISVs.
- Partner with IBM and Motorola to make CHREP a great platform
- Make the Mac OS the #1 OS for the CHREP platform.

Product specific details on OS/2 and Macintosh product lines may be found in Appendix I.

## Objectives/Goals

**Key objectives for PSD include:**

- Successfully launch Windows 95 around the world to all major customer segments beginning in Q1FY96.
- Prevent OS/2 and Macintosh market share from increasing.
- Increase our revenue dollars per PC sold. There are a number of avenues we will pursue. Here are some. (1) As we add value to Windows, we will be able to charge more with OEM's. (2) Capture IBM machines that currently run PC-DOS at no royalty to Microsoft. (3) Fight piracy more aggressively. DMF and CD-ROM help here. (4) Create supplemental revenue streams via add-on products or subscription services. (5) Capture market share from competitors.
- Refocus At Work. Stabilize existing customer relationships, transition to a more leveraged strategy that is Windows-centric.
- Focus the Personal Electronics Group and launch a Windows companion device by the end of 1996, and the appropriate tools on a PC (PIM, Mail client).

**Business goals are as follows:**

All figures in millions		FY 95	FY 96	FY 97
Finished goods	Revenue	\$270	\$972	\$985
	Units	5.0	12.9	14.8
OEM	Revenue	\$1,291	\$1,658	\$2,028
	Units	64.8	65.7	58.2
Operating Margin		76%	78%	79%

Unit and revenue numbers include MS-DOS, Windows, and WFW. Since these converge into Windows 95 unit numbers decline even as revenues rise.

## Strategies

### Windows 95 Launch

The following table summarizes key objectives and goals required by group to enable a successful launch of Windows 95:

	Key Windows 95 Launch Tasks	Key Target
Product Marketing	<ul style="list-style-type: none"> <li>• Clear, compelling positioning</li> <li>• Control PR messages before launch</li> <li>• Broad distribution</li> <li>• Innovative tactics to attack the consumer market</li> </ul>	<ul style="list-style-type: none"> <li>• 30% penetration of the Windows installed base over 24 months</li> </ul>
OEM	<ul style="list-style-type: none"> <li>• Sell more PCs with PC 95 designs</li> </ul>	<ul style="list-style-type: none"> <li>• Hold to price guidelines</li> <li>• 30% of non-IBM Windows units preinstalled with Windows 95 w/in 6 weeks</li> <li>• Get 100% of all current Windows licensee OEMs to license Windows 95</li> </ul>
OCU – Large Account Sales	<ul style="list-style-type: none"> <li>• Prepare LORG's organizations to begin deployment of Windows 95 and Office 95 at launch.</li> <li>• Accelerate the adoption of Windows 95 and Office 95 among LORGs who have standardized on Windows or Office, compressing the adoption cycle from 36 to 18 months.</li> </ul>	<ul style="list-style-type: none"> <li>• Enroll 12 LORG's in the Early Migration Program (a.k.a. Goliath)</li> <li>• 75% of named accounts begin deploying Windows 95 within 60 days of product launch.</li> <li>• 30% upgrade rate of Windows 95 and Office 95 on current Windows and Office installations within 6 months of product launch</li> </ul>
OCU – Medium and Small account sales	<ul style="list-style-type: none"> <li>• Prepare MORG's to begin deployment of Windows 95 and Office 95 at launch</li> <li>• Accelerate the adoption of Windows 95 and Office 95 among MORGs who have standardized on Windows or Office, compressing the adoption cycle from 36 to 18 months</li> </ul>	<ul style="list-style-type: none"> <li>• 50% of the MORG target audience to begin deploying Windows 95 within 60 days of product launch.</li> <li>• 30% upgrade rate of Windows 95 and Office 95 on current Windows and Office installations within 6 months of product launch</li> </ul>
ECU	<ul style="list-style-type: none"> <li>• Broad distribution</li> <li>• Accurate stocking</li> <li>• Active promotion</li> </ul>	<ul style="list-style-type: none"> <li>• 20K outlets</li> <li>• No stockouts in first 30 days</li> <li>• 35% of Win 95 retail units sold w/some other MS product</li> </ul>
DRG	<ul style="list-style-type: none"> <li>• Windows 95-exploitive versions of major apps</li> </ul>	<ul style="list-style-type: none"> <li>• 50% of the top 100 apps by 90 days after launch</li> </ul>

PSS	<ul style="list-style-type: none"> <li>Use creative outsourcing to ensure cost containment without compromising quality of support.</li> <li>Massive pre-launch training effort to preempt calls into PSS</li> </ul>	<ul style="list-style-type: none"> <li>Quality support at less than 10% of revenues</li> <li>Over 100K people trained on Windows 95 by launch</li> </ul>
Other WPG Groups	<ul style="list-style-type: none"> <li>DAD: Great Windows 95 apps that leverage the platform</li> <li>BSD: Great synergy between Windows 95 desktops and Windows NTS</li> <li>BSD: Help clarifying relationship between NTW and Windows 95</li> <li>BSD: A reliable and competitive mail system in the form of Exchange</li> <li>Consumer: Super cool game for the Windows 95 CD sku</li> <li>ACT: A reliable and competitive online service via The Microsoft Network</li> <li>DDT: Great VB support for Windows 95</li> </ul>	<ul style="list-style-type: none"> <li>DAD: Apps are available at launch</li> <li>BSD: No market confusion about how to choose between NTW and Windows 95</li> <li>BSD: Exchange phases in with support call volumes within expected range</li> <li>Consumer: Bambi delivered on time and with good quality</li> <li>ACT: MSN ramps well and doesn't generate unexpectedly high support call volume</li> <li>DDT: VB controls asap after launch and a Windows 95 VB release in FY96</li> </ul>

In addition to the specific goals above, we have the following overall marketing challenges in the Windows 95 launch timeframe:

- We need to come up with innovative marketing ideas for how to activate people that do not normally upgrade their operating system;
- We must get creative about how to migrate enterprises to Windows 95 quickly and efficiently overcoming their organizational inertia. We are developing tools and a documented process with specific milestones, but there is more needed;
- We need to rethink our approach to PR given Microsoft's leading market position and the press demands and expectations that accompany that position;
- The new WinNews on-line newsletter and information sources that we have created for Windows 95 is innovative and proving very effective. There is much more we can do here.
- The Desktop 95 effort challenges us to find every way possible to leverage the scale and impact of the Windows 95 launch to sell both Windows 95 and the Office upgrade that targets this release.
- Frosting and the notion of supplemental products that generate additional revenue streams needs to be better reflected in the overall product and marketing strategy of the Division. We have not yet integrated these products into our thinking as thoroughly as we can.

### Mission of PSD Beyond Windows 95

PSD will build "Systems for People" -- products that have strong appeal to individual end users in the home, small business, and corporate environments. PSD will have an offering in every notch of the device hierarchy from wearable devices, through palmtop to desktops. Beyond Windows 95 there are several goals for Personal Systems:

- Champion products and technologies that appeal to end users. Greater system simplicity, Communications, Games and Titles, Multimedia and Graphics, Mobility are all areas in which we will focus. Home usage scenarios will be particularly important

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- Build systems that run well on mainstream hardware. Ensure that Windows remains the most widely installed platform, and thereby the most popular ISV target.
- Solve the software quality problem that is plaguing the whole industry. If PC's are going to enter the realm of information appliances used by the mainstream, the software that runs on them must be higher quality (fewer bugs, easier to install/use, more reliable) than most of it is today. Beginning with Windows 95, PSD should lead this quality effort by defining policies and practices that allow us to move to a better level of reliability and overall experience in the software we ship.
- Reduce the redundancy in efforts between our division and BSD. Move responsibility for "corporate" features to BSD -- LANs, manageability, distributed services. Pick up responsibility for "individual" features -- User interface, Multimedia, Telephony, Plug and Play, Graphics, Ease of use. Personal communications (conferencing, paging, voice messaging, etc.) Each group would build common features for both versions of Windows.
- Leverage Windows technology and brand name to devices peripheral to the PC such as office devices and Windows handheld companions.

## Product Release Schedule

### Assumptions: Technology/Platforms

The gating hardware for a high-volume, client desktop operating system release is the center of gravity of the installed base.

Release	Minimum configuration	Recommended configuration	Other exploited hardware and new technologies
Windows 95	386DX, 4MB, VGA	486, 8MB, SVGA	Net card, CD-ROM, sound, modem, Pen, Fax, PnP, multimedia, Internet
Nashville	486, 4MB, SVGA	Pentium, 8MB, SVGA	MM video hardware support, Telephony, game hardware
Memphis	486, 8MB, SVGA	Pentium, 16MB, SVGA	ISDN, WANs, MM, conferencing, PnP 2.0

We should note that "minimum configuration" as used here is a realistic minimum, and that users with the minimum configuration will find product performance acceptable.

As for Personal Electronics we see two major levels of devices: The Pegasus Class and the Nomad class. The first will sell for approx. \$400, the second for \$70-\$150.

System	Minimum configuration	CPU Class	Other peripherals	OEMs
Pegasus 1.0	1MB RAM, 4 MB ROM, 320x240 screen	Hummingbird V4100 SH3	1,2 MB RAM Extensions, ROM cartridges, (certain) PCMCIA cards (modems, pagers)	NEC, Casio, Sony, Nokia, Goldstar HP? Compaq?

The product release plans for PSD over the next three years are as follows:

Product	CY 1995	CY 1996	CY 1997
Windows releases	<p><u>Windows 95 - H2</u></p> <ul style="list-style-type: none"> <li>Ease of use, PnP</li> <li>32-bit OS, APIs, OLE2</li> <li>Exchange, MSN, Fax</li> <li>Improved networking</li> <li>Mobile support</li> </ul>	<p><u>Nashville - Mid-year</u></p> <ul style="list-style-type: none"> <li>Windows 95 customer requests</li> <li>Tazz (Telephony) features</li> <li>Improved connectivity, mobile, MM</li> <li>Game technologies</li> <li>Cairo client-side support</li> </ul>	<p><u>Memphis</u></p> <ul style="list-style-type: none"> <li>PNP 2.0<sup>2</sup></li> <li>Appliance features -- instant on, no reboot</li> <li>MM, Games technologies</li> <li>Improved Connectivity, Mobile</li> <li>Conferencing &amp; Telephony</li> <li>Object technology -- OFS, Forms<sup>3</sup></li> <li>Easier UI</li> </ul>
At Work releases	<ul style="list-style-type: none"> <li>IFAX 1.1 - reduced cost (ROMable) version of 1.0 intelligent MFP products</li> <li>Low cost and color WPS,, format-less laser printers</li> </ul>	<p><u>VMFP 1.0</u></p> <ul style="list-style-type: none"> <li>Sleek, lowest cost solution for integrating PC Fax, scanner and printer</li> <li>Enhanced fax client</li> </ul>	<p><u>VMFP 2.0</u></p> <ul style="list-style-type: none"> <li>New connectivity and manageability features</li> <li>Enhanced color imaging and color xerographic engine support</li> </ul>
PEG releases	<ul style="list-style-type: none"> <li>None planned</li> </ul>	<p><u>Pegasus 1.0</u></p> <ul style="list-style-type: none"> <li>Small footprint OS, GDI</li> <li>Re-targetable System</li> <li>Space Optimized UI</li> <li>Paging, AMPS wireless Support</li> </ul>	<p><u>Pegasus 2.0</u></p> <ul style="list-style-type: none"> <li>Improved Mobile connectivity</li> <li>Color based</li> <li>Voice navigation</li> <li>Integrated wireless modem support</li> </ul>

## Investments

### Headcount

Headcount for FY '96 will be flat with respect to currently approved FY '95 headcount numbers. Overall Personal Systems Division headcount is expected to grow about 5% per year for FY '97 and FY '98. For the remainder of FY '95, Temp and Contractor headcount is projected to increase commensurate with the number of full-time employees. During the FY96-FY98 period, Temp and Contractor headcount is projected to vary proportionally with Product Development expense.

<sup>2</sup> PnP 2.0 encompasses not only extending the busses and range of hardware detected and supported, but also implementing "software plug and play" providing system level support for installing, deinstalling, and moving apps around the system without leaving unnecessary files on your hard disk or breaking important path dependencies that allow the app to run. S/W PnP will be a fundamental design goal of Memphis.

	1H95 Actual	FY95 Projected	FY96 Projected	FY97 Projected	FY98 Projected
Product Dev. Expense (\$MM)	\$11	\$30	\$28	\$30	\$32
Temps (full-time equivalent)	175	187	174	187	199
Full-time Headcount	719	767	859	902	947
Total Headcount	894	954	1,033	1,089	1,146

### Alliances, acquisitions and purchased technology

We expect that Nashville, which is not envisioned as a core technology release, will rely more on licensed technology than Windows 95 in order to free up development resources for Memphis. Also, PSD has historically not paid royalties and we expect this trend to continue. See Appendix 2 for planned technology acquisitions and current status.

### Positioning

The features of Win95 fall into the following broad categories:

- Easy to use. (new UI, PnP, long file names, easy to manage)
- Powerful, complete OS. (32-bit, multitasking/threading, OLE, MAPI, TAPI; bootable)
- Connected. (integrated networking, built in clients including Novell, peer file and print sharing, dialup networking, Exchange client, Microsoft Network, A/W Fax, system admin, great mobile support)
- Multimedia
- Compatible

For end users and small business, Windows 95 will be positioned as the successor to Windows 3.x that unlocks the potential of your PC with the following support points:

- What you do now will be easier and faster. (new UI, PnP, auto play, 32 bit, compatible)
- What you want to do is now possible. (multi-tasking/threading, new apps [Win32/OLE2/TAPI/MAPI], communications [on-line, mail, infrared], networking[LAN & dialup], desktop management, file synch, hot docking, deferred printing)
- Whatever you do will be more fun. (fast action games, animated and surround titles, enhanced CD's, full screen s/w only digital video).

For MIS, Windows 95 is positioned as a Windows upgrade that will:

- Reduce your support burden
- Increase your control over the desktop
- Improve your end users' productivity
- Allow a smooth migration

Nashville will likely be positioned as a minor "customer satisfaction" release of Windows 95 with some basic bug fixes and some "sizzle". It will have a positioning statement very similar to that of Windows 95 ("making it easier to unlock the potential of your PC"). Memphis will be positioned as the next major release of Windows. It will be showcased as a major step forward in integrating communications into the PC. Customers will see it enabling the PC to become a home appliance with its instant-on, no-reboot, one touch communications feature set.

## Packaging

### Windows 95 Packaging

Our final Windows 95 packaging strategy defines only one version of Windows with a simple, compelling positioning. OEM and retail Windows 95 are the same bits. We are also creating a "Frosting" product which is an add-on to Windows 95 (inspired by the success of the TrueType Font Pack for Windows 3.1) and sold separately. This frosting product begins our effort to establish supplemental revenue streams to the core Windows business.

	3.5" floppy	CD	FPP	WRK	Frosting
Street Price	\$100	\$100	\$200	\$29.95	\$49.95
Expected % of retail sales	65%	34%	<3%	4%	10% attach rate

### Nashville and Memphis Packaging

With Windows 95 and beyond, we will be creating additional annuity revenue streams for PSD. Presently we have the "frosting" sku planned for Windows 95. But there are several other sets of technology in the division including At Work technologies, telephony based code, and the Pegasus handheld project that might be made into other frosting style add-ons or entirely separate products. In addition, we need to think a lot harder about how to leverage MSN to deliver fixes, add-on's, or other goods/services that we can derive revenue from. We will be working over the upcoming year to figure out our strategy here.

### Distribution

- Breadth: Target Windows 95 breadth is 20K outlets in the US as compared to the MS-DOS 6 Upgrade, which hit a Microsoft-record 13K outlets at launch.
- International: Spend more time helping the subs increase distribution
- Leverage: Use partners to create inexpensive, incremental breadth. Example: DOS for Dummies got us a new channel (bookstores) and resulted in 1,000 incremental outlets in the US at almost no cost
- CD: Windows 95 is first test of distributing encrypted bits on CD
- On-line: Could be used to deliver patches and small step-up products

### Pricing

Pricing is as in the above table for packaging. We have narrowed the discount to Select customers in relation the retail upgrade price.

### Marketing Strategies versus Competitors

#### OS/2

- Push, Push, Push OEMs to ship Windows 95 and not just license it
- Position as a Windows utility and a dead-end
- Focus, focus, focus on driving ISVs to Win32
- Conduct thorough technical analysis of all OS/2 product releases
- Aggressively publicize product incompatibilities, present and future, and other shortcomings via PR and the information highway

- ISV support for Microsoft's object strategy to counter OpenDoc, DSOM

### Apple

- Position Mac System as an OS past its prime and losing ISV momentum. Highlight Windows 95 innovations like the user interface, hot docking, better support for browsing information on networks, etc.
- Emphasize that we're now front-runners in the ease of use battle with Apple "They used to own the ease of use domain, but now we've moved ahead and they're struggling to play catch-up." Highlight the Start button as an ease-of-use innovation.
- Drive OLE2 adoption to maintain lead over OpenDoc
- Neutralize traditional Apple strength in multimedia by:
  - ⇒ touting Windows 95 MM advances such as PNP, autoplay, 32-bit plumbing, and ease of use improvements;
  - ⇒ launching a Windows 95 Game SDK, anchored by the Rendermorphics API's, that addresses key barriers to this market for Windows (graphics speed, 3D, joystick and sound support);
  - ⇒ use opportunistic technologies like Enhanced CD, Surround Video, and WinToon to generate PR and innovative new titles on the Windows platform.

## Support

The following are some noteworthy facts for PSD products from Q2 FY '95 PSS data:

	MS-DOS	Windows	WFW	Windows 95 (estimate)
Avg. call length (mins)	15.8	16.8	18.9	23.0
Avg. calls per month	22,824	36,647	49,460	130,000
Calls per license	0.18	0.40	0.50	0.30
Support cost as percent of revenue	2%	8.3% <sup>3</sup>	n.a.	10%

As operating systems become more complex and feature rich, and the customer base continues to grow, it is clear that both call volumes and call times will increase, raising support costs. Continuing to provide limited time free support will mean three things.

- Increasing need to outsource support in order to contain costs: For Windows 95, we plan to outsource 65% of our initial 6 month spike of calls through external vendors. Our current contract calls for support partners to be paid about \$0.60 per minute of support. Microsoft's internal costs are nearly twice as high.
- Support policy changes: We need to re-examine our current policy of supporting for free, all components shipped with an operating system. Currently networking calls account for over 30% of Windows for Workgroups support costs while no other competitive network operating system supports the level of built in networking for free.
- Increasing emphasis on preemptive education: Programs like Traincast (broad based education program using TV and cable) and the "Care Package" (information sent to customers that tend to call repeatedly on a particular topic), that aim to educate will become increasingly important in helping us contain support costs.

<sup>3</sup> Includes WFW since it is part of the Windows BU.

## Localization

For Windows 95, the following localization schedule has been developed. Barring a few changes we foresee a similar localization and release plan for the next 3 years. The only caveat being that when Windows has unicode support, the development cycles for Far East versions (currently DBCS enabled) will reduce.

Release after US RTM	Language
0-21 days	English, German, French, Italian, Spanish, Swedish, Dutch, Brazilian, Pan European
45 days	Danish, Norwegian, Portuguese, Finnish
90 days	Japanese, Chinese (Trad.), Korean, Polish, Russian <sup>4</sup>
120 days	Hungarian, Czech, Turkish, Greek, Catalan, Slovenian, Chinese (Simp.), Thai, Bah-Ind.
180 days	Arabic, Hebrew

## Key Measures of Success

- Windows 95 launches in Q1 FY96 with no recall class bugs
- 6 Million retail upgrades sold worldwide within 90 days of launch, 10.9 million within 12 months.
- 14.7MM OEM units of Windows 95 reported in FY96 (this represents around 27% of the total OEM runrate for the fiscal year)<sup>5</sup>
- 1.8MM units of frosting sold through OEM and retail in FY96<sup>6</sup>
- 50% of top 100 apps shipping Win32/Win95 versions within 90 days of launch
- Combined Apple and OS/2 market share does not increase

## Special Resource Requirements

None that we see at this time.

## Risks

- Bad PR: Windows 95 not perceived as rock solid, shortcomings, missing features, or the press turns on Windows 95. The magnitude of this risk needs to be underscored. The press is waiting to pounce on us and we need to be prepared.
- OS/2 Warp early momentum spreads beyond their existing installed base and they are able to rekindle significant ISV and OEM interest in their platform.
- Delays in shipment move us into the Fall and shut us out of key OEM and channel Q4 plans

<sup>4</sup> Polish and Russian were previously around 120 days, but have been pulled in.

<sup>5</sup> 30% of the non-IBM Windows OEM runrate will be Windows 95 within 90 days of launch; this will increase to 90% within one year of launch.

<sup>6</sup> Represents 5% attach rate in OEM and 10% in retail during FY96.

- The combination of Power PC and PPC-specific Mac apps creates an overwhelming price:performance advantage vs. the combination of the Pentium, Windows 95 and Win32 apps
- There are factors that might impact our product planning assumptions and require us to alter our plan of record:
  1. Problems with Windows 95 may necessitate a quick turnaround on the release of Nashville
  2. A change in the Cairo client release date might affect our plans to ship it in Memphis

## Forecast

The spreadsheets in this section outline historical and projected PSD revenues and profits.

### Key Assumptions

#### Market growth and penetration

- *Processor shipments:* Per Joachimk estimates
- *Windows 95 capable installed base:* Derived from processor shipment estimates and IPR installed base model -- cross checked with PC Watch data.
- *OEM penetration:* Estimated to increase slightly as we close off naked systems and as Windows 95 replaces PC-DOS on some IBM PCs
- *Upgrade penetration:* This assumption is the hardest one to make and one of the most important to the overall revenue forecast. The table below provided important context for thinking about these numbers:

Product	Upgrade Penetration	
	Yr 1	LTD
Windows 3.1	22%	30%
MS-DOS 6	6%	9%
WFW 3.11	8%	10%
<i>Win95 Forecast Implication<sup>7</sup></i>	11%	23% (FY96-98 units)

In other words the total sales of all Windows units prior to Windows 3.1 was approximately 11.4MM units. Windows 3.1 sold 2.5MM retail upgrade units (or 22%) in the first twelve months and 3.2 MM (or 30%) total life to date. We recognize this approach does not reflect retirements, piracy or dormant OEM customers — the advantage of this approach is that we make an accurate "apples to apples" comparison using this metric.

The last row of this table shows the implied similar metric for Windows 95 for comparison. Note that these numbers are different than the upgrade percentages in our revenue model because we are calculating the *Windows 95 capable* installed base and applying an upgrade percentage to that for purposes of forecasting our revenue.

The Windows 95 percentages are aggressive, but achievable. The more risky numbers in our model are probably the estimates for upgrade percentages in year two and three. With the magnitude of the installed Windows base it will be a major challenge to reach and motivate nearly a third of these machines to upgrade. At any rate it seems reasonable to regard the MS-DOS and

<sup>7</sup> Estimated WW shipments of previous Windows releases at Win95 launch is 107MM units

Win 3.1 percentages above as the worst case and best case respectively for Windows 95 performance. If we do that we get the following forecast scenarios:

Win95 Upgrade Unit Sales	MS-DOS 6 (Worst Case)	Forecast (Base Case)	Windows 3.1 (Best Case)
First Year	6.5MM	11.7MM	23.2MM
1st 3 Years	9.5MM	24.6MM	31.6MM

### Revenues Per Unit

Note: Revenue and COGS per unit were conservatively estimated based on assumptions below:

- *OEM royalties*: Conservatively estimated to remain flat over the period
- *Future of the New User Full Packaged Product*: The New User FPP exists only to create a price ceiling, and so sales will be very modest. FPP sales are not broken out as a separate FG line item for that reason.
- *Upgrade pricing*: The street price of a Windows upgrade will increase from today's \$49 to \$99
- *Licenses*: Projected distributor license prices are: \$80 for MLP and MOLP; \$75 for MVLP; and \$70 for MELP. License sku's are projected to increase within the FY97 product mix as corporate adoption increases and end-user demand ebbs.
- *Academic*: Academic sku's will be limited to MELP licenses and FPP MLP product. This will limit their percentage of the mix.

### Win 95 Upgrade License Mix & Revenue per License

FY96:	Avg Revenue Per Unit*	License Mix	Weighted Avg.
Upgrade FPP	\$86.00	75%	\$64.50
License (MOLP, MLP, Select)	\$75.00	21%	\$15.75
Academic	\$85.00	4%	\$3.40
		100%	\$83.65

Unit price in Forecast: \$80.00

FY97:	Revenue Per Unit*	License Mix	Weighted Avg.
Upgrade FPP	\$86.00	50%	\$43.00
License (MOLP, MLP, Select)	\$75.00	40%	\$30.00
Academic	\$85.00	10%	\$8.50
		100%	\$81.50

Unit price in Forecast: \$75.00

\* Refer to Appendix 2 for distributor and street price assumptions.

### Other Revenue Assumptions

- *Windows NT sales*: Not projected to make a material difference in the horizon of this forecast
- *Frosting sales*: Projected that 10% of retail upgraders would purchase Frosting, and 5% of OEM Windows 95 customers would buy Frosting at retail rising to 10% the second year.



**Cost of Goods Sold**

- *FY95*: 1H95 COGS are 10.7% of FG revenues and are projected to remain flat during remainder of the year. FY95 projected Other Cost of Revenues equals 11.1% of Finished Goods Revenues.
- *FY96*: License mix assumptions from revenue per unit matrix above. Full-package product upgrades split 60% diskette and 40% CD-ROM. Academic assumed to be all CD-ROM. Other Cost of Revenues projected to remain equal to FY '95 percentage.

**Win 95 Manufacturing Cost of Revenues Matrix**

FY96	\$/Unit	COGS	Weighted
		Mix	Avg
3.5" Disks (13)	\$11.31	45%	\$5.09
CD-ROM	\$3.35	30%	\$1.01
License	-	21%	-
Academic	\$3.35	4%	\$0.13
		100%	\$6.23

Manufacturing Cost of Revenues as a % of  
Estimated Avg. Price (\$80) 7.8%

Manufacturing Cost of  
Revenues % used in Forecast 9.0%

- *FY97*: Licenses (\$0 COGS) projected to increase to 40% of product license mix. Full-package product upgrades are projected to split 50% diskette and 50% CD-ROM, reflecting an increasing trend toward CD-based software. Academic assumed to be all CD-ROM. Other Cost of Revenues assumed to remain flat.

**Win 95 Manufacturing Cost of Revenues Matrix**

FY97	\$/Unit	COGS	Weighted
		Mix	Avg
3.5" Disks (13)	\$11.31	25%	\$2.83
CD	\$3.35	25%	\$0.84
License	-	40%	-
Academic	\$3.35	10%	\$0.34
		100%	\$4.00

Manufacturing Cost of Revenues as a % of  
Estimated Avg. Price (\$75) 5.3%

Manufacturing Cost of  
Revenues % used in Forecast: 8.0%

### PSS Cost Comments

One notable aspect of the PSD Income Statement is that PSS costs as a percentage of operating margin, appear to shrink radically, moving from FY '95 to FY '96. In FY '95, PSS costs account for 19.6% of the operating margin (\$53 million of \$270.4 million). In FY '96, on the other hand, PSS costs account for only 7.9% of operating margin (\$77 million of \$972.5 million). There are several reasons for this:

1. In FY '95 most of our support was managed internally. We have begun migrating MS-DOS and Windows 3.1 support to third party support providers (whose costs are lower than our own internal costs) only over the past 3 months. In FY '96, our plan is to have 65% of the initial 6 month spike of calls be handled by 5 support partners (Launch Team). Typically their costs are \$0.60/min as opposed to Microsoft's own costs of \$1.66/min.
2. A significant investment has been made in pre-launch customer education programs for Windows 95. The Traincast series, the "care package", newsletters that focus on support etc. have been initiated. This leads us to believe that the calls/unit for Windows 95 will be about 0.3 on a world-wide basis. In contrast the WfW calls/unit number in the US is 0.5 today.

The Launch Team also have a contractual obligation (incentive?) to keep call lengths for Windows 95 down to 22 minutes. This is significantly lower than the 38 minute or longer call times that we had for WfW 3.11 soon after it launched. Combined with a higher cost per minute (as WfW was supported internally at \$1.66/min), this led to a higher overall cost for PSS in FY '95.

### Reading this spreadsheet:

There are a couple of important things to note about how we built the model on the following page:

Below the processor shipments are two lines representing the Windows 95-capable installed base and then the actual Windows 95 installed base (for looking at Nashville and Memphis upgrades). Note that these numbers represent *end of the year* numbers for the fiscal year in which they appear so upgrade percentages etc are applied to the installed base number in the column previous as we show with the arrows;

We have also chosen to avoid the complexity of tracking Win 3.1 to Win95 upgrades separately from Win 3.1 to Memphis upgrades once Memphis ships. So we simply have a line that says "Win 3.1 to Win 9x" upgrades where that represents the sum of all upgrades to the Win 3.x base in each year. Implicit in this is the assumption that by the time we ship Memphis the cost of upgrading to Memphis from Win 3.x will be the same as the cost of upgrading from Win 95 to Memphis. This is consistent with our policy of charging WfW and Win 3.1 users the same price to upgrade to Windows 95.

# Revenue Forecast

Personal Systems Division  
Three Year Outlook Revenue Plan

Assumptions	1995	1996	1997	1998	1999	2000
<b>IBM Processor Shipments (Per assumption sheet)</b>						
IBM Processor Shipments	24,048	23,283	47,433	22,497	63,821	72,437
Non-IBM Shipments	2,814	21,283	43,133	30,767	34,618	44,674
IBM Shipments	2,290	2,100	4,300	4,730	3,203	3,463
Win 95-Capable Win 3.1 Machines	61,228	77,762	100,000	91,840	86,413	82,603
Win 95 Users	-	-	-	22,340	87,163	142,049
<b>Non-IBM OEM Penetration</b>						
MS-DOS OEM penetration	36%	77%	76%	30%	3%	0%
Windows 95 OEM penetration	0%	0%	0%	27%	8%	10%
Total Win/WFM penetration on MS-DOS	85%	87%	84%	80%	85%	94%
Forecast penetration on Win 95 OEM	0%	0%	0%	1%	10%	10%
<b>IBM OEM Penetration</b>						
PC-DOS	97%	97%	97%	70%	20%	0%
Win 3.1	10%	10%	10%	41%	15%	0%
Win 95	0%	0%	0%	30%	60%	90%
<b>FG Penetration</b>						
Win 3.1 Upgrade to Win 95	0%	0%	0%	18%	17%	10%
Win 95 Upgrade to Microsoft	0%	0%	0%	0%	0%	10%
Win 95 Upgrade to Non-Microsoft	0%	0%	0%	0%	10%	10%
Forecast penetration on Win 95 FG	0%	0%	0%	10%	10%	10%
<b>Revenue (Per assumption sheet)</b>						
OEM MS-DOS OEM	16,643	16,319	32,094	23,383	4,689	-
Windows 95 OEM	-	-	-	13,707	41,023	53,579
Forecast OEM	-	-	-	683	4,103	3,338
Win/WFM OEM	14,114	14,239	28,270	22,843	4,433	-
IBM Win 3.1	1,760	1,489	3,440	2,129	780	-
IBM Win 95	-	-	-	746	3,123	4,917
FG Win 3.1 Upgrade to Win 95	-	-	-	10,687	10,471	4,918
Win 95 Upgrade to Microsoft	-	-	-	-	-	8,714
Win 95 Upgrade to Non-Microsoft	-	-	-	-	2,354	3,431
Forecast	-	-	-	1,189	1,047	1,202
MS-DOS Upgrades	1,253	641	1,764	317	311	300
Win/WFM New	1,122	393	1,767	111	110	-
Win/WFM Upgrades	890	437	1,336	300	314	-
<b>SLM</b>						
OEM MS-DOS OEM	\$ 18 \$	\$ 18 \$	\$ 18 \$	\$ 18 \$	\$ 18 \$	\$ 18 \$
Windows 95 OEM	\$ - \$	\$ - \$	\$ - \$	\$ 45 \$	\$ 45 \$	\$ 45 \$
Forecast	\$ - \$	\$ - \$	\$ - \$	\$ 3 \$	\$ 3 \$	\$ 3 \$
Win/WFM OEM	\$ 22 \$	\$ 22 \$	\$ 22 \$	\$ 22 \$	\$ 22 \$	\$ 22 \$
IBM Win 3.1	\$ 12 \$	\$ 12 \$	\$ 12 \$	\$ 12 \$	\$ 12 \$	\$ 12 \$
IBM Win 95	\$ - \$	\$ - \$	\$ - \$	\$ 40 \$	\$ 35 \$	\$ 30 \$
FG Win 3.1 Upgrade to Win 95	\$ - \$	\$ - \$	\$ - \$	\$ 80 \$	\$ 77 \$	\$ 35 \$
Win 95 Upgrade to Microsoft	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ 40 \$
Win 95 Upgrade to Non-Microsoft	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ 40 \$	\$ 40 \$
Forecast	\$ - \$	\$ - \$	\$ - \$	\$ 38 \$	\$ 38 \$	\$ 18 \$
MS-DOS Upgrades	\$ 37 \$	\$ 37 \$	\$ 37 \$	\$ 37 \$	\$ 37 \$	\$ 37 \$
Win/WFM New	\$ 43 \$	\$ 43 \$	\$ 43 \$	\$ 63 \$	\$ 63 \$	\$ 63 \$
Win/WFM Upgrades	\$ 33 \$	\$ 33 \$	\$ 33 \$	\$ 33 \$	\$ 33 \$	\$ 33 \$
<b>Revenue (Per assumption sheet)</b>						
OEM MS-DOS OEM	\$ 244.9 \$	\$ 291.1 \$	\$ 580.0 \$	\$ 450.8 \$	\$ 83.3 \$	\$ - \$
Windows 95 OEM	\$ - \$	\$ - \$	\$ - \$	\$ 3.4 \$	\$ 20.5 \$	\$ 24.8 \$
Forecast	\$ - \$	\$ - \$	\$ - \$	\$ 616.8 \$	\$ 1,846.3 \$	\$ 2,411.1 \$
Win/WFM OEM	\$ 328.1 \$	\$ 330.3 \$	\$ 678.4 \$	\$ 522.7 \$	\$ 106.3 \$	\$ - \$
IBM Win 3.1	\$ 46.6 \$	\$ 42.1 \$	\$ 44.2 \$	\$ 46.7 \$	\$ 28.2 \$	\$ 32.7 \$
IBM Win 95	\$ - \$	\$ - \$	\$ - \$	\$ 1,677.6 \$	\$ 2,128.3 \$	\$ 3,246.2 \$
Total OEM	\$ 621.6 \$	\$ 663.5 \$	\$ 1,302.6 \$	\$ 2,064.4 \$	\$ 2,042.1 \$	\$ 3,715.8 \$
% Change				28%	22%	19%
FG Win 3.1 Upgrade to Win 95	\$ - \$	\$ - \$	\$ - \$	\$ 80.0 \$	\$ 78.5 \$	\$ 36.0 \$
Win 95 Upgrade to Microsoft	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ 40.0 \$
Win 95 Upgrade to Non-Microsoft	\$ - \$	\$ - \$	\$ - \$	\$ - \$	\$ 102.2 \$	\$ 153.2 \$
Forecast	\$ - \$	\$ - \$	\$ - \$	\$ 41.4 \$	\$ 39.8 \$	\$ 43.7 \$
MS-DOS Upgrades	\$ 47.2 \$	\$ 23.9 \$	\$ 71.2 \$	\$ 11.2 \$	\$ 11.7 \$	\$ 11.2 \$
Win/WFM New	\$ 76.0 \$	\$ 38.6 \$	\$ 114.6 \$	\$ 6.3 \$	\$ 6.3 \$	\$ - \$
Win/WFM Upgrades	\$ 31.4 \$	\$ 16.0 \$	\$ 47.4 \$	\$ 17.3 \$	\$ 10.3 \$	\$ - \$
Other (Manufacture Support OUCH)	\$ 22.2 \$	\$ 15.0 \$	\$ 37.2 \$	\$ 21.0 \$	\$ 20.0 \$	\$ 21.0 \$
Total FG	\$ 156.8 \$	\$ 93.5 \$	\$ 210.4 \$	\$ 175.7 \$	\$ 183.4 \$	\$ 179.2 \$
% Change				26%	1%	30%
Total Gross Revenue	\$ 778.4 \$	\$ 757.0 \$	\$ 1,513.0 \$	\$ 2,240.1 \$	\$ 2,225.5 \$	\$ 3,895.0 \$
% Change				48%	1%	19%

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### Income Statement

PERSONAL SYSTEMS DIVISION FORECAST  
27-Feb-95

	FY '95		FY '96		FY '97		FY '98		CAGR Fest-95-'98	Year over Year		
	YTD	Plan	Fest	Fest	Fest	Fest	Fest	Fest		Fest-95-'96	Fest-96-'97	Fest-97-'98
Net Revenue	\$738	\$1,553	\$1,553	\$2,577	\$2,954	\$3,375			29.5%	66.0%	14.6%	14.3%
Total Cost of Revenue	40	99	64	195	188	191			44.3%	207.5%	-3.7%	1.5%
Gross Profit	698	1,454	1,489	2,382	2,765	3,184			28.8%	60.0%	16.1%	15.1%
	91.6%	93.0%	95.9%	92.4%	93.0%	94.3%						
<i>Operating Expenses</i>												
People	34	75	72	87	102	116			16.9%	20.4%	17.0%	13.4%
Infrastructure	8	15	17	20	23	26			15.8%	22.6%	14.8%	10.3%
Marketing	18	74	61	78*	79	82			10.4%	28.0%	1.0%	4.0%
Rent Debt & Taxes	22	51	50	65	79	94			21.1%	28.4%	22.4%	18.6%
Product Development	11	36	30	28	30	32			1.5%	-9.2%	8.0%	6.7%
PSS	33	71	53	77	89	104			25.0%	44.5%	14.7%	17.8%
Other	0	0	0	0	0	0			0.0%	0.0%	0.0%	0.0%
Shared Resources	9	26	17	19	21	23			10.0%	10.0%	10.0%	10.0%
Total Operating Expenses	135	349	301	374	422	476			16.3%	24.1%	13.0%	12.7%
Operating Margin	564	1,106	1,188	2,008	2,343	2,708			31.6%	69.1%	16.7%	15.6%
Operating Margin %	76.4%	71.2%	76.5%	77.9%	79.3%	80.2%						

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## Appendix 1

### OS/2 and Macintosh Feature Table

	General Availability	Key features	Price (SRP)
<b>Currently Available Products</b>			
OS/2 Warp version 3.0	Now	<ul style="list-style-type: none"> <li>- Internet Connection; BonusPak</li> <li>- 32-bit OS, preemptive multitasking, crash protection</li> <li>- Runs in 4M of memory and has improved performance relative to OS/2 2.1</li> <li>- Improved Workplace shell</li> <li>- Works with user's existing Windows &amp; DOS</li> </ul>	Originally \$129, currently \$89
OS/2 for SMP version 2.11	Now	<ul style="list-style-type: none"> <li>- Supports Multiprocessing Specification 1.1 (MPS) for non-symmetric multiprocessing</li> <li>- includes DOS and Windows (Win-OS/2) code</li> </ul>	\$395 for 1-2 proc, \$595 for 1-7 proc, \$795 for 1-16proc
<b>Future Products</b>			
OS/2 Warp Full Pack	Q1 1995	Same as Warp but includes Win-OS2 and some bug fixes	\$199
OS/2 Warp LAN Client version 3.0	Q2 1995	<ul style="list-style-type: none"> <li>- Requesters for LAN Server, NetWare, remote access, peer services- NetBEUI, TCP/IP, IPX- BonusPak- Internet Connection- Works with user's existing Windows</li> <li>- uses existing Windows &amp; DOS on PC</li> </ul>	unknown
OS/2 for PowerPC	Q2/Q3 1995	<ul style="list-style-type: none"> <li>- Native version of OS/2 for PowerPC (PREP) systems - 32-bit</li> <li>- OS/2 apps must be recompiled</li> <li>- Able to run Windows &amp; DOS apps via emulation</li> </ul>	unknown

#### Apple Macintosh Product Line

	General Availability	Key features	Price (SRP)
<b>Currently Available Products</b>			
Macintosh System 7.5	Now	<ul style="list-style-type: none"> <li>- Quickdraw GX, PowerTalk, QuickTime, AppleScript</li> <li>- 30% native PPC code</li> <li>- MacTCP</li> <li>- Apple Guide help</li> <li>- Mac-PC data exchange utility</li> <li>- SoftWindows bundled with PowerMacs with =&gt; 16 MB RAM</li> </ul>	\$134.99
<b>Future Products</b>			
"Copland"	PPC only Mid '96  68K "later"	<ul style="list-style-type: none"> <li>- OpenDoc</li> <li>- Updated underlying OS with Microkernel design w/modular subsystems, preemptive multitasking and memory protection</li> <li>- Modernized task-oriented UI, new file mgr, active assistance</li> <li>- Open Transport net architecture- 95% native PPC code</li> <li>- New APIs</li> </ul>	unknown
"Gershwin"	1997(?)	<ul style="list-style-type: none"> <li>(vaguely defined to date)</li> <li>- Agent assistance technology</li> <li>- Finder as an OpenDoc part</li> <li>- Universal networking client</li> </ul>	unknown

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## Appendix 2

### Price Waterfall for Windows 95

Product	Distributor Price							Est		
	New Users			Upgrade				New Users		
	95	2.11	WW	95 up	2.11 up	WW 95	MS95 up	95	2.11	WW
<b>Package Product</b>	\$ 163.00	\$ 80.87	\$ 118.77	\$ 86.00	\$ 43.17	\$ 37.73	\$ 42.08	\$ 209.00	\$ 108	\$ 149
Retail FPP	\$ 143.21	\$ 89.12	\$ 102.60	\$ 80.00	\$ 35.10	\$ 32.40	\$ 36.13	\$ 178.00	\$ 90	\$ 79
MFLP	\$ 2,840.00	\$ 1,293.48	\$ 1,900.80	\$ 1,900.00		\$ 518.40	\$ 908.90	\$ 3,249.00	\$ 1,598	\$ 2,338
<b>MOLP</b>										
MOLP-A (50)	N/A	\$ 84.00	\$ 83.60	\$ 80.00	\$ 52.00	\$ 30.40	\$ 33.80	N/A	75	110
MOLP-B (500)	N/A	\$ 80.00	\$ 88.00	\$ 80.00	\$ 52.00	\$ 28.00	\$ 31.20	N/A	71	104
MOLP-C (1,000)	N/A	\$ 55.20	\$ 81.60	\$ 80.00	\$ 52.00	\$ 28.40	\$ 24.80	N/A	65	96
MOLP-Maint	\$ 127.90	\$ 72.00	\$ 72.00	N/A	N/A	N/A	N/A	\$ 151.00	\$ 90	\$ 80
<b>Server</b>										
MVLP-A (2,000)	N/A	\$ 59.20	\$ 86.40	\$ 75.05	\$ 34.40	\$ 28.00	\$ 31.20	N/A	75	109
MVLP-B (8,000)	N/A	\$ 52.80	\$ 77.80	\$ 75.05	\$ 34.40	\$ 24.80	\$ 24.00	N/A	67	98
MVLP-C (28,000)	N/A	\$ 47.20	\$ 68.80	\$ 75.05	\$ 34.40	\$ 22.40	\$ 24.80	N/A	60	87
MELP-A (1,000)	N/A	\$ 48.00	\$ 70.40	\$ 70.31	\$ 34.40	\$ 23.40	N/A	N/A	61	89
MELP-B (3,000)	N/A	\$ 42.40	\$ 81.60	\$ 70.31	\$ 34.40	\$ 20.00	N/A	N/A	54	78
MELP-C (7,000)	N/A	\$ 38.00	\$ 82.80	\$ 70.31	\$ 34.40	\$ 18.80	N/A	N/A	46	67
MVLP-Maint	\$ 107.70	\$ 70.40	\$ 70.40	N/A	N/A	N/A	N/A	\$ 130.00	\$ 89	\$ 89
MELP-Maint	\$ 82.92	\$ 52.80	\$ 52.80	N/A	N/A	N/A	N/A	\$ 105.00	\$ 67	\$ 67
<b>Education</b>										
AE-FPP	N/A	N/A	N/A	N/A	N/A	\$ 27.00	N/A	\$ 129.00	N/A	N/A
AE-MFLP	\$ 90.00	N/A	\$ 90	N/A	N/A	N/A	N/A	N/A	\$ 508	\$ 738
AE-MOLP-10	N/A	\$ 351.00	\$ 513.00	N/A	N/A	\$ 164.70	N/A	N/A	42	40
MOLP-Educ	N/A	\$ 22.40	\$ 22.40	N/A	N/A	N/A	\$ 22.40	\$ 186.80	30	30
MOLP-Maint	\$ 85.80	\$ 17.80	\$ 17.80	N/A	N/A	N/A	\$ 17.80	N/A	30	30
MVLP-Educ	N/A	\$ 17.80	\$ 17.80	N/A	N/A	N/A	N/A	N/A	30	30
MELP-Educ	N/A	\$ 15.20	\$ 15.20	N/A	N/A	N/A	N/A	N/A	30	30
MELP-Maint Educ	\$ 40.00	\$ 17.80	\$ 17.80	N/A	N/A	N/A	N/A	\$ 101.00	30	30
<b>Doc/Dev</b>										
Doc set	\$ 12	\$ 21	\$ 25	\$ 12	\$ 21	\$ 14	\$ 15	\$ 18.00	\$ 21	\$ 25
Dev set	14.67			14.67				24.93		

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### Appendix 3

#### Planned Technology Acquisitions

<u>Partner</u>	<u>Code</u>	<u>Amount</u>	<u>Status</u>
Spyglass	Web Browser	\$ 2,000,000	Signed
Databeam	Conferencing Stack	\$ 1,200,000	Signed
DCA	DLC Stack	\$ 150,000	Signed
Dan Illowsky	ISDN Support	\$ 50,000	In process
P-tel/DCL	Conferencing App	\$ 1,800,000	To close in March
Centigram	Text to Speech	\$0.50 Tazz/ Unit	Signed
Various	MIDI, OMS 3.0, apps, MIDI PnP	\$ 200,000	On-going
Rendermorphics	3-D for Games	\$ 3,500,000	To close in February
Mediamatics	MPEG- Video and Audio	\$ 1,400,000	
Various	Japanese/Korean/PRC/ Taiwan/Mid East Fonts	\$ 1,375,000	On-going
Ricoh	EUDC Editor	\$ 150,000	In process
AI Soft	Japanese IME	\$ 800,000	Signed in FY94
Various	PRC IME	\$ 500,000	In process
SCC	File Viewers	\$ 100,000	In process
Dan Illowsky	MPEG Encoder	\$ 300,000	