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The Desktop Operating System Three-Year Business Outlook

February 15, 1996

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Agenda

- ◆ The Mission and The Current Situation
- ◆ Competition (significant focus on Netscape)
- ◆ Product Timeline, Positioning, Internet Response
- ◆ Revenue Scenarios (both OEM & FG; NTW FG; Annuity Model)
- ◆ Proposed FY 99 Product Model
- ◆ Conclusions
- ◆ Review Appendix Items
 - ◆ Back-up Financial Analysis, Research, P&L, Product Detail

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Mission

- ◆ Grow the Desktop Operating System business from a current \$3 billion to \$8 billion annual revenue within three fiscal years.
- ◆ Provide a unified plan for redefining both the NTW and Windows 95 businesses
- ◆ Have response for non-PC form factors

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"Current Situation"

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Current Situation

- ◆ PC Client HW business is relatively healthy: 13% CAGR
- ◆ MS OS penetration is rising- 87% in FY96; 90% in FY99
- ◆ 15% of Windows machines with = or >8MB RAM will upgrade by FY 96 YE, another 20% will by FY 99 YE.
- ◆ NTW now represents 7% of FY 96 forecast revenue, a 4x growth since June... The run-rate machine will shortly be NTW capable.

FY96 Forecast	OEM		FG		Total	
	Units	Rev	Units	Rev	Units	Rev
MS-DOS/Win 3.x	29,806	\$ 1,046	2,661	\$ 162		\$ 1,208
Win 95	19,332	\$ 947	7,017	\$ 587		\$ 1,534
NTW	329	\$ 32	1,382	\$ 191		\$ 223
MS-PlusI	-	\$ -	3,841	\$ 145		\$ 145
Other	-	\$ -		\$ 96		\$ 96
Total	49,467	\$ 2,025	12,240	\$ 1,181		\$ 3,206

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Forecasted FY 96 OEM

	Units	\$/Unit	Revenue	Units	\$/Unit	Revenue	Units	\$/Unit	Revenue	Units	rev
MS-DOS	2,561	\$ 17	\$ 44,305	1,367	\$ 17	\$ 23,646	3,928	\$ 17	\$ 67,951	8%	3
WinNTW	18,771	\$ 38	\$ 709,544	7,107	\$ 38	\$ 268,661	25,878	\$ 38	\$ 978,204	52%	48
Windows 95	4,297	\$ 49	\$ 210,553	15,035	\$ 49	\$ 736,712	19,332	\$ 49	\$ 947,265	39%	47
WinNTW	56	\$ 100	\$ 5,600	273	\$ 100	\$ 27,336	329	\$ 100	\$ 32,936	1%	2
Total	25,685	\$ 38	\$ 970,002	23,783	\$ 44	\$ 1,056,355	49,468	\$ 41	\$ 2,026,357	100%	100

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**Desktop OS Three Year Outlook
Finished Goods - Base Case**

Customer Segment	11196					21196					FY96				
	Ship Prior Year IB &	Penetration	Units	\$/Unit	Revenue	Ship Prior Year IB &	Penetration	Units	\$/Unit	Revenue	Ship Prior Year IB &	Penetration	Units	\$/Unit	Revenue
Sub-Totals	20,566	10%	2,034	\$ 84	\$ 172,566	20,566	5%	997	\$ 83	\$ 82,509	20,566	13%	3,051	\$ 84	\$ 255,073
Win 3.x -> Win 95	1,055	11%	113	\$ 69	\$ 7,793	1,055	13%	138	\$ 69	\$ 9,515	1,055	24%	251	\$ 69	\$ 17,308
NTV 3.5 -> Win NTV 3.51	1,055	0%	-	\$ -	\$ -	1,055	0%	-	\$ -	\$ -	1,055	0%	-	\$ -	\$ -
Win NTV -> SUR/Cairo	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -
Win 95 -> Win NTV	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -
Win 95 -> Memphis	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -
MS-Plus (Attach to Win 9x FO + OEM)	3,816	16%	614	\$ 38	\$ 23,317	7,161	15%	1,057	\$ 38	\$ 40,148	10,977	15%	1,670	\$ 38	\$ 63,463
Business Product (Attach to Base OS Ships)	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -
Home Product (Attach to Base OS Ships)	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -	-	0%	-	\$ -	\$ -
NTV New (Win 3.x/16 + Meg IB)	5,567	3%	165	\$ 188	\$ 31,012	5,567	3%	185	\$ 188	\$ 34,764	5,567	6%	350	\$ 188	\$ 65,776
					\$ 234,688					\$ 166,937					\$ 401,673
% change					16%					-29%					n.m.
Implied Penetration w/ Windows Maintenance					16%					12%					22%
Qlmt															
Windows New Maintenance			995	\$ 50	\$ 49,351			162	\$ 130	\$ 21,113			1,157	\$ 61	\$ 70,464
MS-DOS			378	\$ 35	\$ 13,320			283	\$ 35	\$ 9,990			661	\$ 35	\$ 23,311
Win/NTV New			332	\$ 53	\$ 17,698			249	\$ 53	\$ 13,274			381	\$ 53	\$ 20,972
Win/NTV Upgrades			370	\$ 30	\$ 11,005			278	\$ 30	\$ 8,234			648	\$ 30	\$ 19,259
Other			-	\$ -	\$ -			-	\$ -	\$ -			-	\$ -	\$ -
					\$ (14,397)					\$ (17,616)					\$ (32,013)
% change					\$ 76,978					\$ 35,015					\$ 111,993
										-35%					n.m.
TOTALS					\$ 311,666					\$ 201,932					\$ 513,618
% change										-33%					n.m.
YYY Growth/Un					\$ 716,832					\$ 464,489					\$ 1,181,320
% change										-35%					n.m.

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Competition- Apple

Strengths

- ◆ Desktop publishing
- ◆ Education
- ◆ Multimedia
- ◆ Loyal customers

Weaknesses

- ◆ Market share eroded 2% last year (IDC)
- ◆ Lost \$69 million last quarter.
- ◆ Eroding ISV support
- ◆ Internet offerings

- ◆ Mac O/S for Power PC scheduled for 2H calendar 96
- ◆ Copland release still scheduled for '97 with PR buildup in '96
- ◆ QuickDraw 3D, 3D games API, hardware accelerators are released, Windows 95 versions to follow
- ◆ Newton 2.0 OS and MessagePad 120 PDA vs. "Pegasus"

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Competition- Apple (cont'd)

- ◆ PPCP/CHRP machines may appear from Apple this year (able to run NT), more likely they will wait for Copland
- ◆ Retreating/focusing on defensible niche markets
- ◆ Acquisition could change product and marketing strategies

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Competition- OS/2

Strengths

- ◆ Multitasking
- ◆ Finance, banking, insurance customers
- ◆ Fanatical followers (but fading)

Weaknesses

- ◆ Flat, low market share
- ◆ Minimal ISV support
- ◆ No Win32 compatibility
- ◆ Questionable IBM commitment

- ◆ Merlin release of OS/2 Warp in first half of '96
- ◆ Internet Connection for OS/2 (bundled) and Windows (retail)
- ◆ OpenDoc on OS/2 and Windows
- ◆ OS/2 for PowerPC delayed/withdrawn

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Competition- Netscape

Strengths

- ◆ Browser share leader
- ◆ Setting defacto standards
- ◆ Extensible architecture
- ◆ Partners & acquisitions
- ◆ Comprehensive product offering
- ◆ Cross-platform

Weaknesses

- ◆ Dependence on browser sales
- ◆ Limited localization
- ◆ Plug-Ins vs. OCX
- ◆ Incomplete platform, with lots of work to integrate acquisitions

- ◆ Navigator 2.0 to be released this month (February)
- ◆ Java/JavaScript - developers' conference March 5-7 in S.F.

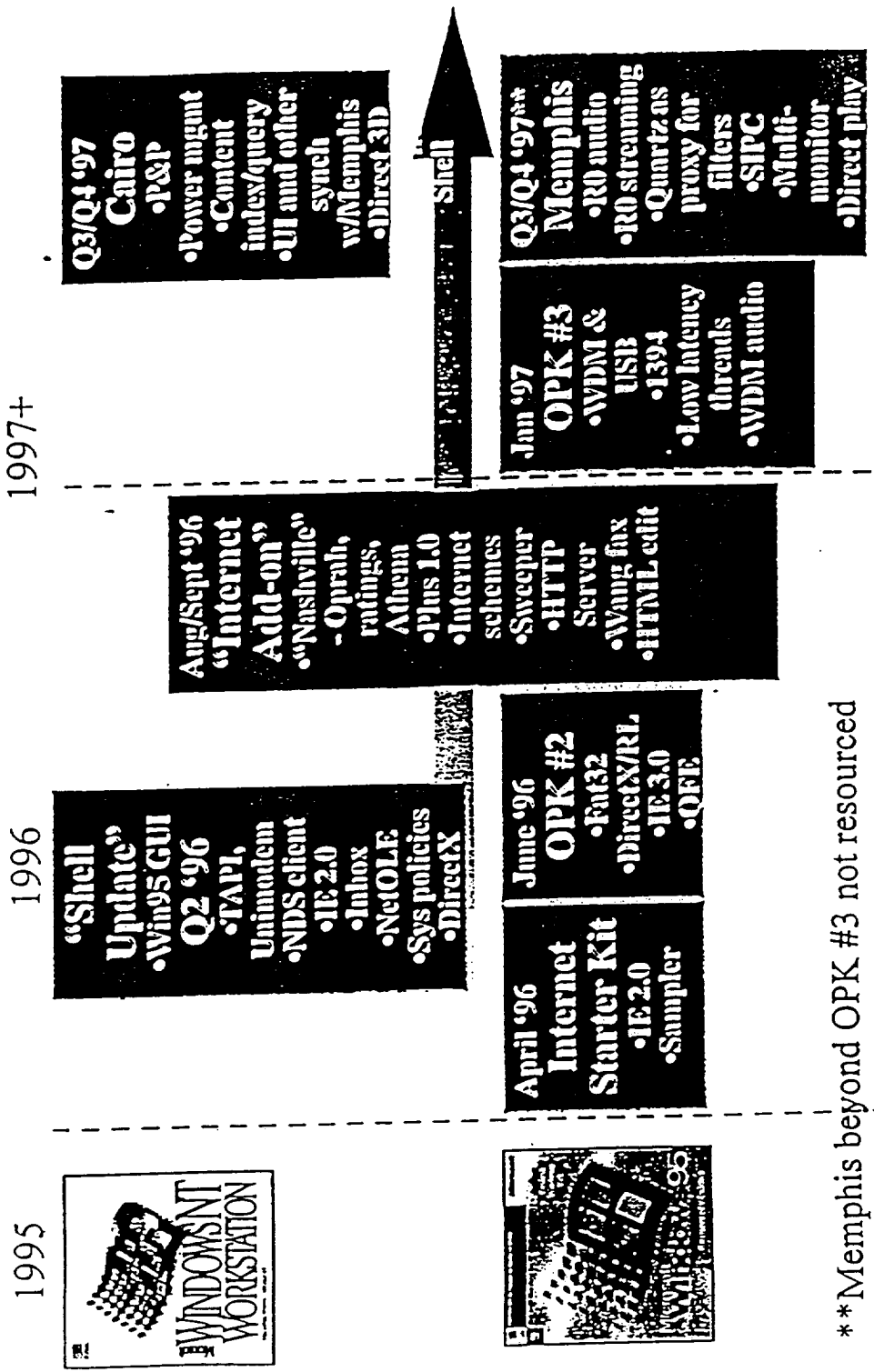
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Windows '95 vs NTW Positioning

- ◆ FY 96: Mix of both of Windows 95 and NTW
- ◆ 2 H FY 96 through FY 98 (post SUR): Gradual move to NTW for Bus Desktop unless Hardware constrained
- ◆ 2 H FY 98: NTW is the business solution for all platforms, Win 95 base is for Home recreation and other form factors

Upcoming Product Releases



** Memphis beyond OPK #3 not resourced

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Competition- Netscape

Strengths

- ◆ Browser share leader
- ◆ Setting defacto standards
- ◆ Extensible architecture
- ◆ Partners & acquisitions
- ◆ Comprehensive product offering
- ◆ Cross-platform

Weaknesses

- ◆ Dependence on browser sales
- ◆ Limited localization
- ◆ Plug-Ins vs. OCX
- ◆ Incomplete platform, with lots of work to integrate acquisitions

- ◆ Navigator 2.0 to be released this month (February)
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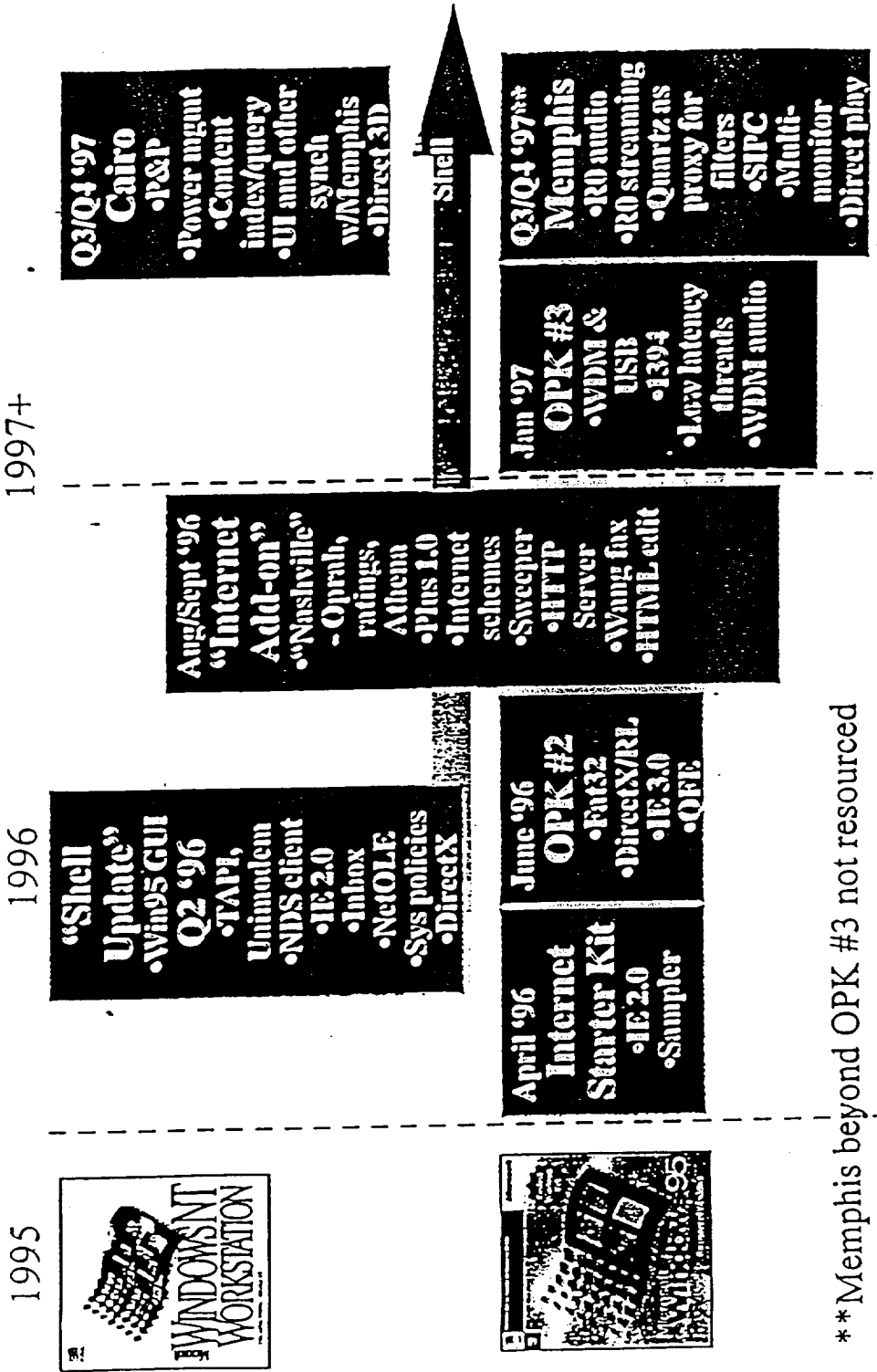
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Upcoming Product Releases



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"Revenue Scenarios"

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Forecasted FY 96 OEM

	Units	\$/Unit	Revenue	Units	\$/Unit	Revenue	Units	\$/Unit	Revenue	units	rev
MS-DOS	2,561	\$ 17	\$ 44,305	1,367	\$ 17	\$ 23,646	3,928	\$ 17	\$ 67,951	8%	3%
Win/WfW	18,771	\$ 38	\$ 709,544	7,107	\$ 38	\$ 268,661	25,878	\$ 38	\$ 978,204	52%	48%
Windows 95	4,297	\$ 49	\$ 210,553	15,035	\$ 49	\$ 736,712	19,332	\$ 49	\$ 947,265	39%	47%
Win NTW	56	\$ 100	\$ 5,600	273	\$ 100	\$ 27,336	329	\$ 100	\$ 32,936	1%	2%
Total	25,685	\$ 38	\$ 970,002	23,783	\$ 44	\$ 1,056,355	49,468	\$ 41	\$ 2,026,357	100%	100%



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Mix Model

	FY96			FY97			FY98			FY99		
	Units	Rev	\$/Unit	Units	Rev	\$/Unit	Units	Rev	\$/Unit	Units	Rev	\$/Unit
Win 95 CEM	19,332	\$ 947	\$ 49	47,241	\$ 2,455	\$ 52	52,626	\$ 2,894	\$ 55	59,828	\$ 3,470	\$ 58
Win NTW CEM	329	\$ 32	\$ 97	1,974	\$ 158	\$ 80	8,500	\$ 765	\$ 90	14,554	\$ 1,455	\$ 100
Other CEM	29,806	\$ 1,046	\$ 35	7,451	\$ 242	\$ 32	4,286	\$ 147	\$ 34	-	\$ -	\$ -
Win 95 Upgrades	7,017	\$ 587	\$ 84	6,484	\$ 538	\$ 83	2,378	\$ 195	\$ 82	7,996	\$ 668	\$ 84
NTW New (includes Win 9x to Carol in FY99)	806	\$ 151	\$ 188	1,783	\$ 335	\$ 188	1,792	\$ 321	\$ 179	7,188	\$ 1,287	\$ 179
NTW Upgrades	577	\$ 40	\$ 69	2,206	\$ 287	\$ 130	1,401	\$ 181	\$ 129	2,351	\$ 306	\$ 130
MS Plus	3,841	\$ 145	\$ 38	7,321	\$ 278	\$ 38	7,257	\$ 276	\$ 38	9,131	\$ 347	\$ 38
Win bus Maintenance	2,661	\$ 162	\$ 61	2,084	\$ 271	\$ 130	837	\$ 109	\$ 130	1,580	\$ 205	\$ 130
Other Personal Systems	-	\$ 96		-	\$ (74)		-	\$ (160)		-	\$ (126)	
Total		\$ 3,206		\$ 4,490			\$ 4,727			\$ 7,612		
% change					40%			57%			61%	

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Key Assumptions
Joachim's CEM plan
Base FG plan



NTW New through FG

Dollars in millions, units in thousands

	FY96			FY97			FY98			FY99		
	Units	Rev	\$/Unit	Units	Rev	\$/Unit	Units	Rev	\$/Unit	Units	Rev	\$/Unit
Win 95 OEM (all products in FY96)	49,468	\$ 2,026	\$ 41	56,666	\$ 2,947	\$ 52	65,412	\$ 3,598	\$ 55	74,383	\$ 4,314	\$ 58
Win 95 Upgrades	7,017	\$ 587	\$ 84	6,484	\$ 538	\$ 83	2,378	\$ 195	\$ 82	7,995	\$ 668	\$ 84
NTW New (from Win 3.x and Win 95)	805	\$ 151	\$ 188	1,783	\$ 335	\$ 188	1,792	\$ 321	\$ 179	7,188	\$ 1,287	\$ 179
NTW New (previous OEM sales)	-	\$ -	\$ -	790	\$ 148	\$ 188	3,400	\$ 609	\$ 179	5,822	\$ 1,042	\$ 179
NTW Upgrades	577	\$ 40	\$ 69	2,206	\$ 287	\$ 130	1,401	\$ 181	\$ 129	2,351	\$ 306	\$ 130
MS-Plus!	3,841	\$ 145	\$ 38	7,321	\$ 278	\$ 38	7,257	\$ 276	\$ 38	9,131	\$ 347	\$ 38
Windows Maintenance	2,661	\$ 162	\$ 61	2,084	\$ 271	\$ 130	837	\$ 109	\$ 130	1,580	\$ 205	\$ 130
Other Personal Systems		\$ 96			\$ (74)			\$ (160)			\$ (126)	
Total		\$ 3,207		\$ 4,729		\$ 5,128		\$ 8,043			\$ 5,797	
% change					47%			8%			57%	

Key Assumptions

- Win 95 through OEM channel only- FY97 - FY99
- NTW New through FG only- 40% of planned OEM units

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NTW Annuity Model

	FY96			FY97			FY98			FY99		
	Units	Rev	\$/Unit	Units	Rev	\$/Unit	Units	Rev	\$/Unit	Units	Rev	\$/Unit
Win 95 OEM	49,468	\$ 2,026	\$ 41	56,666	\$ 2,946	\$ 52	65,412	\$ 3,597	\$ 55	74,383	\$ 4,314	\$ 58
Win 95 Upgrades	7,017	\$ 587	\$ 84	6,464	\$ 538	\$ 83	2,378	\$ 195	\$ 82	7,995	\$ 668	\$ 84
NTW New	805	\$ 151	\$ 188	1,783	\$ 335	\$ 188	1,792	\$ 321	\$ 179	7,188	\$ 1,287	\$ 179
NTW Annuity	-	\$ -	-	738	\$ 139	\$ 189	3,037	\$ 573	\$ 189	4,934	\$ 929	\$ 188
NTW Upgrades	577	\$ 40	\$ 69	2,206	\$ 267	\$ 130	1,401	\$ 181	\$ 129	2,351	\$ 306	\$ 130
MS-Plus1	3,841	\$ 145	\$ 38	7,321	\$ 278	\$ 38	7,257	\$ 276	\$ 38	9,131	\$ 347	\$ 38
Windows Maintenance	2,661	\$ 182	\$ 61	2,084	\$ 271	\$ 130	837	\$ 109	\$ 130	1,580	\$ 205	\$ 130
Other Personal Systems	-	\$ 86	-	-	\$ (74)	-	-	\$ (160)	-	-	\$ (126)	-
Total		\$ 3,207			\$ 4,720			\$ 5,091			\$ 7,930	
% change					47%			8%			56%	

Key Assumptions
 Win 95 through OEM channel only- FY97 - FY99
 Win NTW OEM picked up by Select/MOLP in Corporate, Gov't, Edu @ 80% of OEM levels
 Assumes much broader MOLP penetration than exists today

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FY99/FY96 Revenue Delta Analysis

	Mix Model	NTW FG	NTW Annuity	Proposed
Revenue Growth	\$ 4,406	\$ 4,836	\$ 4,723	\$ 5,562
OEM Unit CAGR	\$ 1,021	\$ 1,021	\$ 1,021	\$ 1,021
OEM \$/Unit Uplift	\$ 1,879	\$ 1,267	\$ 1,267	\$ 1,608
NTW FG- New	\$ 1,135	\$ 2,177	\$ 2,065	\$ 1,135
Upgrade cycle	\$ 347	\$ 347	\$ 347	\$ 347
Add-ons	\$ -	\$ -	\$ -	\$ 1,628
Other	\$ 25	\$ 24	\$ 24	\$ (177)
Total	\$ 4,406	\$ 4,836	\$ 4,723	\$ 5,562

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Risks

- ◆ Cannot maintain 13% CAGR
 - ◆ Is traditional PC market hitting saturation like TVs or VCRs?
- ◆ Cannot achieve Win 95 and Win NTW uplift
- ◆ Will Cairo upgrade be attractive to a broad audience?

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Comments on Proposed Models

- ◆ Mix OEM/FG = \$7.6 Billion
- ◆ Pro: Increases units shipped of NTW by 8.7 million
- ◆ Con: Potentially less revenue than we can get through FG or annuity
- ◆ NTW FG case-Rev = \$8 Billion
- ◆ Pro: FG business generates more revenue
- ◆ Con: Results in lower NTW penetration, encourages naked OEM machines, exposes us to more piracy
- ◆ NTW through annuity = \$7.7 Billion
- ◆ Pro: Annuity greatly increases upgraded revenue
- ◆ Cons: Need to greatly expand MOLP coverage

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"FY 99 Proposal"

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Proposed Product Plan

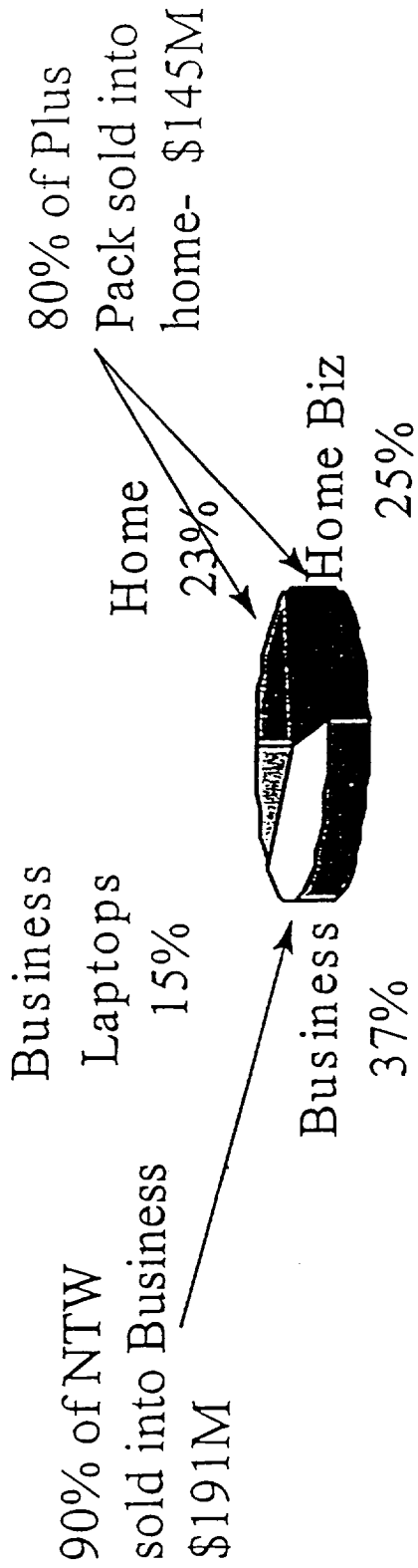
*How to generate an additional \$1.5 Billion
in FY 99*

- ◆ Determine what products to build
- ◆ Model the revenue the stream
- ◆ Review product specifics
- ◆ Address open issues

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FY 96 Market Opportunity by Usage



Source: IPR 8mb machines- 49.5mm

Conclusion: We have a Home and Business RUP or Add-on Business Today.

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The Proposed Products in FY 99

Proposed Products	FY 96		FY 99	
	FPP	OEM	FPP	OEM
Mobile	0	0		\$45
Business	\$188 (NT)	\$100	\$188 (Req NT)	\$35
Home Win 95 or NT	\$38 Plus Pack	0	\$38 10% (Win 95 or NT)	\$5
OEM runrate/ Base		Win 95 \$50		Base \$70

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Proposed Case

Dollars in millions, units in thousands

	FY96			FY97			FY98			FY99		
	Units	Rev	\$/Unit	Units	Rev	\$/Unit	Units	Rev	\$/Unit	Units	Rev	\$/Unit
Win 95 OEM	18,332	\$ 947	\$ 49	47,241	\$ 2,456	\$ 52	52,626	\$ 2,894	\$ 55	18,386	\$ 735	\$ 40
Win NTW OEM	329	\$ 32	\$ 97	1,974	\$ 158	\$ 80	8,600	\$ 785	\$ 90	55,997	\$ 3,920	\$ 70
Other OEM	29,806	\$ 1,046	\$ 35	7,451	\$ 242	\$ 32	4,288	\$ 147	\$ 34	-	\$ -	\$ -
OEM Add-ons										39,772	\$ 1,042	\$ 26
FG Add-ons										7,776	\$ 731	\$ 94
Win 95 Upgrades	7,017	\$ 587	\$ 84	6,484	\$ 538	\$ 83	2,378	\$ 195	\$ 82	7,995	\$ 668	\$ 84
NTW New (includes Win 9x to Cairo in FY99)	805	\$ 151	\$ 188	1,783	\$ 335	\$ 188	1,782	\$ 321	\$ 179	7,188	\$ 1,287	\$ 179
NTW Upgrades	577	\$ 40	\$ 69	2,208	\$ 287	\$ 130	1,401	\$ 181	\$ 129	2,351	\$ 306	\$ 130
MS-Plus!	3,841	\$ 145	\$ 38	7,321	\$ 278	\$ 38	7,257	\$ 278	\$ 38	-	\$ -	\$ -
Windows Maintenance	2,661	\$ 162	\$ 61	2,084	\$ 271	\$ 130	837	\$ 109	\$ 130	1,580	\$ 205	\$ 130
Other Personal Systems	-	\$ 96		-	\$ (74)		-	\$ (160)		-	\$ (126)	
Total		\$ 3,206			\$ 4,490			\$ 4,727			\$ 8,768	
% change					40%			5%			85%	

Key Assumptions

- Same as base case through FY98
- FY99 OEM Runrate OEM becomes NTW at \$70
- Win 9x ships into home segment in FY99 at \$40
- Add-on packs introduced

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FY 99 Product Plan Goals

- ◆ We want common API on all OEM machines
- ◆ Cairo is a rough superset of Memphis
- ◆ Want option to respond to Internet Terminal threat
- ◆ Caveat: Positioning and branding is not determined.

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FY '99 Base Product

- ◆ Requirements: feature parity with Win '95, basic OS and feature additions above Win '95, performs well in 16MB with Apps, carries all general APIs, easy upgrade from Win '95 base (incl Drivers and Fat 32).
- ◆ Additional Memphis, Cairo features in Base:
 - ◆ NT Kernel
 - ◆ WDM
 - ◆ MultiMedia Support (MPEG, Direct X)
 - ◆ Always On

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FY '99 Business Product

- ◆ Requirement: essential/highly relevant to 77% of the runrate machines, runs only on NT Kernel
- ◆ NT Features we would put only in Bus Product
 - ◆ Domain Security, UserMan, Admin, Event Log
- ◆ Cairo/Memphis features sold in business product
 - ◆ Client Support for Directory Services and DFS
 - ◆ Content Indexing
 - ◆ Smart Management Agents
 - ◆ Conferencing

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FY '99 Home Product

- ◆ Requirement: runs on both NT and Win '95 kernels
- ◆ Features in Nashville, Memphis and Cairo
 - ◆ Ratings, Athena, Address Book, WDM Audio Drivers
 - ◆ All features related to music input and output
 - ◆ Peer Server, Home Page Creation, Internet Virus Checker
- ◆ Features not designed
 - ◆ Wizards: single machine security, MSN sign-up, back-up
 - ◆ Control of household devices: VCR, answering machine, ect.
 - ◆ Money/Online Commerce
 - ◆ Consumer Titles

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FY 99 Mobile

- ◆ Requirement: includes all the features of the Business Product, has significant incremental value.
- ◆ Features in Nashville, Memphis, Cairo
 - ◆ RAS Multi link, RAS Autodial
 - ◆ Infrared Drivers, Wireless nets
 - ◆ APM
- ◆ Additional Features
 - ◆ All disconnected operations (deferred ops)
 - ◆ Super Briefcase that integrates Mail, files, and SQL data in a one step process

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"Open Issues"

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Key Questions for FY 99 Product Model

- ◆ Can the NT kernel be the foundation of the “Base product” from a product and appeal standpoint?
- ◆ Can we add enough value in the Base to raise the OEM revenue per machine by \$20?
- ◆ Are these the right additional products?
 - ◆ Can Bus Product appeal to home bus user?
 - ◆ Can we add enough interesting things in Home product to get a higher attach rate than Plus today?
 - ◆ Should Bus Product be written to just NT Base?
- ◆ Should we produce a product to sell to <16MB machines (68M machines 8-16MB in FY 99)

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Key Business Questions for 3 Year Plan

- ◆ Should we sell NTW in both the OEM and FG channel?
- ◆ Can we increase the MOLP penetration, which allows us to increase annuity?
- ◆ What can we do about piracy?
- ◆ Do we agree with a product model built on usage scenarios?

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"Appendices"

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Appendices

- ◆ A: Netscape
- ◆ B: Research
- ◆ C: Finance
- ◆ D: Product Detail

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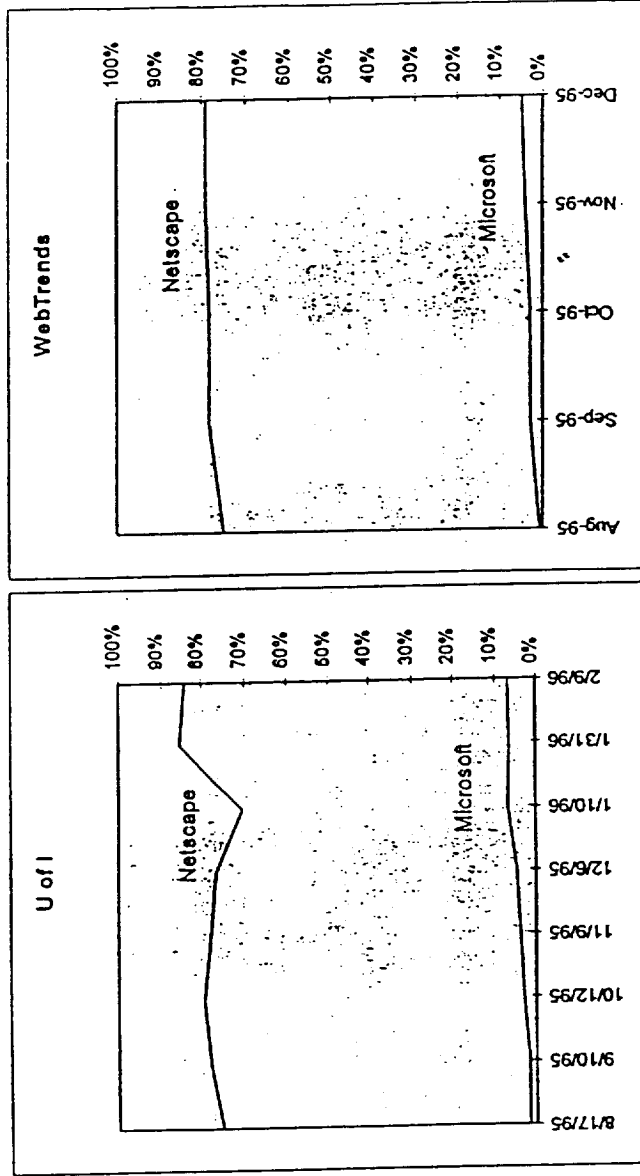
"Netscape"

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Appendix A: Netscape

Browser Market Share



What we need to win the war

- ◆ Better Products
- ◆ Aggressive marketing
 - ◆ Build Broad awareness & interest in IE and its benefits
 - ◆ Leverage Microsoft strengths
 - ◆ Dominate the intranet
 - ◆ Market our line of internet products
- ◆ Dramtically more Partners committed to our platform

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Better Product

Change the rules:

- ◆ Embrace current standards, java, plug-ins
 - ◆ Java can not be an advantage for Netscape
- ◆ Extend platform for a richer experience
 - ◆ Viewing (Docobj)
 - ◆ Programability and Client/Server (OCs),
 - ◆ Multimedia & games (Active VRML)
 - ◆ Phone & Conferencing (Microsoft Conferencing, SDK)

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Better Product

- ◆ Make Windows THE internet browser (shellview)
 - ◆ Customer benefits from one place to view and work with all information (Webview)
 - ◆ Web View/Hyper Text
 - ◆ History. Favorites, Navigation are not just internet issue
- ◆ Build on the variety MS offers
 - ◆ Our tools and FrontPage need to be the best and build the best IE sites
 - ◆ Office takes advantage of IE (docobj)
 - ◆ Consumer/MSN to build first and best IE extension applications and content
- ◆ How do we make ISAPI apps more compelling for IE3 users?

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Better Product

Need to be cross platform:

- ◆ NT with Shell Update Release (SUR)
- ◆ Available when SUR is in beta
- ◆ Macintosh
- ◆ In broad beta Q1 96 (on the web now)
- ◆ Win 3.1 (Internet Explorer 1.5)
- ◆ Included with Gibraltar now
- ◆ Broad distribution Q1 next year (on the web now)
- ◆ UNIX

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End Users

- ◆ Massive seeding of IE
 - ◆ Magazines, tradeshows, via partners, high-profile events etc
- ◆ Broad advertising on the web & with traditional media
- ◆ Big push with Internet Starter Kit and Plus 2.0
 - ◆ Pay for premium merchandising positions
- ◆ IE being free is a key advantage to push

Businesses

- ◆ Own the intranet
- ◆ Leverage investment in Office, existing documents, and LAN infrastructure and our relationship with accounts
- ◆ Account plan for all key accounts
- ◆ Most integrated solution for end user apps, tools, and back end
 - ◆ Bundles of key products (merchant server, front page and other tools, IIS, IE etc.)
- ◆ Address business needs for communication, collaboration and for providing services on the internet
 - ◆ Demos, seminars, technical how to materials, PR tours to get word out
- ◆ Field Training

PR

- ◆ Get momentum on our side
- ◆ Press Tours, Analysts visits, Adv & Direct Response
- ◆ Rapid fire announcements of new technologies, partnerships and success stories
- ◆ Reviewers workshops
- ◆ Consumer press effort

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Partners

◆ Webmasters *Need to build specific programs for each group*

◆ ICPs

◆ ISPs

◆ ISVs

◆ OEMs

◆ Resellers

◆ Technology

◆ Microsoft itself

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Sample thoughts

- ◆ First wave” like programs to provide value to ICPs that build on our platform
- ◆ Authorized webmaster program and advertise broadly to end users and businesses
- ◆ 1 to 1 & 1 to many massive evangelism efforts
- ◆ ISPs in the Windows and Internet Starter Kit box and shipping our browser
- ◆ OEMs shipping and promoting our browser
- ◆ Microsoft web sites need to be first and best IE sites

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"Research"

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Appendix B: Research

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Maintenance units by segment

	FY95	FY96	Total	FY95	FY96	Total
> 1000	427,841	632,549	1,060,390	78%	74%	76%
50-999	34,418	40,382	74,800	6%	5%	5%
< 50	57	56	113	0%	0%	0%
Gov't	55,966	103,602	159,568	10%	12%	11%
Edu	27,085	74,702	101,787	5%	9%	7%
	<u>545,367</u>	<u>851,291</u>	<u>1,396,658</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

- Based on FY 95 and FY 96 YTD Windows/WFW maintenance licenses
- Derived from Performance Framework
- Does not include implied SMORG

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Volume License Coverage for Windows

Company/org Desktop Category*	Number of US Companies/orgs in Categories	# Companies purchasing W in/W FW. Via MOLP and Select: FY 96 to date	Percentage of Coverage
>1000	1,400	541	38%
50-999	131,000	2,368	2%
<50	3,500,000		
Home	35,000,000		
Gov't	106,000		
Education	172,000		

*Desktop categories derived from IPR data using OS Tracker information to match companies to MS licensing model.

Data on # of companies using MOLP comes from Macsim

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Volume Licensing/Maintenance Penetration

	MORG	LORG
	50-1000 Desktops (131,000 orgs)*	1000+ Desktops (1,400 orgs)*
Avg of Volume Licensing Programs	83%	88%
Avg of Maintenance Programs	67%	79%
Using Volume License OS	30%	42%
Using Maintenance OS	14%	23%
Using MS OS Maintenance*	<1%	37%
Has MS OS Volume License License agreement	2%	30%
Invested in a SW maintenance agreement for OS*	77%	88%

* OS Tracker Data. Refer to position in OS Tracker sample in North America 1990-1992, 21 LOCOS
 • Consider: Are you aware of any volume software licensing plans for operating systems? Do you have any volume SW licensing plan for operating systems? Are you aware of any SW maintenance programs for operating systems?
 • * Companies, not licenses, based on MS OS Maintenance
 • * US Data

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Two Ways We Assess OS Penetration

(Business sector %'s refer to corporate deployment & standardization, not % share of desktops)

Beachhead Approach (OS is in use somewhere in org)

U.S. Data	SORG	MORG	LORG
DOS only	39	61	66
Windows 3.1 or lower	32	41	53
W/NT	24	47	83
Windows 3.11	62	77	59
Windows 95	27	35	43
Windows NTW	9	13	26
Apple/MAC	9	20	28
OS/2	5	10	32
Unix	5	29	35

Q: Please tell me if any desktop PCs you influence are currently running under each of these operating systems

Dominant/Standard Approach (Dominant Desktop OS used)

U.S. Data	HOME	SORG	MORG	LORG
DOS only	6	10	22	13
Windows 3.1 or lower		20	14	18
W/NT		9	13	18
Windows 3.11		36	32	35
Windows 3.x (non specified)	65			
Windows 95	16	11	4	4
Windows NTW	<1	1	1	1
Apple/MAC	12	2	5	2
OS/2	1	-	-	1
Unix	<1	2	6	2

Q: What is the dominant (primary) operating system used on your home/companies PCs? * Asked of IS

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Source: OS Tracker & PC Watch Survey by ERS by CompuShare International 1996. North American data.

US PC Installed Base Map

US Channel View

	1H96 IB	% => 8MB	IB >8MB
Large	8,044	50%	4,022
SMORG	22,325	50%	11,163
Total Business			<u>15,185</u>
Gov't	4,114	50%	2,057
Edu	5,744	45%	2,585
Home	37,545	40%	15,018
Total	<u>77,772</u>		<u>34,844</u>

IPR/Desktop OS 3YO

	Units	Delta from US	Delta from CII
>1000 PCs	4,293	7%	16%
50-999 PCs	4,943		1%
< 50 PCs	5,647	-5%	-10%
	<u>14,883</u>	<u>-2%</u>	<u>0%</u>
Gov't	1,913	-7%	
Edu	2,169	-16%	
Home Blz	8,241		
Home	6,809	0%	
Total	<u>34,015</u>	<u>-2%</u>	

PSD/BSD Calldowns

3,696
4,912
6,300
<u>14,908</u>

Notes:

- 1) Both US and Desktop OS approaches utilize Bureau of Labor Statistics data via IPR,,
- 2) Desktop OS conversion from people to PCs based on average of 50%
- 3) Desktop OS started with PCs w/ minimum of 8MB; conversion of US data based on IPR mix, confirmed by Curtis
- 4) Split LORG differently versus US Channel
- 5) CII data is an independent audit of 1,400 companies

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Relative Percentages of Companies Testing/Deploying*: Windows 95, NTW, Both, or Neither

Estimates based on OS Tracker Survey feedback from a random sample of OS decision makers- January 96, North American Data.

	SORG	MORG	LORG
Testing/Deploying Both Win95 & NTW	10	36	45
Testing/Deploying Win95 Only	20	18	45
Testing/deploying NTW Only	6	23	5
Net (either)	36	77	95
Testing/deploying Neither	64	23	5

* Includes OEM & Upgrades

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Source: OS Tracker, January 1996. *Microsoft Confidential*

Relative Desktop Market Share* for Windows 95 vs NTW: Today and FY 1997

Estimates based on OS Tracker Survey feedback from
a random sample of org OS decision makers
January, 1996 North American data.

	SORG	MORG	LORG
	% of org 8+mb DT's running OS		
Reported NTW share of 8+ mb PCs TODAY	12%	5%	6%
Reported NTW Share in FY97	23	13	13
Reported WIN95 share of 8+ PCs TODAY	11	4	5
Reported WIN95 share in FY 97	24	15	18

* Includes OEM & Upgrades

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Proposed Top Ten Features for Add-on Products (in descending order of importance)*

*Based on recent focus group and call down data for Win 95 Plus, Exchange, NT Server, and Small Business Server

<p>Home Recreation</p> <ul style="list-style-type: none"> • Virus Scan from Wire • Local Community Access • Enhanced Telephony (Internet Phone) • RAM Doubler • System Agents (Pop-Up defrag, Pop-Up backup) • Customizable UI for User Skill Level • Multiple Users/One Machine • Cable, Wireless Support • Internet Power Tools • Voice Comments 	<p>Work at Home</p> <ul style="list-style-type: none"> • Universal In-Box Agents/Enhancements • Faster Data Transfer • Connectivity (LAN, WAN, Mainframe, Customers) • FAX send and receive from desktop • Enhanced Telephony (Internet Phone) • System Agents (Pop-Up defrag, Pop-Up backup) • Security (from outside sources) • Multiple users/One machine • Electronic Commerce Support (EDI/Internet with MIME) • Virus Scan from Wire
<p>Business</p> <ul style="list-style-type: none"> • Connectivity (LAN, WAN, Mainframe, Customers) • Universal In-Box Agents/Enhancements • SMS Client (Remote control for Help Desk) • Compression (Pop-Up) • System Agents (Pop-Up defrag, Pop-Up backup) • Remote Software Upgrades • RAM Doublers • FAX Send/Receive from Desktop • Customizable UI for User Skill Level • File/Directory Security 	<p>Mobile</p> <ul style="list-style-type: none"> • Connectivity (LAN, WAN, Mainframe, Customers) • Power Management • Faster Data Transfer • Universal In-Box Agents/Enhancements • System Agents (Pop-Up defrag, Pop-Up backup) • Compression (Pop-Up) • Time-based / Pop-up Archiving • SMS Client (Remote control for Help Desk) • File Synchronization • Mobile Companion (Street maps, restaurant guides)

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"Finance"

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“Appendix C: Financials

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Desktop OS Three Year Outlook

Base Case

(Units and revenues in millions)

OEM	1988		FY88		FY87		FY86		FY85		FY84		CAGR					
	Units	\$/Unit	Revenue	Units	\$/Unit	Revenue	Units	\$/Unit	Revenue	Units	\$/Unit	Revenue	Units	\$/Unit	Rev			
>1,000 Desktops																		
MS-DOS	288	\$ 17	\$ 4,837	398	\$ 17	\$ 6,888	183	\$ 17	\$ 3,170	87	\$ 17	\$ 1,480						
Windows	2,288	\$ 38	\$ 86,776	3,074	\$ 38	\$ 116,215	597	\$ 38	\$ 22,554	364	\$ 38	\$ 13,752						
Windows 95	503	\$ 49	\$ 24,688	2,107	\$ 48	\$ 103,234	4,978	\$ 62	\$ 308,828	8,284	\$ 86	\$ 709,840	6,808	\$ 88	\$ 597,015	11%	18%	33%
Win NTW	10	\$ 100	\$ 998	52	\$ 100	\$ 5,200	288	\$ 80	\$ 23,108	1,204	\$ 90	\$ 108,318	7,746	\$ 70	\$ 540,673			
Total	3,077	\$ 38	\$ 117,947	5,832	\$ 41	\$ 231,558	3,048	\$ 61	\$ 307,761	8,859	\$ 60	\$ 413,770						
% change																		
60-999 Desktops																		
MS-DOS	316	\$ 17	\$ 5,372	624	\$ 17	\$ 10,608	253	\$ 17	\$ 4,308	89	\$ 17	\$ 1,513						
Windows	2,815	\$ 38	\$ 106,955	3,828	\$ 38	\$ 145,254	715	\$ 38	\$ 27,038	420	\$ 38	\$ 15,960						
Windows 95	877	\$ 49	\$ 42,933	2,464	\$ 48	\$ 118,276	6,994	\$ 62	\$ 433,163	12,451	\$ 86	\$ 1,071,716	9,416	\$ 88	\$ 827,088	9%	19%	30%
Win NTW	12	\$ 100	\$ 1,182	64	\$ 100	\$ 6,400	393	\$ 80	\$ 31,440	1,451	\$ 90	\$ 130,590	2,203	\$ 100	\$ 220,303			
Total	3,553	\$ 38	\$ 154,340	6,581	\$ 41	\$ 268,578	7,724	\$ 61	\$ 478,346	12,744	\$ 60	\$ 772,378						
% change																		
<60 Desktops																		
MS-DOS	868	\$ 17	\$ 14,756	1,007	\$ 17	\$ 17,119	434	\$ 17	\$ 7,378	143	\$ 17	\$ 2,431						
Windows	2,922	\$ 38	\$ 110,464	3,979	\$ 38	\$ 151,258	850	\$ 38	\$ 32,138	488	\$ 38	\$ 18,492						
Windows 95	884	\$ 49	\$ 43,318	2,428	\$ 48	\$ 116,524	7,251	\$ 62	\$ 449,861	12,451	\$ 86	\$ 1,071,716	8,965	\$ 88	\$ 827,088	11%	22%	35%
Win NTW	17	\$ 100	\$ 1,678	81	\$ 100	\$ 8,100	414	\$ 80	\$ 33,120	2,471	\$ 90	\$ 222,318	3,738	\$ 100	\$ 373,873			
Total	4,171	\$ 37	\$ 154,437	7,892	\$ 40	\$ 319,433	8,130	\$ 61	\$ 485,888	13,753	\$ 62	\$ 855,958						
% change																		
GOVT																		
MS-DOS	145	\$ 17	\$ 2,465	218	\$ 17	\$ 3,706	108	\$ 17	\$ 1,876	36	\$ 17	\$ 616						
Windows	974	\$ 38	\$ 36,788	1,316	\$ 38	\$ 49,808	276	\$ 38	\$ 10,390	161	\$ 38	\$ 6,100						
Windows 95	214	\$ 49	\$ 10,474	916	\$ 48	\$ 44,051	2,281	\$ 62	\$ 141,828	2,170	\$ 86	\$ 186,418	2,189	\$ 88	\$ 193,801	7%	20%	28%
Win NTW	5	\$ 100	\$ 498	27	\$ 100	\$ 2,702	189	\$ 80	\$ 15,120	811	\$ 90	\$ 72,990	889	\$ 100	\$ 88,920			
Total	1,338	\$ 38	\$ 40,244	2,478	\$ 41	\$ 101,023	2,824	\$ 61	\$ 173,827	2,873	\$ 61	\$ 180,848						
% change																		
Edu																		
MS-DOS	136	\$ 17	\$ 2,312	225	\$ 17	\$ 3,884	121	\$ 17	\$ 2,068	46	\$ 17	\$ 786						
Windows	1,166	\$ 38	\$ 44,332	1,688	\$ 38	\$ 63,910	308	\$ 38	\$ 11,804	247	\$ 38	\$ 9,344						
Windows 95	293	\$ 49	\$ 14,372	1,110	\$ 48	\$ 53,474	3,411	\$ 62	\$ 211,828	3,886	\$ 86	\$ 334,443	3,885	\$ 88	\$ 341,927	13%	17%	32%
Win NTW	2	\$ 100	\$ 248	18	\$ 100	\$ 1,810	112	\$ 80	\$ 8,960	640	\$ 90	\$ 57,600	887	\$ 100	\$ 88,700			
Total	1,621	\$ 38	\$ 47,400	3,354	\$ 41	\$ 138,248	4,083	\$ 60	\$ 233,898	4,878	\$ 61	\$ 281,816						
% change																		
Home Business																		
MS-DOS	878	\$ 17	\$ 14,926	886	\$ 17	\$ 15,058	462	\$ 17	\$ 7,818	183	\$ 17	\$ 3,107						
Windows	4,857	\$ 38	\$ 184,847	6,448	\$ 38	\$ 245,033	1,423	\$ 38	\$ 53,782	981	\$ 38	\$ 37,064						
Windows 95	1,092	\$ 49	\$ 53,507	3,784	\$ 48	\$ 182,428	12,163	\$ 62	\$ 754,445	14,481	\$ 86	\$ 1,248,028	17,742	\$ 88	\$ 1,561,033	17%	13%	33%
Win NTW	9	\$ 100	\$ 895	80	\$ 100	\$ 8,012	378	\$ 80	\$ 30,240	1,818	\$ 90	\$ 163,620	4,005	\$ 100	\$ 400,471			
Total	6,305	\$ 38	\$ 239,000	12,218	\$ 41	\$ 501,458	14,407	\$ 60	\$ 773,898	17,563	\$ 61	\$ 1,005,341						
% change																		
Home																		
MS-DOS	616	\$ 17	\$ 10,472	810	\$ 17	\$ 13,770	395	\$ 17	\$ 6,710	187	\$ 17	\$ 3,188						
Windows	4,121	\$ 38	\$ 156,773	5,828	\$ 38	\$ 220,188	1,287	\$ 38	\$ 48,912	928	\$ 38	\$ 35,008						
Windows 95	893	\$ 49	\$ 43,650	4,681	\$ 48	\$ 224,862	11,141	\$ 62	\$ 690,318	14,037	\$ 86	\$ 1,208,028	17,742	\$ 88	\$ 1,561,033	17%	13%	33%
Win NTW	1	\$ 100	\$ 114	10	\$ 100	\$ 1,000	89	\$ 80	\$ 7,120	314	\$ 90	\$ 28,260	844	\$ 100	\$ 84,400			
Total	5,621	\$ 38	\$ 212,863	11,336	\$ 41	\$ 483,081	12,862	\$ 60	\$ 738,158	18,444	\$ 61	\$ 1,308,160						
% change																		
Total																		
MS-DOS	2,581	\$ 17	\$ 44,305	3,928	\$ 17	\$ 66,800	1,947	\$ 17	\$ 33,480	730	\$ 17	\$ 12,431						
Windows	18,771	\$ 38	\$ 709,844	25,878	\$ 38	\$ 980,204	6,004	\$ 38	\$ 228,008	3,658	\$ 38	\$ 134,408						
Windows 95	4,287	\$ 49	\$ 210,843	18,332	\$ 48	\$ 877,265	47,241	\$ 62	\$ 2,936,824	82,828	\$ 86	\$ 7,004,454	98,828	\$ 88	\$ 8,697,019	15%	17%	34%
Win NTW	88	\$ 100	\$ 8,800	329	\$ 100	\$ 32,900	1,974	\$ 80	\$ 157,920	8,100	\$ 90	\$ 72,900	14,884	\$ 100	\$ 1,488,413			
Total	25,885	\$ 38	\$ 870,002	49,468	\$ 41	\$ 2,058,353	36,888	\$ 60	\$ 2,386,188	65,412	\$ 61	\$ 4,808,483						
% change																		

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Desktop OS Three Year Outlook

Proposed Case

	FY96			FY97			FY98			CAGR	
	Units	\$/PC	Revenue	Units	\$/PC	Revenue	Units	\$/PC	Revenue	Units	\$/Unit Rev
<i>(Units and revenues in thousands)</i>											
OEI											
>1,000 Desktops											
MS-DOS	398	\$ 17	\$ 6,888	183	\$ 17	\$ 3,170	87	\$ 17	\$ 1,160		
Win/Win	3,074	\$ 38	\$ 118,215	597	\$ 38	\$ 22,554	364	\$ 38	\$ 13,762		
Windows 95	2,107	\$ 48	\$ 103,234	4,879	\$ 52	\$ 286,929	5,284	\$ 55	\$ 289,540		
Win NTW	52	\$ 100	\$ 5,220	289	\$ 80	\$ 23,108	1,204	\$ 90	\$ 108,318		
OS only	5,632	\$ 41	\$ 231,556	6,048	\$ 51	\$ 307,781	6,889	\$ 60	\$ 412,770	11%	19%
Business Pack											
Laptop Pack											
Total		\$ 41	\$ 231,556		\$ 51	\$ 307,781		\$ 60	\$ 412,770	12%	18%
% change				7%			14%			33%	33%
% laptops				30%			33%				
50-999 Desktops											
MS-DOS	624	\$ 17	\$ 9,084	253	\$ 17	\$ 4,388	89	\$ 17	\$ 1,539		
Win/Win	3,529	\$ 38	\$ 133,416	715	\$ 38	\$ 27,035	420	\$ 38	\$ 15,880		
Windows 95	2,464	\$ 49	\$ 120,725	6,094	\$ 52	\$ 311,714	6,094	\$ 55	\$ 335,163		
Win NTW	64	\$ 100	\$ 6,374	382	\$ 80	\$ 28,947	1,441	\$ 90	\$ 129,718		
OS only	8,581	\$ 41	\$ 289,579	7,324	\$ 51	\$ 372,084	8,044	\$ 60	\$ 482,278	9%	20%
Business Pack											
Laptop Pack											
Total		\$ 41	\$ 289,579		\$ 51	\$ 372,084		\$ 60	\$ 482,278	7%	18%
% change				11%			16%			32%	32%
% laptops				29%			32%				
<50 Desktops											
MS-DOS	867	\$ 17	\$ 14,909	434	\$ 17	\$ 7,513	143	\$ 17	\$ 2,467		
Win/Win	4,002	\$ 38	\$ 151,258	850	\$ 38	\$ 32,136	488	\$ 38	\$ 17,882		
Windows 95	2,826	\$ 49	\$ 143,383	7,251	\$ 52	\$ 377,061	6,880	\$ 55	\$ 378,418		
Win NTW	98	\$ 100	\$ 9,813	614	\$ 80	\$ 49,189	2,471	\$ 90	\$ 222,381		
OS only	7,882	\$ 40	\$ 318,433	9,150	\$ 51	\$ 465,888	9,882	\$ 62	\$ 620,958	11%	20%
Business Pack											
Laptop Pack											
Total		\$ 40	\$ 318,433		\$ 51	\$ 465,888		\$ 62	\$ 620,958	7%	17%
% change				16%			9%			32%	33%
% laptops				29%			32%				
Gov't											
MS-DOS	219	\$ 17	\$ 3,780	108	\$ 17	\$ 1,875	36	\$ 17	\$ 618		
Win/Win	1,315	\$ 38	\$ 49,888	275	\$ 38	\$ 10,380	151	\$ 38	\$ 5,680		
Windows 95	916	\$ 49	\$ 44,851	2,281	\$ 52	\$ 118,828	2,178	\$ 55	\$ 119,653		
Win NTW	27	\$ 100	\$ 2,702	159	\$ 80	\$ 12,734	611	\$ 90	\$ 55,002		
OS only	2,475	\$ 41	\$ 101,022	2,824	\$ 51	\$ 143,827	2,873	\$ 61	\$ 180,881	7%	20%
Business Pack											
Laptop Pack											
Total		\$ 41	\$ 101,022		\$ 51	\$ 143,827		\$ 61	\$ 180,881	3%	18%
% change				14%			5%			31%	31%
% laptops				0			30%				

Desktop OS Three Year Outlook

Proposed Case

(Units and revenue in thousands)

	FY86			FY87			FY88			FY89			CAGR		
	Units	\$/PC	Revenue	Units	\$/PC	Revenue	Units	\$/PC	Revenue	Units	\$/PC	Revenue	Units	\$/Unit	Rev
OEM															
Edu															
MS-DOS	225	\$ 17	\$ 3,884	121	\$ 17	\$ 2,098	45	\$ 17	\$ 786	-	\$ -	\$ -	-	\$ -	-
Win/MW	1,688	\$ 38	\$ 63,810	388	\$ 38	\$ 14,857	247	\$ 38	\$ 9,344	0	\$ -	\$ -	0	\$ -	-
Windows 95	1,403	\$ 49	\$ 68,745	3,441	\$ 52	\$ 178,929	3,695	\$ 55	\$ 203,213	-	\$ -	\$ -	-	\$ -	-
Win NTW	18	\$ 100	\$ 1,810	112	\$ 80	\$ 8,936	640	\$ 90	\$ 48,033	4,782	\$ 70	\$ 334,751	4,782	\$ 70	\$ 334,751
OS only	3,334	\$ 41	\$ 138,249	4,062	\$ 60	\$ 204,818	4,528	\$ 58	\$ 261,978	1,435	\$ 35	\$ 50,213	1,435	\$ 35	\$ 50,213
Business Pack															
Laptop Pack															
Total		\$ 41	\$ 138,249		\$ 50	\$ 204,818		\$ 58	\$ 261,978		\$ 86	\$ 408,497		\$ 86	\$ 408,497
% change				22%		28%	11%		13%		41%	65%	6%		19%
% laptops				19%			20%								
Home Business															
MS-DOS	866	\$ 17	\$ 15,330	452	\$ 17	\$ 7,618	183	\$ 17	\$ 3,167	-	\$ -	\$ -	-	\$ -	-
Win/MW	6,445	\$ 38	\$ 243,633	1,423	\$ 38	\$ 53,782	981	\$ 38	\$ 37,084	0	\$ -	\$ -	0	\$ -	-
Windows 95	4,828	\$ 49	\$ 236,483	12,153	\$ 52	\$ 631,945	14,481	\$ 55	\$ 798,443	-	\$ -	\$ -	-	\$ -	-
Win NTW	80	\$ 100	\$ 8,012	379	\$ 80	\$ 30,351	1,919	\$ 90	\$ 172,698	21,077	\$ 70	\$ 1,475,419	21,077	\$ 70	\$ 1,475,419
OS only	12,218	\$ 41	\$ 501,458	14,407	\$ 50	\$ 723,898	17,583	\$ 57	\$ 1,009,341	6,323	\$ 35	\$ 221,313	6,323	\$ 35	\$ 221,313
Business Pack															
Laptop Pack															
Home Pack															
Total		\$ 41	\$ 501,458		\$ 50	\$ 723,898		\$ 57	\$ 1,009,341		\$ 86	\$ 1,814,133		\$ 86	\$ 1,814,133
% change				18%		44%	22%		14%		50%	20%	20%		19%
% laptops				14%			15%					16%			43%
Home															
MS-DOS	810	\$ 17	\$ 14,009	395	\$ 17	\$ 6,840	167	\$ 17	\$ 2,896	-	\$ -	\$ -	-	\$ -	-
Win/MW	5,825	\$ 38	\$ 220,188	1,257	\$ 38	\$ 47,512	928	\$ 38	\$ 35,008	0	\$ -	\$ -	0	\$ -	-
Windows 95	4,691	\$ 49	\$ 229,882	11,141	\$ 52	\$ 579,318	14,037	\$ 55	\$ 772,026	18,386	\$ 40	\$ 735,432	18,386	\$ 40	\$ 735,432
Win NTW	10	\$ 100	\$ 1,005	59	\$ 80	\$ 4,681	314	\$ 90	\$ 28,250	-	\$ 70	\$ -	-	\$ 70	\$ -
OS only	11,338	\$ 41	\$ 485,081	12,852	\$ 60	\$ 638,351	15,444	\$ 64	\$ 838,180	18,386	\$ 40	\$ 735,432	18,386	\$ 40	\$ 735,432
Business Pack															
Home Pack															
Total		\$ 41	\$ 485,081		\$ 60	\$ 638,351		\$ 64	\$ 838,180		\$ 86	\$ 1,814,133		\$ 86	\$ 1,814,133
% change				13%		37%	13%		8%		32%	17%	17%		17%
% laptops				11%			12%								
Total															
MS-DOS	3,928	\$ 17	\$ 67,851	1,947	\$ 17	\$ 33,680	730	\$ 17	\$ 12,631	-	\$ -	\$ -	-	\$ -	-
Win/MW	25,978	\$ 38	\$ 978,204	5,604	\$ 38	\$ 208,088	3,558	\$ 38	\$ 134,409	0	\$ -	\$ -	0	\$ -	-
Windows 95	19,332	\$ 49	\$ 947,265	47,241	\$ 52	\$ 2,468,524	52,626	\$ 55	\$ 2,894,454	18,386	\$ 40	\$ 735,432	18,386	\$ 40	\$ 735,432
Win NTW	329	\$ 100	\$ 32,938	1,874	\$ 80	\$ 157,916	8,500	\$ 90	\$ 784,868	65,997	\$ 70	\$ 3,919,774	65,997	\$ 70	\$ 3,919,774
OS only	48,468	\$ 41	\$ 2,028,357	58,668	\$ 60	\$ 2,856,186	65,412	\$ 58	\$ 3,308,463	74,383	\$ 63	\$ 4,655,205	74,383	\$ 63	\$ 4,655,205
Business Pack															
Mobile Pack															
Home Pack															
Total		\$ 41	\$ 2,028,357		\$ 50	\$ 2,856,186		\$ 58	\$ 3,308,463		\$ 77	\$ 5,698,498		\$ 77	\$ 5,698,498
% change				15%		47%	15%		13%		33%	15%	15%		15%
% laptops				20%			22%					30%			32%

3 Year P&L Outlook

Worldwide Division
 January 15, 1996

	FY96		FY97		FY98		FY99		CAGR		Year over Year		
	Actual	Est	Min	Max	Est	Est	Est	Est	Est	Est	FY96-97	FY97-98	FY98-99
Operating Expenses													
People	37	80	80	80	95	106	123	123	15.8%	19.3%	12.2%	15.9%	
Infrastructure	10	22	24	24	25	27	30	30	10.0%	14.1%	7.3%	10.9%	
Contingency Staff	8	13	19	19	15	14	15	15	6.9%	22.0%	-12.4%	13.8%	
Product Development	9	18	20	20	31	37	37	37	46.2%	64.3%	22.2%	31.7%	
Marketing	103	194	176	176	246	170	396	396	26.9%	26.7%	-30.7%	132.8%	
Other	(0)	(0)	0	0	0	0	0	0	-190.3%	-161.7%	9.7%	9.7%	
Product Support Services	90	163	163	163	249	143	482	482	43.0%	52.8%	-42.7%	237.3%	
Net/Job & Other	36	45	65	65	61	69	18	18	-26.4%	34.6%	12.6%	-73.7%	
R&D Support/Reserves	21	45	55	55	52	60	69	69	15.4%	16.2%	15.0%	15.0%	
Total Operating Expenses	316	380	803	803	774	825	1,191	1,191	27.1%	31.6%	-19.1%	30.7%	
Responsibility Margin	1,112	2,358	1,938	1,938	3,433	3,754	6,997	6,997	43.7%	45.6%	9.4%	86.4%	
Net Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%					
Cost Of Revenues	8.1%	5.2%	7.1%	7.1%	3.7%	4.6%	4.4%	4.4%					
Gross Margin	91.9%	94.8%	92.9%	92.9%	96.3%	95.4%	95.6%	95.6%					
Marketing	6.8%	6.2%	6.1%	6.1%	5.6%	3.7%	4.6%	4.6%					
PSS	5.8%	5.2%	6.1%	6.1%	5.7%	3.1%	5.6%	5.6%					
Other	20.3%	18.6%	22.1%	22.1%	17.7%	13.6%	13.9%	13.9%					
Responsibility Margin	71.6%	75.8%	70.8%	70.8%	78.6%	81.8%	81.7%	81.7%					

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3 Year Headcount Outlook

Personal Systems Division February 15, 1996

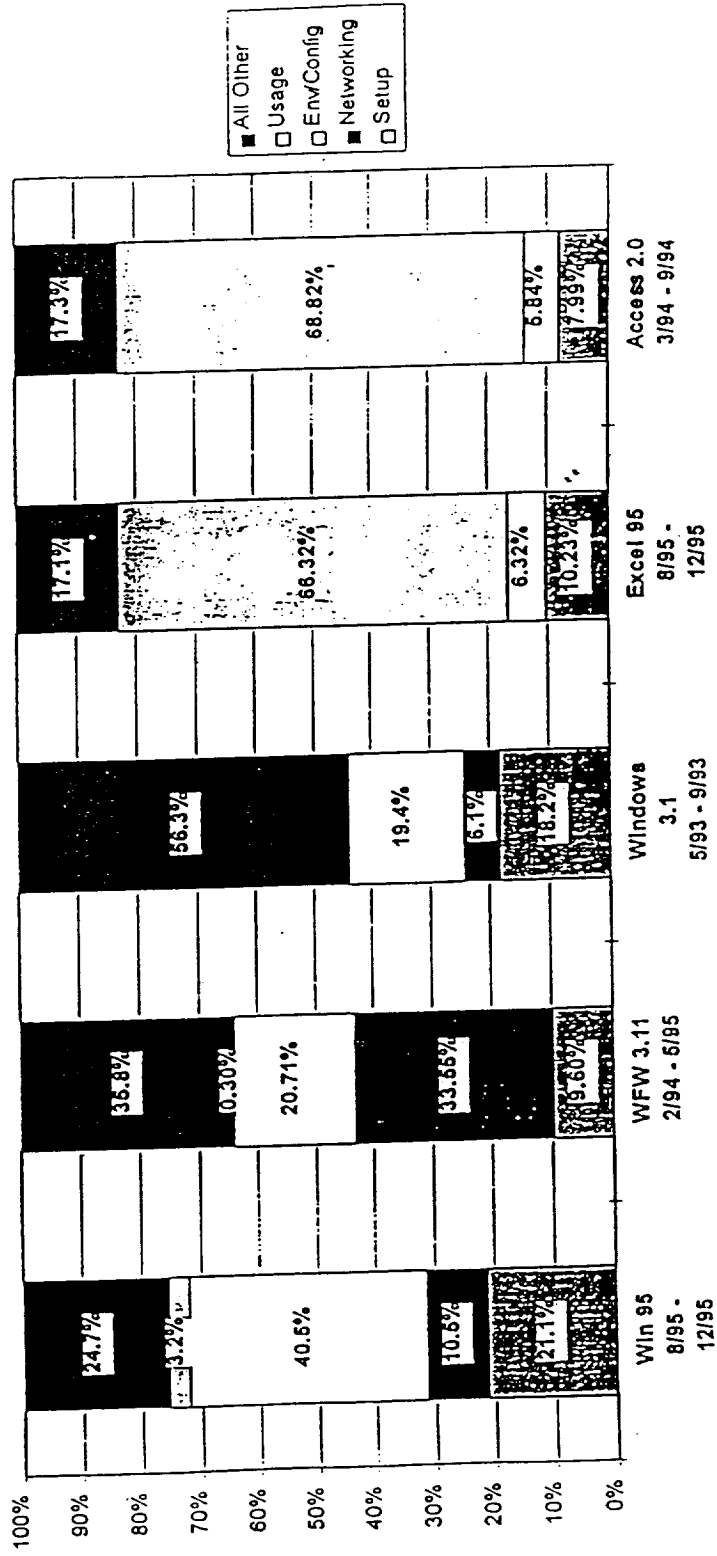
Business Unit	Dec FY96 Actuals	FY96		FY97		FY98		FY99		CAGR	
		Fcst	Revised Plan	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst '96-'99	Fcst '96-'99
Windows	464	567	567	567	627	691					6.8%
Telephony	47	46	46	46	46	46					0.0%
Printing Systems	102	119	119	119	119	119					0.0%
Fax/Copy	44	46	46	46	46	46					0.0%
NT Workstation	4	5	5	7	9	10					26.0%
International	76	73	73	73	73	73					0.0%
Total (Regular Heads)	717	836	836	838	920	985					4.8%
Onsite temps and contractors (Ave)	252	229	214	271	229	251					3.1%
Total Division	989	1,085	1,070	1,129	1,149	1,236					4.4%

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Product Support Issues



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"Product"

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Appendix D: Product

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Product Strategy

- ◆ Evangelizé the Win32 API
- ◆ Squeeze OS/2 between Win95 and NT
- ◆ Add Internet functionality to the operating system
- ◆ Simplify PC experience via SIPC initiative

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Product Plan

- ◆ Windows 95, Windows NT 3.51
- ◆ Internet Add-On -- Q1 FY97
- ◆ Windows NT SUR -- Q1 FY97
- ◆ Memphis and Cairo -- 1H FY98

Note: Dates shown here are for US-English software RTM.

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Product Strategy

- ◆ Broadly localize browsers
- ◆ Cross-Platform browsers
- ◆ Adopt Netscape HTML extensions
- ◆ Extend HTML
- ◆ Host OCXs
 - ◆ also solution for plug-in hosting
- ◆ Support VB Script
- ◆ Support Java/Java script
- ◆ Integrate browser with Windows UI

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Product Plan

- ◆ \$19.95 Internet Step-up sku -- Q3FY96
- ◆ Sweeper SDK -- Q4FY96
- ◆ IE 3.0 free online -- Q4FY96
- ◆ Refresh OEM & Retail Win95 with IE3.0 and shell view -- Q1FY97
- ◆ Plus 2.0 with IE 3.0, shell view and a number of internet value-add features -- Q2FY97

Note: Dates shown here are for US-English software &TM.

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Product Strategy

- ◆ Windows companion
- ◆ Platform independent - runs on SH3, MIPS. Will run on x86.
- ◆ Small footprint -- 700K RAM for system, shell and one application
- ◆ Small versions of Word, XL, Web Browser, games, mail client
- ◆ \$500 device
- ◆ Also lots of interest from game machines (Bandai, Sega), In car computers (Nissan, Toyota)

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Product Plan

- ◆ RTM to OEMs Q3 1996
- ◆ Limited to 6 OEMs for 3 years, 8 OEM for 5 years
- ◆ MS royalties around \$23 for horizontal OEMs, \$40-50 for verticals
- ◆ Expecting 200K units sold in CY 1997 with potential upside because of verticals
- ◆ Focus for 1997
 - ◆ reducing size requirement to get to a \$300 pegasus
 - ◆ adding Directx, MM support
 - ◆ additional applications and support for a memory extension standard

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Localization Strategy

- Continued improvement on schedules
 - Western Europe: maintain Win95 deltas
 - Eastern Europe: Improve quality and schedule
 - Greek pilot in Redmond
- Deployment of new tools and processes
 - Espresso 2.0 localization tool deployment
 - Fix OEM process, tied with US process
- Middle East specific group proposed
 - Focus on Middle East only

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Localization Strategy

- Align Asian release schedule with US
 - OPK updates within 30 days of US
 - Emphasis on reducing Japan delta to zero
- Continued development of NEC version
- Maintain only Fujitsu FMR, Epson PC98
- New HongKong Chinese enabled version
 - English UI, based on PRC code

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Microsoft Support/Channel Strategy

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Support Strategy

Windows 95 Support Cost Analysis

Cost as % of Revenue = f(calls per unit, minutes per call, cost per minute, revenue per unit)

	Cost as % of revenue	Calls per Unit	Minutes/ Call	Cost/ Minute	Revenue/ Unit
Windows 95	21.5%	0.56	31.0	\$1.47	\$87
Windows 3.1	12.0%	0.19	17.6		\$45
WFW	12.0%	0.24	20.1		\$45
MS Plus!	6.6%	0.06	27.4	\$1.47	\$38
Excel	4.4%	0.61	12.2		\$116
Access	14.9%	1.22	13.8		\$131

Note - All cost numbers are YTD Nov

- Win95 costs driven by high CPU and call length
- Win95 cost drivers exceed previous PSD products

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Channel Strategy

- ◆ OEM licensing agreements for Win9x, NTW, Plus
- ◆ DSP product for low volume OEMs
- ◆ Broad distribution of Win95, Plus, Internet Startup Kit
- ◆ Browser distribution via online services, free internet distribution

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Installed Base Product

- ◆ Requirement: Runs on 8MB Windows '95 machine, does not increase memory footprint of the machine
- ◆ Desired functionality: better utilization of RAM and HD Memory, speed, connectivity, better driver support (P 1394 Card).

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