

Q96-4 BOARD OF DIRECTORS' REPORT

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This report was prepared with Word for Windows 7.0. All tables were created in Excel 7.0 and either embedded in the document or linked to master spreadsheets. Additionally, most of the channel and product group tables were generated via automation from the general ledger. Each of these automated tables is made accurate in its calculations by using data at a lower level than the rounded amounts shown in this report. These lower level amounts are used to calculate variances and are then rounded and displayed in this report. Therefore, individual amounts are rounded perfectly but totals and variances may not foot precisely. All other tables have individual numbers that may be rounded. While these individual numbers may not be precisely to supporting schedules, they will foot exactly as shown in this report.

(NOTE: Revenue is "net" unless otherwise stated. Gross revenue is net of returns.)

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EXECUTIVE SUMMARY

Microsoft Corporation Income Statement

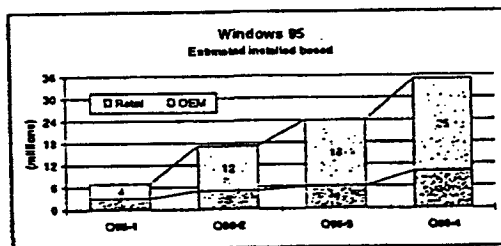
EXTERNAL GAAP RESULTS

(In millions, except earnings per share)	Q96-4		Q95-4		Growth	FY96		FY95		Growth
Net Revenue	\$2,255	100%	\$1,621	100%	39%	\$8,671	100%	\$5,937	100%	46%
Operating expenses:										
Cost of revenue	241	11%	234	14%	3%	1,188	14%	877	15%	35%
Research and development	453	20%	264	16%	72%	1,432	17%	860	14%	67%
Sales & marketing	661	29%	505	31%	31%	2,657	31%	1,895	32%	40%
General & administrative	90	4%	86	5%	5%	316	4%	267	4%	18%
Total cost & expenses	1,445	64%	1,089	67%	33%	5,593	65%	3,899	66%	43%
Operating Income	810	36%	532	33%	52%	3,078	35%	2,038	34%	51%
Interest Income - net	92	4%	65	4%	42%	320	4%	191	3%	68%
Noncontinuing items	0	0%	(46)	(3%)	nm	0	0%	(46)	(1%)	nm
Other expenses	(42)	0%	(4)	0%	nm	(19)	0%	(15)	0%	19%
Income before income taxes	860	38%	547	34%	57%	3,379	39%	2,167	36%	56%
Provision for income taxes	(301)	(13%)	(179)	(11%)	68%	(1,184)	(14%)	(714)	(12%)	66%
Net Income	\$559	25%	\$368	23%	52%	\$2,195	25%	\$1,453	24%	51%
Earnings per Share	\$ 0.87		\$ 0.58		49%	\$ 3.43		\$ 2.32		48%
Weighted avg shares outstanding	645		635			640		627		

	Q96-4	Q96-3	Q96-2	Q96-1	Q95-4	Q95-3	Q95-2	Q95-1
Net revenue (in millions)	\$2,255	\$2,205	\$2,195	\$2,016	\$1,622	\$1,587	\$1,462	\$1,247
Operating inc. (% of net revenue)	36%	35%	36%	35%	33%	35%	35%	35%
Net income (% of net revenue)	25%	25%	26%	25%	23%	25%	25%	25%
Earnings per share	\$0.87	\$0.88	\$0.90	\$0.78	\$0.58	\$0.63	\$0.60	\$0.51

Q96-4 Highlights

- Net revenue reported externally was \$2.26 billion, an increase of 39% over the comparative quarter in FY95. For the year revenue grew 46% to 8.67 billion, from \$5.94 billion in the prior year. Year over year growth occurred across all product divisions with most notable increases in sales of Office and Office Pro, Windows 95, and the BackOffice suite of products including Windows NT. Unearned revenue related to operating systems and maintenance contracts totaled \$560 million at June 30, 1996.
- An estimated 35 million units of Windows 95 have been sold to end users since launch, with an estimated 10 million sold through the retail channel and about 25 million through the OEM channel.
- Cost of revenue as a percent of net revenue declined to 10.7% from 14.4% in Q95-4 mainly due to channel mix, more corporate licensing, and increased shipment of products on CD-ROM, which carry lower cost of goods than floppy disks.
- Research & development costs representing 20% of net revenue, grew 72% over the prior year's quarter, and 67% for the year. Increased R&D costs are reflected across all product divisions, particularly in Consumer, Microsoft On-line Services and Business Systems and is primarily driven by headcount related costs and third party development.
- Net income for the quarter totaled \$559 million, a 52% increase over Q95-4. Earnings per share increased 49% to \$0.87. For the year, EPS was \$3.43, a 48% increase over FY95. Other expenses include investments in MSNBC for \$22 million and \$5 million related to Dreamworks Interactive.



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CONSOLIDATED MANAGEMENT P&L

INTERNAL MANAGEMENT RESULTS

(\$ in millions)	Q96-4					
	Actual	Budget	% of Bud	Prior Year	% of PY	
Gross revenue (as billed)	\$2,229.4	\$1,955.9	104%	\$1,662.3	105%	
Desktop 95 channel reserve	363.3	-	0%	-	0%	
Other revenue adjustments	(80.7)	(75.5)	107%	(76.3)	106%	
Net revenue	2,511.9	1,880.3	100%	1,585.9	100%	
Cost of revenue	285.0	295.7	16%	228.0	14%	
Desktop 95 channel reserve	23.7	-	0%	-	0%	
Gross profit	2,203.2	1,584.7	84%	1,357.9	86%	
Operating expenses:						
Product development:						
Platform Products	227.0	182.7	104%	162.4	140%	
Applications & Content	213.0	174.2	99%	133.7	159%	
Product Marketing	85.3	40.0	2%	55.5	3%	
Other	8.3	2.3	0%	2.2	0%	
	533.6	399.3	21%	353.8	22%	
Sales & Marketing:						
Sales expense	252.4	228.8	110%	210.5	13%	
Marketing	204.3	127.4	7%	145.1	9%	
Broad Reach	47.2	14.0	1%	24.4	2%	
Product support	126.4	120.9	6%	103.3	7%	
	630.3	491.1	26%	483.4	30%	
General & administrative	89.7	76.7	4%	89.2	6%	
Total operating expenses	1,253.6	967.0	51%	926.4	58%	
Operating income	\$949.7	\$617.7	33%	\$431.5	27%	
Year to date						
	Actual	Budget	% of Bud	Prior Year	% of PY	
Gross revenue (as billed)	\$9,686.0	\$8,342.4	105%	\$6,222.9	104%	
Desktop 95 channel reserve	-	-	0%	-	0%	
Other revenue adjustments	(470.7)	(380.8)	5%	(242.9)	4%	
Net revenue	9,215.4	7,961.6	100%	5,979.9	100%	
Cost of revenue	1,284.9	1,228.9	15%	854.9	14%	
Desktop 95 channel reserve	-	-	0%	-	0%	
Gross profit	7,930.5	6,732.7	85%	5,125.1	86%	
Operating expenses:						
Product development:						
Platform Products	736.8	709.5	99%	548.3	9%	
Applications & Content	644.3	652.1	8%	384.0	6%	
Product Marketing	226.2	220.7	3%	136.5	2%	
Other	51.5	11.1	0%	7.6	0%	
	1,658.8	1,593.3	20%	1,076.4	18%	
Sales & Marketing:						
Sales expense	916.7	939.8	12%	756.3	13%	
Marketing	609.0	585.6	7%	403.4	7%	
Broad Reach	175.6	171.4	2%	100.8	2%	
Product support	488.5	487.9	6%	328.6	5%	
	2,189.7	2,184.8	27%	1,589.1	27%	
General & administrative	311.4	297.5	4%	270.5	5%	
Total operating expenses	4,180.0	4,075.6	51%	2,936.1	49%	
Operating income	\$3,770.5	\$2,657.1	33%	\$2,189.0	37%	

	Q96-4	Q96-3	Q96-2	Q96-1	Q95-4	Q95-3	Q95-2	Q95-1
People/infrastructure cost per head (annualized)	\$132,290	\$120,545	\$127,045	\$119,626	\$126,290	\$118,383	\$117,484	\$114,330
Cost of sales % of net revenue	12%	13%	16%	15%	14%	14%	14%	14%
Marketing expense % of net revenue	13%	8%	11%	12%	14%	11%	10%	7%
Product dev. expense % of net revenue	21%	17%	16%	18%	22%	17%	15%	17%
PSS expense % of net revenue	5%	5%	6%	5%	6%	5%	5%	5%
Average worldwide headcount	20,406	20,016	19,399	18,416	17,534	16,873	16,134	15,222

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Notes to Consolidated Management Reports

The consolidated management P&L is based on functional responsibility and prepared in accordance with MAP (Microsoft Accounting Principles). These results do not include the impact of certain adjustments and reclassifications as required by Generally Accepted Accounting Principles (GAAP) for external reporting. Significant differences between financial statements prepared for internal management use and externally reported results include:

- Revenue for internal management reports is generally recognized "as billed." Under GAAP, net revenue includes adjustment for certain billed, but unearned revenue, such as a portion of operating system revenue that will be recognized over the product life cycle. Conversely, certain revenue that is earned but not yet billed such as unreported OEM and Select revenue is also recognized for external purposes.
- Q96-4 management reports reflect the final

reversal of the Desktop 95 channel reserve, taken initially in Q96-1 and adjusted monthly since then. For external reporting, these reserves have been adjusted to reflect channel inventory in excess of normal levels with potential for return.

- For external reporting purposes, the net cost of MSN operations is included as research and development expenses until such time as MSN has profitable gross margins. For internal management reporting, MSN revenue and cost of operations are shown grossed up as a business channel.
- For external reporting purposes, all product marketing related activities are classified as a sales and marketing expense. For internal reporting purposes, product marketing departments and related marketing expenses are included in product development.
- Non-operating income, expenses, non-continuing items, and income taxes are excluded from internal management reports.

REVENUE SUMMARY

Gross Product Revenue - FY96 (As shipped Revsum categories, in millions)						
	Gross Revenue			Actual as % of		
	Actual	Plan	FY95	Total	Plan	FY95
Office (inc. Pro)	\$ 3,258.0	\$ 2,531.4	\$ 2,136.5	34%	129%	152%
Windows 95	1,780.3	1,658.2	0.1	18%	107%	nm
Windows 3.x	842.4	583.8	942.2	9%	144%	89%
MS-DOS	503.0	484.0	703.3	5%	104%	72%
Consumer (software)	450.1	504.3	385.4	5%	89%	117%
Consumer (hardware)	378.5	361.1	269.2	4%	105%	141%
Windows NT	509.2	269.2	181.1	5%	189%	281%
Word	323.6	327.9	338.0	3%	99%	96%
Excel	225.4	266.6	281.9	2%	85%	80%
All other products	1,415.6	1,355.9	981.0	15%	104%	144%
Gross revenue	\$ 9,686.0	\$ 8,342.4	\$ 6,218.4	100%	116%	156%

- FY96 gross revenue was \$9.69 billion, 16% over of plan and 56% ahead of FY95. Year over year growth was primarily driven by strong sales of Windows 95, Office and Office Pro, and BackOffice products, particularly Windows NT which increased more than 280% or \$328 million. Q96-4 gross revenue adjusted for Desktop 95 reserves was \$2.23 billion, 33% ahead of plan with Office, Office Pro, Windows 95 and Backoffice products continuing their strong growth trends.
- Remaining Desktop Channel reserves of \$363 million were reversed in Q96-4 reflecting normal 6 week channel inventory levels in most subsidiaries.
- FY96 Desktop Applications Division gross revenue totaled \$4.19 billion, 20% over plan and 35% over last year. Revenue from Office and Office Pro products totaled 78% of the total, growing 52% over FY95 and over plan by 29%. Q96-4 DAD revenue adjusted for reversal of Desktop Channel reserves totaled \$1.19 billion, 46% better than plan.
- Personal Operating Systems gross revenue for the full year totaled \$3.24 billion, 17% over plan and 95% or \$1.58 billion over FY95. Revenue from Windows 95 (excluding upgrade maintenance revenue) was \$1.78 billion for the year versus plan of \$1.66 billion. Gross revenue in Q96-4 adjusted for Desktop reserves totaled \$856 million or 41% better than plan.

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- FY96 Business Systems gross revenue totaled \$987 million, 73% over plan and 149% over FY95. Windows NT (servers, user licenses and workstations) generated over 51% of total BSD revenue. Business Systems revenue for the quarter was \$333 million, 90% over plan.
- Consumer division revenue of \$828 million was 96% of plan for the year. Better than plan sales of Sidewinder Joystick, Mouse, Geo/Travel software and Works were offset by below plan sales of keyboards, Bob, Entertainment and Reference software. All products, with the exception of Bob,

Imaging and Personal software, had double digit year over year growth.

- MSDN and Visual Basic were the main drivers behind Developer division's 52% FY96 growth over FY95. Full year gross revenue totaled \$413 million, 13% over plan. Q96-4 gross revenue exceeded plan by 22% on revenues of \$94 million.
- FY96 Microsoft Online Services (or MSN) gross revenue was \$44 million, 48% of plan. MSN ended the year with more than 1.25 million subscribers.

Net Channel Revenue - FY96 (in millions)	Net Revenue			Actual as % of		
	Actual	Plan	FY95	Total	Plan	FY95
	North America FG	\$ 2,729.4	\$ 2,580.5	\$1,840.7	30%	106%
Europe FG	2,132.7	1,997.0	1,485.7	23%	107%	144%
ICON FG	594.3	565.1	404.5	6%	105%	147%
Far East FG	948.5	680.4	522.3	10%	139%	182%
Total finished goods	6,404.9	5,823.0	4,253.2	70%	110%	151%
OEM	2,646.4	1,957.7	1,650.5	29%	135%	160%
MS Press	78.2	60.2	39.9	1%	130%	196%
MS Online	51.6	80.3	0.0	1%	64%	nm
Sotimage & other	34.3	40.7	36.3	0%	84%	95%
Net revenue	\$ 9,215.4	\$ 7,961.9	\$5,978.9	100%	116%	154%

- Net finished goods (FG) revenue for FY96 totaled \$6.40 billion, 10% over plan and growing 51% over FY95. All regions finished above plan primarily driven by higher than planned sales of DAD products, particularly Office and Office Pro. Q96-4 FG revenue was \$1.72 billion, 32% over plan, and included \$363 million from the reversal of Desktop reserves.
- All major sales locations were above plan on a full year basis with the exception of France and Brazil. France was 98% of plan mainly due to lower than planned sales of Windows 95 and Brazil was impacted by local distribution problems. See Sales & Marketing section for additional detail.

- FY96 OEM revenue exceeded plan by 35% with revenue of \$2.65 billion driven primarily by continued strong worldwide PC growth and faster than planned conversions to Windows 95. Q96-4 OEM revenue exceeded plan by 45% with net revenues of \$739 million.
- MS Press revenue of \$78 million for the year was 96% over FY95 primarily due to strong sales of Windows 95 and Windows NT related titles.

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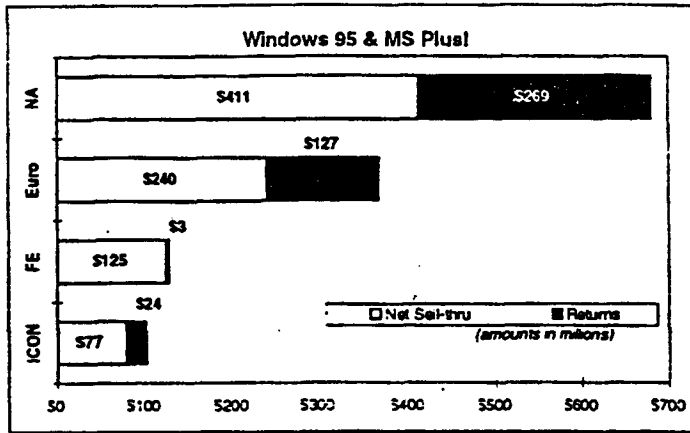
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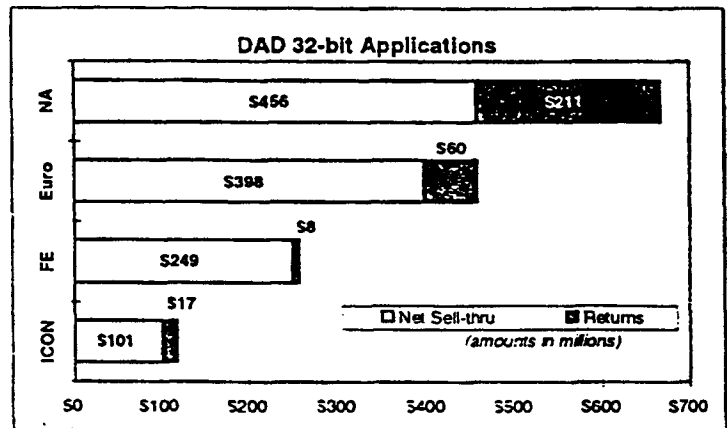
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Desktop 95 Channel Reserve



- Channel inventories of Windows 95 and Office 95 appear to be at normal levels in most countries. As a result, the Desktop 95 channel reserve has been fully recognized as revenue for internal management reporting purposes.
- The United States and a few countries in Europe have increased general sales returns reserves approximately \$33 million to reflect remaining exposure for Desktop 95 returns.

- For the year, shipments of Windows 95 and MS Plus into the retail channel totaled \$1.277 billion. Of this, \$424 million, or 33% was returned for a net sell through of about \$853 million. Returns were highest in North America at about 39% while the Far East experienced returns of only 2%.
- Sell in of Office 95 and other 32-bit versions of DAD products totaled \$1.501 billion during the year with returns of \$297 million, or 20%. Net sell through totaled \$1.205 billion with North America having the highest level of returns at 32%, and Far East the lowest at about 3%.



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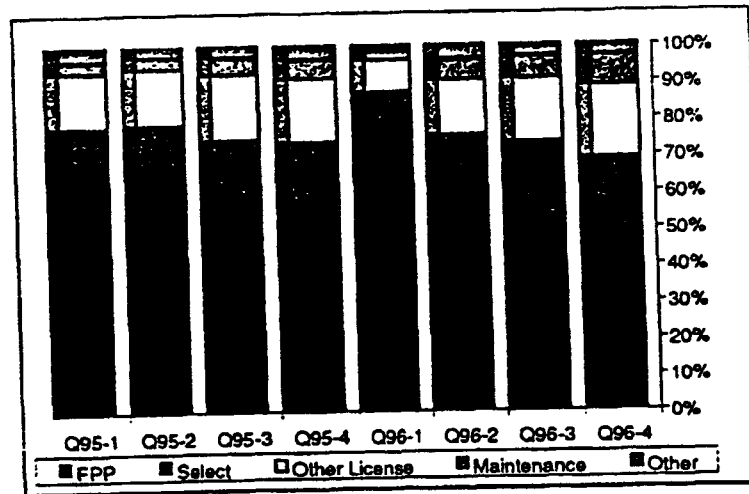
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License Mix - Finished Goods



- Sales of full-packaged product (including upgrades) continues to decline rapidly, falling below 50% of total finished goods sell-in for the first time. Abnormal increase in FPP in Q96-1 reflects initial sell-in of Windows 95 and Office 95 into the retail channel.

- Revenue from Select licenses (including Select maintenance included in the "maintenance" category above) was \$421 million in Q96-4, about flat with Q96-3, but growing 48% over the same quarter last year. For the full year, revenue from all license programs including maintenance made up about 35% of total FG revenue.

Foreign Exchange Impact on Consolidated Net Revenue

(in millions)	Q96-4 Variance vs. Plan			FY96 Variance vs. Plan		
	Volume	FX	Total	Volume	FX	Total
	North America FG	\$249.2	\$1.0	\$250.2	\$145.5	\$3.5
Europe FG	18.0	9.9	28.0	53.8	81.9	135.7
ICON FG	32.8	4.4	37.2	21.7	7.6	29.2
Far East FG	148.1	(43.1)	104.9	379.3	(110.8)	268.5
OEM, Other AT & Channels	211.3	0.0	211.3	671.1	0.0	671.1
Variance to plan	\$659.4	(\$27.8)	\$631.6	\$1,271.4	(\$17.9)	\$1,253.5

- The table shown above summarizes the impact of actual foreign exchange rates compared to plan for Q96-4 and year to date. Actual exchange rates compared to plan resulted in a net negative fx variance of \$28 million for the quarter and \$18 million for the year.
- The US dollar was weaker than planned against most major European currencies resulting in

positive revenue variance of \$82 million for the year and \$10 million for the quarter.

- A stronger than planned dollar-to-yen exchange prevailed in Japan, resulting in a \$111 million negative foreign exchange variance for the year. During the quarter, the rate averaged 102 Yen per dollar compared to a budget rate of 90 Yen resulting in a \$43 million loss.

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COST OF REVENUE

Cost of Revenue - FY96					
	Sales Mix	Wghted Ave Cost	Cost of Revenue		
			Actual	Plan	Prior Year
By Channel					
North America FG	29.6%	5.0%	17.0%	17.8%	19.0%
Europe FG	23.1%	3.0%	12.8%	13.8%	14.0%
ICON FG	6.4%	1.2%	18.6%	19.9%	20.9%
Far East FG	10.3%	1.3%	12.5%	19.1%	16.9%
Total Finished Goods	69.5%	10.5%	15.1%	16.8%	17.2%
OEM	28.7%	1.2%	4.3%	5.9%	4.5%
Other (includes MSN)	1.8%	2.2%	123.7%	75.9%	63.7%
	100.0%	13.9%	13.9%	15.4%	14.3%
By Product Division					
Desktop Apps	41.0%	4.2%	10.2%	13.1%	13.2%
Consumer	8.9%	3.6%	41.0%	38.3%	33.5%
Personal Finance	0.2%	0.1%	33.9%	56.7%	51.7%
MS On-line	0.5%	1.7%	308.9%	126.8%	0.0%
Applications & Content	50.6%	9.5%	18.9%	20.3%	17.2%
Business Systems	11.7%	1.1%	9.4%	15.0%	14.1%
Personal Operating Systems	32.6%	2.0%	6.2%	6.8%	4.6%
Developer	4.3%	0.8%	18.0%	18.1%	22.5%
Consumer Systems	0.4%	0.1%	19.4%	28.5%	40.9%
Platforms	49.0%	4.0%	8.1%	9.6%	9.0%
Other (primarily MS Press)	0.4%	0.4%	99.8%	38.0%	110.5%
	100.0%	13.9%	13.9%	15.4%	14.3%

- FY96 cost of revenue in the finished goods channel was 1.7 points better than plan due to a favorable mix of CD-ROM media (58% of total packaged product vs 37% planned) and licensed product sales (45% of finished goods revenue vs 36% planned), offset by \$94 million inventory charges for Desktop 95 overbuild. The higher mix of CD-ROM media and licenses also contributed to the decrease in cost of revenue as compared to FY95.
 - FY96 CD-ROM mix by division compared to plan and last year is illustrated in the following table:
- | | Actual | Plan | Prior Yr |
|----------------------|--------|------|----------|
| Personal Systems | 54% | 21% | 1% |
| Desktop Applications | 44% | 12% | 8% |
| Consumer (software) | 75% | 55% | 47% |
| Business Systems | 60% | 34% | 41% |
| Developer | 75% | 25% | 26% |
| Total | 58% | 37% | 22% |
- FY96 cost of revenue in the OEM channel was 1.6 percentage points less than plan mainly due to the higher mix of revenue from software licensed products versus hardware.
 - Cost of revenue across all product divisions with the exception of Consumer and MSN, were below plan primarily due to the shift to CD-ROM media and license sales. MSN cost of revenues was higher than plan primarily due to higher internet usage and contract settlements with British Telecom, AT&T and UUNet for changes in MSN strategy.
 - Q96-4 cost of revenue was 12.3% versus plan of 15.7%. The lower than planned cost of revenues is driven primarily due to reductions in inventory reserves.

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OPERATING EXPENSES

Operating Expenses					
(in millions)	FY96	Plan	% of Plan	FY95	% of PY
People costs	\$1,705.6	\$1,778.2	96%	\$1,305.8	131%
Contingent staff and outsourcing	631.8	600.8	105%	281.6	224%
Infrastructure costs	523.5	584.2	90%	469.8	111%
Marketing expenses	1,012.2	980.1	103%	644.3	157%
PSS/MCS cost recovery	(264.3)	(294.9)	90%	(119.2)	222%
Third party product development	291.6	187.2	156%	169.0	173%
Other expenses	259.6	239.9	108%	184.7	140%
	<u>\$4,160.0</u>	<u>\$4,075.6</u>	102%	<u>\$2,936.0</u>	142%
Avg non-operations headcount	18,000	19,917	90%	14,879	121%
People cost per head	\$94,758	\$89,282	106%	\$87,758	108%
Infrastructure cost per head (annualized cost per average MS head)	\$29,082	\$29,334	99%	\$31,572	92%
Contingent staff and outsourcing (as a percentage of People costs)	37.0%	33.8%		21.6%	

(Note: excludes heads and expenses related to Operations included in Cost of Revenue)

- Operating expenses were 2% over plan for the year, with negative variances in contingent staffing, third party development and marketing. As compared to FY95, operating expenses grew 42%, less than revenue growth of 54%. However, contingent staffing, marketing and third party development all grew faster than revenue. Q96-4 operating expenses totaled \$1.253 billion, 30% over plan due to the same factors and expected spending to full year plan.
- For the year, people costs totaled \$1.71 billion, 4% below plan due to lower than planned headcount. Average cost per head was 6% over plan primarily due to accrued but not budgeted management and executive bonuses, and higher employee recruiting costs, particularly signing and relocation bonuses. People costs grew 8% over last primarily due to salary increases.
- Infrastructure costs for FY96 totaled \$524 million, 10% below plan but 11% over FY95 driven by higher telecommunication costs which increased 40% to \$97 million. On a per head basis, infrastructure costs were about as planned.

- Full year contingent staff and outsourcing costs increased 124%, or \$350 million over last year. As shown below, outsourced PSS represented the most significant increase.

	FY96	FY95	Growth
PSS	\$221.8	\$76.0	192%
Product Groups	196.8	81.7	141%
ITG	86.3	54.1	59%
Sales Groups	54.2	41.3	31%
MCS	44.2	2.1	2017%
G&A	28.1	26.4	7%
TOTAL	631.4	281.6	124%

- Third party development costs of \$292 million reflects unplanned acquisitions including Aspect and Colusa and the amortization of Intellectual Property Rights (IPRs) related to acquisitions such as Bruce Artwick and Funk & Wagnall
- Other expenses include bad debt, tax, and license expenses which are generally variable with sales volume.

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PRODUCT GROUP COSTS

(\$ in millions)	Q96-4					FY 96						
	Actual		Plan	% of Plan	Prior Year	% of PY	Actual		Plan	% of Plan	Prior Year	% of PY
Platform Product Group												
Business Systems	\$68.0	13%	\$57.2	14%	119%	\$48.2	14%	141%				
Personal Systems	38.0	7%	36.3	9%	105%	39.2	11%	97%				
Developer	71.5	13%	35.9	9%	199%	37.4	11%	191%				
Consumer Systems	32.1	6%	31.5	8%	102%	21.5	6%	149%				
Platform Mgmt	17.4	3%	21.8	5%	80%	16.1	5%	108%				
Total Platform Products	<u>227.0</u>	<u>43%</u>	<u>182.7</u>	<u>46%</u>	<u>124%</u>	<u>162.4</u>	<u>46%</u>	<u>140%</u>				
Application Content Group												
Consumer	\$94.5	18%	\$76.2	19%	124%	\$59.5	17%	159%				
Desktop Applications	61.9	12%	50.0	13%	124%	49.4	14%	125%				
Microsoft On-Line	44.8	8%	33.4	8%	134%	15.5	4%	290%				
Personal Finance	3.0	1%	4.2	1%	72%	1.7	0%	178%				
Research & mgmt	8.7	2%	10.4	3%	84%	7.7	2%	113%				
Total Application & Content	<u>213.0</u>	<u>40%</u>	<u>174.2</u>	<u>44%</u>	<u>122%</u>	<u>133.7</u>	<u>39%</u>	<u>159%</u>				
Product Marketing	85.3	16%	40.0	10%	213%	55.5	16%	154%				
Other Development Costs	8.3	2%	2.3	1%	353%	2.2	1%	377%				
Total	<u>\$533.6</u>	<u>100%</u>	<u>\$399.3</u>	<u>100%</u>	<u>134%</u>	<u>\$353.8</u>	<u>100%</u>	<u>151%</u>				

- Full year product development costs totaled \$1.66 billion, increasing 54% over last year. Average product group headcount increased 40% to 6,784. Product marketing, contingent staffing and third party development costs increased across all divisions.
- Application and Content Group controllable expenses were \$644 million, 1% below plan for the year and 68% over the prior year. Growth over FY95 was primarily due to increased investments in Consumer and MSN headcount combined with increases in third party product development and localization costs.
- Platform Product group controllable expenses were \$737 million or 4% over plan for the year and 34% over FY95. Increased localization costs related to Windows 95 and continued investment in Business Systems and Developer divisions drove the year over year growth.
- Other product development costs for the full year include \$7 million related to DreamWorks Interactive and \$20 million related to development agreements with DEC.

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SALES, MARKETING & SUPPORT COSTS

(\$ in millions)	Q96-4							
	Actual		Plan		% of Plan	Prior Year	% of PY	
Sales Expenses								
North America	\$70.1	11%	\$68.9	14%	102%	\$63.2	13%	111%
Europe	67.6	11%	67.0	14%	101%	67.1	14%	101%
ICON	30.3	5%	27.2	6%	111%	24.4	5%	124%
Far East	25.3	4%	22.5	5%	112%	17.0	4%	149%
OEM	31.3	5%	26.7	5%	117%	20.3	4%	155%
Other	27.7	4%	16.5	3%	168%	18.6	4%	149%
Total sales expenses	252.4	40%	228.8	47%	110%	210.5	44%	120%
Marketing Costs	251.5	40%	141.4	29%	178%	169.4	35%	148%
Support Cost	126.4	20%	120.9	25%	105%	103.3	21%	122%
Total	\$630.3	100%	\$491.1	100%	128%	\$483.3	100%	130%

(\$ in millions)	FY96							
	Actual		Plan		% of Plan	Prior Year	% of PY	
Sales Expenses								
North America	\$260.8	12%	\$286.4	13%	91%	\$230.1	14%	113%
Europe	269.7	12%	272.1	12%	99%	241.7	15%	112%
ICON	106.6	5%	105.4	5%	101%	85.5	5%	125%
Far East	85.6	4%	90.1	4%	95%	52.6	3%	163%
OEM	114.1	5%	103.6	5%	110%	80.1	5%	142%
Other	79.9	4%	82.3	4%	97%	66.3	4%	121%
Total sales expenses	916.7	42%	939.8	43%	98%	756.3	48%	121%
Marketing Costs	784.5	36%	757.0	35%	104%	504.2	32%	156%
Support Cost	488.5	22%	487.9	22%	100%	328.6	21%	149%
Total	\$2,189.7	100%	\$2,184.8	100%	100%	\$1,589.1	100%	138%

- FY96 sales expenses totaled \$917 million, 98% of plan mainly due to lower than plan headcount. Sales expenses grew 21% over FY95 mainly due to increased.
- Channel marketing, including Broad Reach, totaled \$785 million in FY96, 4% over plan but 2% under approved incremental spending. Additional marketing funds were approved primarily for Internet related marketing. Marketing expenses grew 56% over FY95.
- Product support costs were even with plan for FY96 and 49% over FY95 reflecting increased costs due to the Windows 95.
- Q96-4 expenses were 28% over plan with above plan spending across all geographies reflecting the year end accruals of committed dollars and outstanding invoices.

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GENERAL & ADMINISTRATIVE COSTS

(in millions)	Q96-4							
	Actual		Plan		% of Plan	Prior Year		% of PY
ITG	\$32.8	37%	\$23.3	30%	141%	\$32.5	36%	101%
Finance	14.6	16%	12.7	17%	115%	15.3	17%	95%
Human Resources	9.2	10%	8.9	12%	104%	8.4	9%	110%
MS Services Group	5.5	6%	5.1	7%	108%	5.8	6%	96%
Real Estate	1.3	1%	1.2	2%	106%	2.5	3%	51%
Legal	22.6	25%	22.3	29%	101%	24.1	27%	94%
Other	3.7	4%	3.2	4%	nm	0.7	1%	nm
Total	<u>\$89.7</u>	100%	<u>\$76.7</u>	100%	117%	<u>\$89.2</u>	100%	101%

	FY96							
	Actual		Plan		% of Plan	Prior Year		% of PY
ITG	\$112.2	36%	\$94.0	32%	119%	\$93.2	34%	120%
Finance	50.4	16%	50.1	17%	101%	48.2	18%	104%
Human Resources	32.0	10%	34.7	12%	92%	29.3	11%	109%
MS Services Group	19.1	6%	19.7	7%	97%	19.2	7%	100%
Real Estate	5.1	2%	5.1	2%	100%	4.1	2%	125%
Legal	84.2	27%	89.2	30%	94%	72.5	27%	116%
Other	8.4	3%	4.7	2%	nm	4.1	1%	207%
Total	<u>\$311.4</u>	100%	<u>\$297.5</u>	100%	105%	<u>\$270.5</u>	100%	115%

- General and administrative costs include corporate cost centers that support MS on a worldwide basis. These expenses include IT project development and regional support, corporate finance, legal and corporate affairs, HR services such as employee development, compensation and recruiting, and certain worldwide real estate and administrative support services.
- For the year, general and administrative costs were 3% of net revenue and 5% over plan. Costs grew 15% year over year primarily due to increased ITG spending for application development and incremental operational support costs. Legal costs related to higher incidence of litigation, piracy

efforts and dispute resolution have also contributed to the growth.

- ITG costs exceeded plan by \$18 million for FY96 primarily due to approved plan variances for SAP and Channel Measurement, and over plan spending on several other significant projects. See General and Administrative section for more information..
- G&A expenses were 17% over plan in Q96-4, driven primarily by year end accruals of commitments and outstanding invoices. G&A headcount totaled 2,261 at year end, a 23% increase over FY95 and 6% below full year plan.

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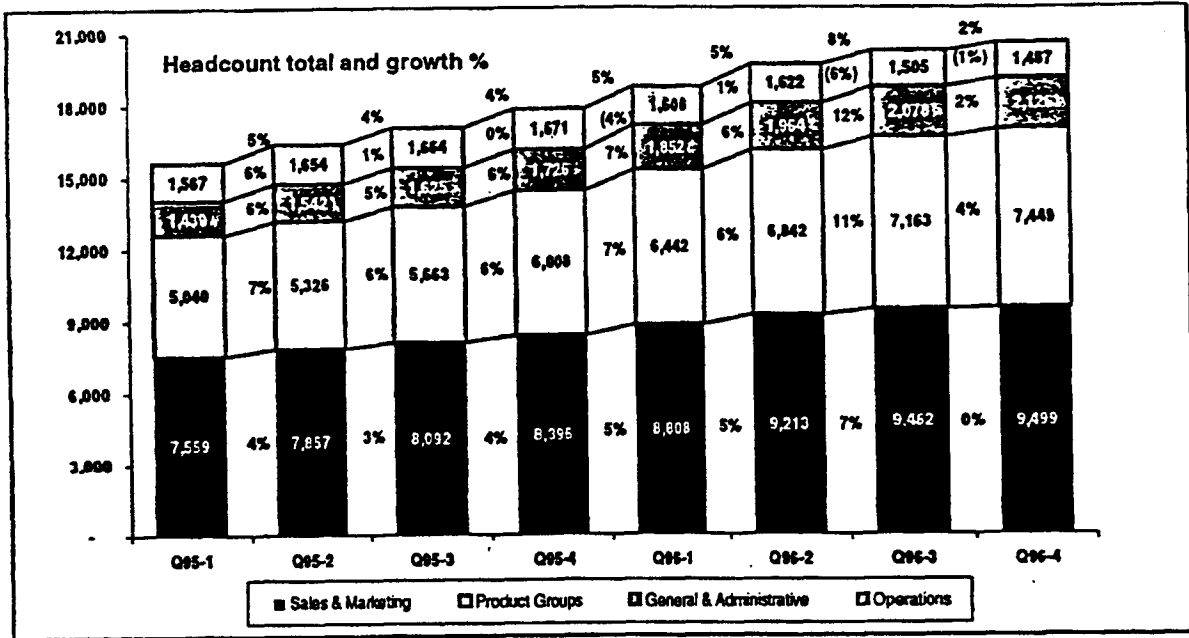
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HEADCOUNT



- Microsoft headcount totaled 20,561 at year-end, growing 15% over FY95, and 90% of full year plan.
- All units were below approved plan for the year. Product groups grew 24% year over year, general and administrative was up 23% and sales and

marketing heads increased 13%. See Appendix for more details on headcount.

- FY97 headcount is planned to grow 16% to 23,904, with largest increase in product group heads (30%), offset by slower growth in sales and marketing (13%) and general and administrative (14%).

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KEY PERFORMANCE METRICS

	North America			Europe			Far East			ICON			Total		
	Goal-96	Q96-4	Q96-3	Goal-96	Q96-4	Q96-3	Goal-96	Q96-4	Q96-3	Goal-96	Q96-4	Q96-3	Goal-96	Q96-4	Q96-3
Lead Time (Average Days)	8	7	7	13	10	11	5	na	na	15	17	17	10	9	9
Fill Rate (%)	95%	91%	92%	80%	93%	80%	80%	na	na	78%	72%	71%	83%	84%	78%
% Accounts Receivable Current	95%	87%	83%	80%	71%	70%	95%	80%	90%	88%	77%	67%	88%	79%	77%
Total DSO	40	34	53	45	43	59	60	34	50	82	128	162	51	46	65
Inventory turns (per yr)	12.0	1.3	1.1	8.0	1.9	1.8	8.0	6.0	7.1	8.0	3.1	1.9	9.6	2	1.7

- Worldwide inventory turns improved to 2.0 during the quarter primarily due to reductions made in North America gross inventory. Primary reasons for the improvement were full implementation of Genesis forecasting process which resulted in a

\$10 million reduction in raw material inventory, and the disposal of \$21 million of obsolete 16-bit and excess Desktop 95 inventory. Overall turns continue to suffer from excess Desktop 95 inventory yet to be disposed of.

SUMMARY OF OPERATING STATISTICS

	Q96-4	Q96-3	Q96-2	Q96-1
Packaged Products				
Number of Bill to Customers	465	516	518	480
Number of Ship to Locations	615	675	687	631
Number of SKU's to = 80% of revenue	348	330	331	113
Total SKU's Sold	3,804	3,742	3,564	3,635
Select 2.0 & 3.0				
Select Usage Reporting % (cum)	92%	94%	94%	86%
Number of Master Agreements 2.0	1,653	1,973	2,417	2,703
Number Of Master Agreements 3.0	1,797	1,307	902	90
Total Number of Enrollments	8,021	7,056	5,243	4,325
Revenue Per Order (\$000):				
Packaged Product	65	43	52	72
Select 2.0	56	63	57	58
Select 3.0	34	28	25	30
MOLP	8	9	9	7

- Select enrollments have grown almost 100% over the past four quarters reflecting the increasing popularity of the program.

- Version 2.0 master agreements continue to expire and are replaced by 3.0 agreements. Version 3.0 agreements for the first time now make up the majority (52%) of all master agreements.

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COST OF REVENUE BY PIPE
FY96 Finished Goods Gross Margin Analysis

(In Millions)

	North America		Europe		Far East		ICON		Total Finished Goods	
	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
Net Revenue	\$ 2,126.4	100% \$ 2,126.4	\$ 2,102.7	100% \$ 2,102.7	\$ 948.5	100% \$ 948.5	\$ 994.5	100% \$ 994.5	\$ 9,404.9	100% \$ 9,404.9
Standard Product Costs	203.1	7.4%	159.0	8.0%	78.7	8.1%	83.7	8.0%	433.4	4.6%
Other Mfg Costs/Variations	96.2	2.1%	23.8	1.2%	7.9	0.8%	14.4	2.0%	132.3	1.4%
Inventory Adjustments	46.5	1.7%	11.0	0.4%	20.3	1.0%	9.4	0.7%	81.1	0.8%
Pipe Processing	27.7	1.0%	22.4	0.9%	21.2	1.0%	14.4	0.7%	86.8	0.9%
Distribution	13.7	0.5%	10.7	0.4%	5.3	0.2%	6.2	0.3%	24.2	0.2%
Royalties	44.4	1.6%	41.7	1.7%	21.9	1.0%	24.3	1.2%	112.3	1.2%
Subtotal	391.6	14.3%	306.7	15.4%	222.4	10.4%	236.1	11.8%	1,047.7	11.0%
Returns Rep/Network	46.8	1.8%	28.4	1.1%	10.8	0.5%	8.3	0.4%	15.5	0.2%
Legal Processing	16.7	0.6%	21.9	0.8%	19.8	0.8%	14.8	0.7%	75.3	0.7%
Freight	7.7	0.3%	11.7	0.5%	16.1	0.7%	15.7	0.8%	51.3	0.5%
Total Cost of Revenue	464.8	17.0%	438.7	17.8%	272.8	12.3%	274.9	13.8%	1,180.7	12.3%
Gross Margin	\$ 2,204.8	83.0%	\$ 2,121.8	82.2%	\$ 1,859.8	87.2%	\$ 1,722.1	80.2%	\$ 8,224.2	81.9%
License Mix	56%		71%		49%		55%		51%	
Full Packaged Product	44%		29%		51%		45%		49%	
License										
CD-ROM Mix, by Division										
Personal Operating Systems	52%		26%		26%		12%		38%	
Desktop Applications	30%		10%		29%		19%		25%	
Consumer (Non Hardware)	74%		60%		74%		76%		75%	
Developer	84%		30%		57%		20%		55%	
Business Systems	64%		47%		35%		40%		40%	
Total	56%		38%		54%		29%		56%	

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COST OF REVENUE SUMMARY

- Finished goods cost of revenue year to date was 15.1% of net revenue versus plan of 16.8%. This positive variance was largely due to a substantial

decline in standard product costs described below, offset by \$94 million in charges for excess Desktop 95 products.

Standard Product Costs

- Standard product costs consist of all costs incurred to manufacture and assemble finished goods. These costs include labor, overhead, and material costs at a standard rate.
- Total finished goods standard product costs were 6. % of net revenue, 2.8% or \$126 million less

than plan. This reduction was due to an increased mix of CD ROM media version products and a shift to Select and other licensed product sales. On a worldwide basis, CD ROM based product comprised 58% of total packaged product as compared to plan of 37%, and the mix of licensed product totaled 45% versus plan of 36%.

Other Manufacturing Costs & Variances

- Other Manufacturing Costs & Variances includes manufacturing variances, hardware, and program costs.

- Total FY96 manufacturing costs were \$132 million, or 28% higher than plan. This unfavorable variance was primarily due to program costs for MSDN and MES courseware in North America and Europe.

Inventory Adjustments

- Inventory adjustments include charges for in-house scrap, re-cost impacts, provisions for inventory obsolescence, and cycle count adjustments.

- Inventory adjustments totaled \$89 million for the year, \$58 million higher than plan due to increased inventory reserves for excess and obsolete 16-bit Office, Desktop 95, and keyboards. These costs in excess of plan by region were North America -\$36 million, Europe -\$11 million, and ICON -\$11 million.

Pipe Processing

- Pipe processing represents expenses related to order processing, billing and collection activities incurred at Regional Operation Service Centers (ROSC). Third party vendors costs for fulfillment activities related to MSDN and MES are captured within pipe processing, while all other fulfillment costs are captured in local processing as noted below.

- FY96 pipe processing costs totaled \$57 million, 29% higher than plan primarily due to fulfillment fees related to sales programs in North America and Europe.

Royalties

- Royalties include payments to third parties for the right to use intellectual property in MS products.
- Royalty expenses totaled 1.3% of net revenue versus plan of 1.6%. This favorable variance was due primarily to an amendment to the agreement affecting royalties for Grammar and Spell Checker used in Word and Works and the buyout of the

royalty agreements for Flight Simulator and Encarta. The per unit royalty for Grammar and Spell Checker was replaced with a flat license fee paid quarterly. The buyout of Flight Simulator and Encarta agreements replaced higher royalty expense with the amortized cost of the buyout agreements.

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Returns Scrap/Rework

- Returns scrap/rework includes direct material, labor and overhead costs associated with product that has been returned and scrapped or reworked.

- For the year, returns scrap/rework totaled \$75 million, or \$33 million over plan primarily due to allowances for actual and anticipated returns of Desktop 95 products.

Local Processing

- Local processing includes all costs related to fulfillment activities at both international sales locations and ROSCs. In addition, this line item includes all pre-sale communication, order processing, billing, and collection activities incurred by international sales locations.

- 8 FY96 local processing costs were \$43 million or \$5 million below plan due to lower than anticipated direct fulfillment and headcount costs in all regions except Europe.

BUSINESS STREAM VIEW

(in millions)

	Actual							FY96 Budget	Variance Fw (U) / Bw (D)
	Packaged Product		OEM	Retail	Subscriptions & Annuities	Direct Fulfillment	Total FG & OC		
	Software	Hardware	Licensing	Licensing					
Net Revenue	\$3,671.3	\$359.2	\$2,500.7	\$2,212.4	\$181.2	\$125.6	\$3,051.4	\$7,780.8	\$1,270.6
Cost of Revenue									
Standard Product Costs	308.1	152.2	0.1	2.4	2.3	34.9	500.0	636.3	136.3
Other Mfg. Costs/Variations	54.4	29.5	1.2	13.0	38.5	1.8	138.4	111.9	(26.5)
Inventory Adjustments	77.4	20.1	1.7	-	-	1.7	100.9	31.7	(69.2)
Pipe Processing	18.0	1.5	5.4	12.0	17.8	8.1	62.8	50.6	(12.0)
Distribution	22.2	1.5	2.9	-	-	0.4	27.0	27.0	0.0
Royalties	52.2	3.6	20.1	26.0	2.0	1.2	125.1	109.4	4.3
Subtotal	532.3	208.4	31.4	53.4	60.4	48.1	934.0	966.9	32.9
Returns Scrap/Rework	72.1	2.0	0.0	-	-	0.7	74.8	42.1	(32.7)
Local Processing	4.5	0.1	-	0.5	1.1	36.7	42.9	48.1	5.2
Freight	27.3	1.3	0.8	-	-	0.9	30.3	34.3	4.0
Total Cost of Revenue	\$636.2	\$211.8	\$32.2	\$53.9	\$61.5	\$86.4	\$1,022.0	\$1,091.4	\$89.4
Cost of Revenue	17.3%	59.0%	1.3%	2.4%	33.9%	68.2%	32.0%	14.0%	2.1%

- During FY96, Worldwide Operations began reporting financial results by business stream, a view that is more consistent with MS's changing business model as illustrated by the dramatic shift from manufacturing packaged product to license and subscription programs. Beginning with FY97, monthly and quarterly reporting will be done by business stream.
- The business streams represented above include the following business models:
 - Software Packaged Product - primarily full packaged product sales to the channel, including MLP. Primary cost drivers for this business stream include manufacturing, order processing, inventory, distribution, and freight related costs.
 - Hardware Packaged Product - includes both OEM hardware and retail sales primarily consisting of mice and keyboards. Primary cost drivers for this business stream include outsourced manufacturing, tooling, inventory, distribution, and freight related costs.

- OEM Licensing - primary costs include processing of royalties reports and distribution of CD master discs.
- Retail Licensing - includes Select and MQLP sales, and includes the costs of master disks and documentation distributed to licensees, and related processing costs.
- Subscriptions and Annuities - includes courseware, MSDN, VC++, developer subscriptions and solution provider program, material and related processing costs.
- Direct Fulfillment - includes cost of packaged product and supplemental parts sold through fulfillment, as well as fees paid to third party fulfillment vendors.

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Product
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APPLICATIONS & CONTENT

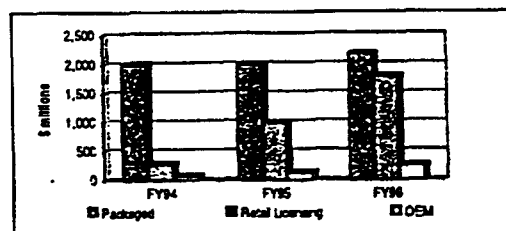
Q96-4 P&L Summary

(\$ In millions)	Desktop Apps		Consumer		Desktop Fin		BIS Online		Mgmt Research		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$1,050.6	137%	\$189.3	100%	\$2.6	195%	\$29.8	53%	\$9.0	nm	\$1,263.4	127%
Cost of Revenue	74.4	76%	61.4	81%	3.7	88%	76.0	234%	0.0	nm	212.5	102%
Gross Margin	976.2	146%	127.9	112%	1.9	354%	(55.1)	nm	9.0	nm	1,050.9	133%
% of Net Revenue	93%		68%		73%		(264%)		nm		83%	
Operating Expenses												
People	37.7	129%	30.2	110%	2.1	104%	13.5	79%	6.3	101%	89.8	100%
Infrastructure	10.0	97%	8.9	96%	0.5	86%	5.2	72%	1.4	80%	25.9	89%
Contingency Staff	4.1	217%	17.0	116%	3.3	nm	6.9	160%	0.4	100%	28.7	135%
Product Development	9.7	136%	37.8	180%	0.1	8%	12.1	271%	0.5	32%	60.1	157%
Marketing	86.0	151%	31.4	158%	1.7	130%	9.1	211%	0.2	89%	128.4	155%
Other	0.5	676%	0.7	328%	0.0	nm	1.5	246%	0.1	44%	2.8	253%
Product Support Services	31.0	84%	7.2	91%	0.7	nm	15.8	191%	0.0	nm	54.7	103%
Tax, Insurance & Settlement	3.4	127%	1.7	100%	(0.0)	nm	6.0	62%	(0.0)	nm	11.0	205%
Bad Debt Expense	7.5	132%	1.3	130%	0.0	158%	2.9	nm	0.0	nm	11.8	162%
R&D Shared Resources	8.4	64%	2.1	54%	0.5	171%	0.4	65%	(4.5)	nm	6.8	61%
Total Operating Expenses	198.2	121%	138.1	126%	5.9	101%	73.3	152%	4.3	115%	419.9	127%
Responsibility Margin	778.8	154%	(18.3)	(214%)	(4.8)	nm	(128.4)	nm	(4.3)	nm	631.8	138%
% of Net Revenue	74%		(9%)		(182%)		(615%)		nm		50%	
Corporate Allocations	121.6	119%	53.0	133%	2.8	115%	9.4	123%	0.1	34%	184.7	123%
Contribution Margin	\$656.4	163%	(83.3)	nm	(54.7)	nm	(5137.8)	nm	(34.4)	nm	\$446.2	145%
% of Net Revenue	62%		(33%)		(187%)		(168%)		nm		35%	
% of Prior Year												
Net Revenue	134%		125%		148%		nm		nm		135%	
Gross Margin	144%		129%		172%		nm		nm		136%	
Responsibility Margin	154%		(189%)		183%		nm		nm		130%	
Contribution Margin	173%		nm		113%		nm		nm		139%	
Average Headcount	1,423	99%	1,032	90%	81	83%	448	69%	179	31%	3,161	80%
Net Rev per Head (annualized, 2000)	\$2,953	138%	\$734	111%	\$129	236%	\$187	77%	\$0	nm	\$1,509	141%
People & Infrastructure cost per hd	\$134	121%	\$151	118%	\$128	121%	\$168	112%	\$172	106%	\$148	116%
Marketing Exp % of Net Revenue	8.2%	110%	16.6%	159%	63.3%	67%	43.4%	394%	nm	nm	10.2%	122%

Business Results

- Net revenue for the Applications & Content Group (ACG) totaled \$1.26 billion in Q96-4, 27% better than plan and 35% over last year. Net revenue for the year was \$4.66 billion, exceeding plan by 12% and FY95 by 30%. Continued growth of Office products accounted for the positive plan variances, offsetting below-plan results in MOS.
- Desktop Applications Division (DAD) Q96-4 net revenue of \$1.05 billion exceeded plan by \$283 million or 37%, including \$184 million from the reversal of the Desktop 95 channel reserve. Total FY96 DAD revenue reached \$3.78 billion; 16% above plan, and 28% above FY95. On a regional basis, DAD revenue grew 29% over FY95 in North America, 27% in Europe, 32% in ICON, and 56% in the Far East. As shown in the graph to the right, revenue increases came primarily from growth in Select and MOLP retail licensing programs, and OEM.

DAD REVENUE MIX



- Q96-4 Consumer division net revenue of \$189 million was about as planned. FY96 net revenue of \$816 million was 1% below plan, and exceeded FY95 by 30%. Higher than plan revenue from Input Devices and Works was offset by below plan revenue from Kids, Entertainment, Information, and Productivity products. Product returns during FY96 totaled \$79 million, 13% of shipments.

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FY96 P&L Summary

(\$ in millions)	Desktop Apps		Consumer		Desktop Fin		MS Online		Mgmt Research		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$3,781.3	116%	\$815.7	99%	\$14.2	175%	\$49.5	64%	\$0.8	nm	\$4,660.8	112%
Cost of Revenue	386.8	91%	334.4	106%	4.8	105%	153.4	156%	0.0	nm	879.4	104%
Gross Margin	3,394.4	120%	481.3	95%	9.4	267%	(103.7)	nm	8.8	nm	3,781.4	114%
% of Net Revenue	90%		59%		66%		(209%)		nm		81%	
Operating Expenses												
People	122.4	104%	103.8	103%	5.7	87%	45.2	73%	23.0	97%	300.1	96%
Infrastructure	36.2	90%	29.4	87%	1.5	80%	16.8	68%	5.0	82%	89.0	83%
Contingency Staff	13.6	155%	53.4	95%	0.6	nm	17.7	113%	1.0	70%	86.4	105%
Product Development	31.3	98%	100.8	118%	0.8	15%	18.7	163%	1.6	23%	152.8	107%
Marketing	284.7	103%	106.2	102%	7.4	144%	16.7	129%	0.3	35%	415.3	104%
Other	1.5	537%	3.1	360%	0.0	400%	3.1	106%	0.8	92%	8.7	171%
Product Support Services	129.8	88%	30.7	83%	2.4	nm	36.8	155%	0.0	nm	198.8	98%
Tax, Insurance & Settlement	10.2	85%	6.3	87%	0.1	nm	6.5	311%	(2.0)	nm	23.1	106%
Bad Debt Expense	28.8	124%	6.0	144%	0.1	158%	4.4	358%	0.0	nm	42.3	137%
R&D Shared Resources	33.7	69%	8.4	66%	2.2	201%	1.4	64%	(17.0)	nm	28.7	72%
Total Operating Expenses	693.2	98%	447.9	102%	20.9	101%	167.5	105%	14.7	98%	1,344.2	100%
Responsibility Margin	2,701.2	127%	33.4	49%	(11.5)	nm	(271.2)	nm	(14.7)	nm	2,407.1	123%
% of Net Revenue	71%		4%		(81%)		(548%)		nm		52%	
Corporate Allocations	425.7	95%	191.6	106%	2.8	102%	30.3	101%	0.2	92%	650.4	98%
Contribution Margin	\$2,275.5	136%	(\$158.3)	nm	(\$14.1)	nm	(\$301.5)	nm	(\$14.9)	nm	\$1,796.7	138%
% of Net Revenue	60%		(19%)		(99%)		(667%)		nm		39%	
% of Prior Year												
Net Revenue	128%		132%		187%		nm		nm		130%	
Gross Margin	133%		117%		256%		nm		nm		128%	
Responsibility Margin	136%		24%		125%		nm		nm		118%	
Contribution Margin	146%		nm		84%		nm		nm		119%	
Average Headcount	1,308	95%	945	92%	63	79%	410	71%	50	90%	2,884	89%
Net Rev per Head (annualized, \$000)	\$2,891	122%	\$863	108%	\$226	222%	\$121	90%	\$3	nm	\$1,616	125%
People & Infrastructure cost per hd	\$121	105%	\$141	107%	\$115	109%	\$151	101%	\$177	105%	\$135	104%
Marketing Exp % of Net Revenue	7.5%	89%	13.0%	103%	52.1%	63%	33.7%	221%	ND/ND	nm	8.9%	93%

- Net revenue from MSN totaled \$21 million in Q96-4, 9% over Q96-2, but 46% below plan. The negative variance to plan was primarily due to lower subscription and access revenues caused by continuing billing system problems and a change in content strategy which has impacted extended services revenue. Net revenue totaled \$50 million for the year, 36% below plan.
- ACG gross margin was 83% of net revenue for Q96-4 and 81% for FY96, compared to 83% in Q95-4 and FY95, reflecting improvements in DAD, offset by higher than planned MOS data center and telecom costs.
- DAD FY96 gross margin was nearly 90% in FY96, 3 percentage points above plan and FY95. The primary drivers include increases in CD media, licensed products, lower bill-of-material costs and increasing OEM sales. OEM licenses grew from 9% of revenue in FY95 to 16% of revenue in FY96
- Operating expenses for ACG totaled \$420 million in Q96-4, 27% over plan, primarily due to timing of marketing spend and higher MOS content costs. FY96 operating expenses were about as planned. Year-over-year costs were up 44% for the quarter

and 50% for the full year, the result of major investments in Consumer and MOS.

- DAD FY96 total operating expenses were 2% below plan due primarily to lower than planned product support and shared resources costs. For the year, DAD achieved a 60% contribution margin; 9 points above plan, and 7 points above FY95. DAD contributed \$2.3 billion to Microsoft's operating income in FY96.
- Consumer division operating expenses for the quarter exceeded plan by 26%, due in part to amortization of fourth quarter acquisitions and plan variances in the timing of localization spend. Operating expenses for FY96 exceeded plan by 2%. Consumer headcount ended the year at 1,026 versus a revised budget of 1,293.
- ACG total contribution margin was 35% for Q96-4 and 38% for FY96, compared to plan margins of 31% for the quarter and 32% for full year. These favorable results were due to higher revenues, improved gross margins and below plan operating expenses in DAD.
- ACG head count totaled 3,388 at year end, 14% under plan.

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Outlook

- Development efforts for Office 97 are focused on shipping a limited number of skus (CD versions of Office 97 and OfficePro 97) in the US by early November in time for the holiday season. Other variants of Office 97 and standalone versions of Word and Excel are expected to ship in Q96-3.
- Apple Computer agreed to bundle Mac Office on all PowerMacs sold in Europe. It is estimated that this agreement will generate \$40 to \$60 million in revenue in FY97.
- Revenue from Consumer software products is expected to increase 34% in FY97 with the most of the growth anticipated in the Action/Strategy, Kids and Reference product units. The division expects to ship 23 new titles in Q97-1, including

Encarta Deluxe, Deadly Tide, and another title in the Magic School Bus series. Revenue from hardware products is expected to grow 9% on sales of the new Intellimouse and Sidewinder Game Pad.

- MSN's subscriber base now totals 1.3 million. This represents an increase of 290,000 subscribers during Q96-4, slightly less than the 323,000 increase in the previous quarter, as the number of new signups has decreased from the post-holiday season rush during Q96-3. FY97 plan projects 1.8 million subscribers at the end of Q97-1 and revenues for the quarter of \$39m. Total plan revenues for FY97 are \$280 million, with an ending subscriber base of 4.5 million.

Desktop Applications Review

Investments & Product Highlights

- Representatives from DAD development and marketing organizations are demonstrating new Office 97 features and discussing product strategy, pricing and positioning to research organizations and industry analysts. Initial feedback has been favorable. These briefings have been modeled after the very successful Windows 95 briefings last year.
- Office 97 is the most significant Office release to-date in terms of development effort and integration. Office 97 will include Outlook, a 'desktop information manager', which includes an e-mail client, scheduler, contact manager, task manager, and other workgroup features. Other significant features include Internet integration and Intellimouse functionality.
- In addition to Office 97, several other new Office product bundles designed to appeal to small business and home users will be introduced. The Office Small Business Edition bundle (Word, Excel, Outlook, Internet Explorer, Automap Streets and Publisher) will be priced comparable to the Office Standard edition and will be available only through the retail channel. A bundle designed

for home users will follow and will likely include Word, Encarta, Greetings Workshop, Bookshelf and Internet Explorer. Price, name and release date for this product are yet to be determined.

- After a very successful beta program, FrontPage version 1.1 is available in the retail channel at a special introductory price of \$109 for Office 95 users and \$149 for others. FrontPage allows non-programmers to easily create professional quality Internet or Intranet web sites. FrontPage was added to the Microsoft family of products with the acquisition of Vermeer Inc. in Q96-3
- Several groups from the former Consumer Division moved DAD to form the Productivity Business Unit. Dawn Trudeau leads this group which is responsible for Works and Publisher, as well as new products being introduced in FY97, such as Picture It and Greetings Workshop. These products will be used to create new product bundles which will appeal to markets in which Office has opportunities for growth including home and small businesses.

Competition

Corel

- On July 1, Corel shipped a 32-bit version of its WordPerfect suite. Early sales reports of the \$99 bundle are very positive, although Corel's Q2 (period ending May 30) results included only \$71

million in desktop productivity software revenue (now 81% of Corel revenue). Corel has publicly stated that they will keep only 600 to 700 of the 1,200 WordPerfect employees gained through this acquisition.

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Lotus (IBM)

- Lotus is expected to ship a 32-bit version of SmartSuite in the 4th quarter of 1996. SmartSuite continues to be included on several OEM machines including IBM and AST. Lotus claims an increase in market share of suites from roughly

5% to 20%. MS believes this claim is somewhat misleading given that Lotus' revenue share has dropped and the bulk of their license sales are from OEM units, which often are not used by end-users who buy PCs with pre-loaded software.

Consumer Review

Investments & Product Highlights

- MS acquired EXOS Inc. and Electric Gravity Inc. during Q96-4 to strengthen offerings in the games product line. EXOS develops force feedback technology for game control devices that enables users to feel gaming effects such as car crashes and flight simulations, while Electric Gravity creates software which allows users to play games such as bridge, checkers and chess over the Internet.
- Revenue from MS Works was \$142 million in FY96, 24% above plan and 9% over the prior year. This growth was driven primarily by sales through the OEM channel.
- MS Encarta gained sixteen share points during FY96, becoming the clear leader in the encyclopedia category.
- Bookshelf 97, Magic School Bus Explores Inside the Earth, and Close Combat shipped in Q96-4.
- Consumer products won several awards at the Electronic Entertainment Expo (E3) in May. NBA Full Court Press won "Best of the Best" from PC Gamer as one of the top ten products at E3. PC Gamer also awarded "Best of Show" for NBA Full Court Press, Close Combat, Age of Empires and the Condemned. GEX, a game with a story line based upon classic TV shows and "B" movies, received an Editors Choice Gold Award from Electronic Gaming Monthly and received the Video Game Character of the Year award from Die Hard Game Fan magazine. In addition to the awards, the gaming press gave great endorsements to our upcoming lineup which is vitally important to MS being seen as a serious game vendor.
- Cityscape development continues with Seattle, San Francisco and New York expected to go online in early 1997. Operations have also begun in San Diego, Chicago, Minneapolis, Boston and Sydney.

During Q97-1, the Cityscape team will also increase recruiting efforts in Los Angeles, Washington DC and London and kick off recruiting in eight other markets.

- MS Expedia (MS Travel) is expected to launch in October with a beta version scheduled for July. Expedia will allow PC users to purchase airline tickets, make car and hotel reservations, and view hotel locations on a detailed map. MS Automap Streets Plus, Automap Online and Automap Trip Planner will also be integrated into MS Expedia's online booking capabilities.
- During Q96-4 MS and DreamWorks Interactive (DWI) entered into an agreement where MS will manufacture, distribute and sell software products developed by DWI in exchange for a distribution fee. DWI will provide end user marketing. The first four titles scheduled to be distributed under this agreement include Goosebumps: Escape from Horrorland, The Neverhood: A Curious Wad of Klay Finds His Soul, Let's Get Cookin and Cooper McCue Breaks Through!.
- The Encarta Schoolhouse is a new educational Internet site where students and teachers can access the content of MS Encarta. Services like Encarta Schoolhouse and the online Teacher Activity Guides on Encarta and other education relevant titles allow teachers and students to find information for homework, research projects and lesson plans, while encouraging interactive learning.
- John Neilson joined the Consumer Division during the quarter, managing the Information Products Group which includes the Reference, Geography, Travel, Cityscape and Personal Interests businesses. Lisa Brummel has moved from Group Manager for division product marketing to lead the Kids product unit.

Competition

- City Search Inc., an Internet start up company with features similar to MS Cityscape, acquired Metrobeat a source of information about the arts, entertainment and events in New York City

Search has announced plans to have sites in thirty cities by the end of 1997.

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- The American Automobile Association (AAA) and DeLorme have joined together to create AAA Map'n'Go, a new travel and mapping tool which was released the end of June. The CD-ROM provides AAA's database of accommodations, restaurants, attractions, directory of AAA offices, GPS link, street-level maps for 241 cities and a link to the DeLorme's Web site for updated weather, construction and events information. Other competitors in this market includes SABRE Interactive and Worldview Systems Corporation, the creators of Travelocity, who have announced

an agreement with Infoseek Corp. to develop travel content on the Internet.

- Disney Interactive acquired Sanctuary Woods' entertainment software studio and its proprietary game development engine. The studio is expected to produce four to six interactive family oriented titles each year. Separately, Disney Interactive announced its planned release of three Japanese language CD-ROM titles based upon popular U.S. software. Also, NEC entered into an agreement with Disney to use it's characters in educational software to promote NEC PC's in Japan.

Desktop Finance Review

Investments & Product Highlights



- The Desktop Finance Division was created in March to focus on online banking strategies and products. The initial development focus includes the Open Financial Connectivity specification and development of ActiveX controls for home banking on the Internet.
- MS's online-banking strategy is based on providing banks choice and flexibility in building online banking offerings. The foundation for this strategy is the recently published Open Financial

Connectivity (OFC) specification, a technical specification that supports the delivery of home banking services using multiple home banking software products and back-end solutions. Fifty-eight financial institutions have committed to offering online banking services under OFC using MS Money.

- Money 97, planned for release in July, will allow consumers to use bill payment services from VISA and BillPay. Other new features include access to Internet resources such as stock quotes and the MoneyZone, a web site with up-to-date news, information and customer support for users of Money.

Competition

- Intuit Inc. recently announced BankNOW, online banking software designed for PC users who want an easy, no hassle way to conduct online banking and bill payment. BankNOW will be available later in the summer and initially link more than six million America Online subscribers with participating financial. Intuit plans to make BankNOW technology available to Internet users later in the year.
- Intuit Inc. also announced the acquisition of Interactive Insurance Services Corp. (IIS). IIS is the developer of an Internet based system that gives consumers personalized insurance information from major insurance carriers via the World Wide Web.
- IBM and 10 large banks announced plans to form a new home banking services company, tentatively called INET. Initially, this company will provide services that allow home PCs to link with banks via IBM's global communications network and the Internet and provide features such as fund transfers, bill paying and obtaining mortgage rates. Each participating bank will be able to brand these services under its own name.

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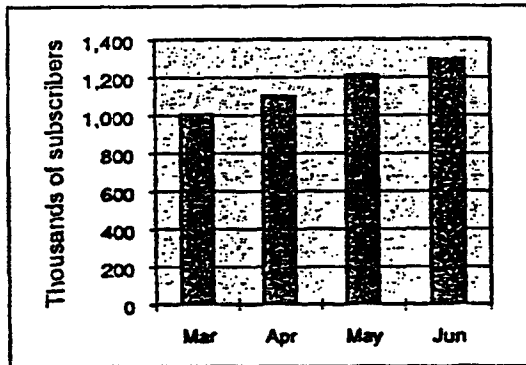
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MS Online Review

Investments & Product Highlights

- The Microsoft Network (MSN) active subscriber count reached 1,295,000 at the end of Q96-4 up from 1,006,000 last quarter as shown in the following chart.



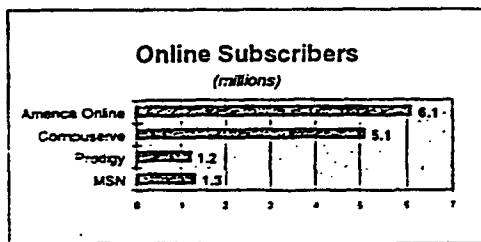
- New customer sign-ups averaged 182,000 per month during the quarter. Of these, approximately 75% were converted from a trial to paying member basis.



- MSN is currently receiving 550,000 connections to the service per day, representing 155,000 hours of connect time. Maximum simultaneous connections to the service neared

Competition

- As of June 30, 1996 subscriber counts for the major online services were as follows:



- America Online, CompuServe and Prodigy have recently experienced flat or declining growth in subscribers. Only through accounting changes (adding new customers from sources not previously included) have they shown subscriber growth.

12,000 in June, up from 10,700 at the end of Q96-3.

- During the quarter MSN experienced significant problems with its billing system causing delays in customer billings and the recognition of revenue. As of June 30, there was a two month backlog of connection events waiting to be priced and billed. A new version of MSN (1.3) scheduled to be implemented in late July is expected to significantly improve the billing system.
- Version 2.0 of MSN is planned for release in September and will introduce a variety of new online programming and technologies.
- In the quarter, Microsoft and CompuServe announced a far-reaching strategic alliance. Under the agreement, CompuServe will deploy MS's new platform for commercial Internet services, named "Normandy" in its suite of online services, including the CompuServe Information Service, WOW! and SPRYNET, CompuServe's Internet-only service. Normandy is an Internet platform solution designed specifically for Internet service providers and commercial Web publishers built on Windows NT Server operating system and integrated with MS Internet Information Server. The technologies licensed by CompuServe include the major components needed to run a commercial, fee-based service, including value-added mail, forum areas, chat, news indexing and other content management services.

- America Online's President and Chief Operating Officer, William Razzouk, quit after only four months on the job. Steve Case said he would assume the roles until a replacement could be found.
- International Wireless, a closely held telecommunications investment group, acquired Prodigy from IBM and Sears.
- Intel bought a 4.5% stake in CNet which represents Intel's first major entry into the world of Internet content. The CNet IPO was priced at \$16, higher than the anticipated price of \$13 to \$15.
- America Online settled the 11 class action suits brought against it regarding its billing practices, most significantly, the practice of adding 15 seconds to each login to account for the network time it takes to make the connection, the glitch where members are billed for time in the "free" areas, and rounding up to the next minute.

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PLATFORMS

Q96-4 P&L Summary

(\$ in millions)	Business Sys		Pers Oper. Sys		Developer		Consumer Sys		Mgmt		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$334.0	167%	\$794.4	136%	\$88.8	122%	\$8.8	77%	\$10.6	nm	\$1,234.0	142%
Cost of Revenue	26.1	96%	40.4	113%	17.9	126%	2.3	69%	0.8	72%	87.4	107%
Gross Margin	307.9	178%	754.1	138%	72.1	121%	6.6	80%	9.9	nm	1,150.5	146%
% of Net Revenue	82.2%		84.9%		80.1%		74.0%		82.9%		82.9%	
Operating Expenses												
People	37.4	115%	21.3	103%	26.7	114%	15.8	86%	10.2	70%	111.5	102%
Infrastructure	11.4	97%	6.3	99%	7.3	101%	5.7	82%	3.1	63%	33.8	91%
Contingency Staff	10.8	272%	5.2	134%	5.3	226%	3.6	120%	1.1	121%	25.9	185%
Product Development	6.9	81%	5.1	99%	31.9	1047%	6.4	243%	1.6	59%	51.3	233%
Marketing	64.3	205%	50.6	179%	27.8	227%	3.8	96%	(0.0)	(-%)	146.5	181%
Other	1.3	nm	0.0	18%	0.8	nm	0.3	87%	0.4	nm	2.9	nm
Product Support Services	18.2	101%	36.7	110%	16.2	110%	0.6	44%	0.0	nm	71.7	106%
Tax, Insurance & Settlement	1.1	160%	10.5	113%	0.2	63%	0.1	nm	0.4	187%	12.2	116%
Bad Debt Expense	2.2	207%	7.1	100%	0.9	149%	0.5	58%	0.1	nm	10.8	123%
R&D Shared Resources	4.5	103%	3.7	85%	(1.4)	nm	1.4	72%	(15.0)	63%	(8.8)	nm
Total Operating Expenses	158.1	141%	146.8	122%	115.0	179%	38.2	99%	2.0	nm	458.8	137%
Responsibility Margin	148.9	nm	607.5	142%	(42.8)	87%	(31.6)	nm	7.9	nm	688.8	152%
% of Net Revenue	44.9%		76.5%		(47.7%)		(35.9%)		7.8%		55.9%	
Allocations	31.1	112%	102.2	136%	23.4	123%	16.2	100%	0.4	84%	173.4	129%
Contribution Margin	\$118.8	nm	\$505.3	143%	(28.3)	25.8%	(6.7.8)	nm	\$7.5	nm	\$517.4	164%
% of Net Revenue	35.6%		63.6%		(7.7%)		nm		7.4%		41.9%	
% of Prior Year												
Net Revenue	214%		189%		132%		92%		60%		184%	
Gross Margin	225%		188%		138%		96%		62%		188%	
Responsibility Margin	744%		206%		184%		nm		61%		242%	
Contribution Margin	nm		203%		nm		nm		58%		357%	
Average Headcount	1,389	100%	815	93%	983	98%	582	82%	286	48%	4,045	89%
Net Rev per Head (annualized \$000)	\$962	167%	\$3,899	148%	\$366	125%	\$60	94%	\$180	nm	\$1,224	160%
People & Infrastructure cost per hd	\$141	111%	\$136	109%	\$138	113%	\$145	105%	\$201	143%	\$144	111%
Marketing Exp % of Net Revenue	19.2%	122%	6.4%	131%	30.9%	186%	43.8%	127%	nm	nm	11.8%	134%

Business Results

- Business Systems Division (BSD) revenue exceeded \$1 billion for the first time with FY96 net revenue totaling \$1.08 billion, 59% over plan. Q96-4 net revenue totaled \$334 million, 67% over plan on continued strong sales of Windows NT and BackOffice.
- Shipments of new Windows NT Server (NTS) licenses totaled just under 400,000 in FY96, a 177% increase over FY95, while shipments of new Windows NT Workstation licenses approached 1.1 million, a 321% increase. NTS shipment share is estimated to have grown to 25% of the Server OS market during FY96, up from 13% in FY95.
- MS Exchange, released in March, generated revenue of \$24 million during FY96 with revenue from all MS messaging products exceeding \$110 million, a 45% increase over FY95.
- Personal Systems Division (PSD) net revenue totaled \$794 million for the quarter, exceeding plan by 36% on continued strong OEM sales of Windows 95. For the year, PSD revenue totaled \$3 billion, 13% over plan and 87% greater than FY95.
- At year end Windows 95 was being used by an estimated 35 million users and was preinstalled on 68% of all PC shipments reported during Q96-4. MS Plus! generated \$89 million in FY96, 90% better than plan.
- Developer Division revenue totaled \$90 million, 22% ahead of plan for the quarter. On a year-to-date basis, net revenue was \$400 million, 14% better than plan on strong sales of Visual Basic (VB) and MSDN. Sales of VB for the year were \$151 million, growing 102% over FY95 on shipments of over 788,000 licenses. C++ hit \$100 million in revenue during FY96, a 26% improvement over FY95.
- Platforms Group gross margin for the year was 93% of net revenue versus a plan of 90%. This improvement was driven by strong OEM revenues coupled with improved BSD gross margins due to savings in product packaging, and the increasing mix of CD ROM and Select sales.

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FY96 P&L Summary

(\$ in millions)	Business Sys		Pers Oper. Sys		Developer		Consumer Sys		Mgmt		Total Group	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Net Revenue	\$1,079.9	159%	\$3,000.4	113%	\$390.9	114%	\$33.1	82%	\$42.3	263%	\$4,556.7	122%
Cost of Revenue	101.1	100%	184.9	103%	72.1	114%	6.4	85%	3.8	91%	368.2	102%
Gross Margin	978.9	170%	2,815.5	114%	327.8	114%	26.7	82%	38.5	323%	4,187.5	124%
% of Net Revenue	90.6%		87.2%		82.0%		80.6%		91.0%		81.8%	
Operating Expenses												
People	128.4	100%	83.4	100%	95.8	100%	80.2	87%	40.5	91%	408.1	99%
Infrastructure	41.4	94%	24.1	98%	26.2	95%	23.3	82%	11.3	75%	123.3	91%
Contingency Staff	34.9	162%	17.7	107%	14.4	147%	11.1	79%	3.9	100%	81.9	125%
Product Development	31.1	93%	15.8	81%	45.5	340%	11.3	100%	5.6	49%	108.3	123%
Marketing	136.9	99%	182.6	119%	58.6	94%	11.2	73%	(2.0)	(7%)	389.3	103%
Other	2.8	353%	(0.3)	nm	3.0	nm	1.7	102%	1.5	nm	8.7	nm
Product Support Services	64.4	91%	158.9	111%	82.4	99%	2.9	85%	(2.1)	nm	289.4	102%
Tax, Insurance & Settlement	3.7	143%	38.6	108%	0.7	82%	0.3	nm	1.8	183%	44.0	112%
Bad Debt Expense	6.9	171%	28.6	104%	2.7	128%	0.7	223%	0.4	nm	39.3	118%
R&D Shared Resources	16.7	125%	12.3	61%	(4.8)	nm	5.3	114%	(58.2)	75%	(28.7)	nm
Total Operating Expenses	467.3	103%	563.6	106%	304.3	113%	125.0	85%	6.5	227%	1,466.6	104%
Responsibility Margin	511.6	nm	2,252.0	116%	23.6	nm	(88.2)	nm	31.8	nm	2,722.9	138%
% of Net Revenue	47.4%		75.1%		5.9%		nm		75.6%		59.7%	
Allocators	108.5	97%	372.5	102%	81.5	99%	37.8	92%	1.5	72%	621.3	98%
Contribution Margin	\$403.2	nm	\$1,879.4	119%	(558.0)	nm	(5156.1)	nm	\$30.5	nm	\$2,099.0	158%
% of Net Revenue	37.3%		62.6%		(14.5%)		nm		72.1%		46.1%	
% of Prior Year												
Net Revenue	229%		187%		150%		91%		117%		188%	
Gross Margin	241%		183%		158%		125%		128%		197%	
Responsibility Margin	nm		186%		nm		nm		nm		224%	
Contribution Margin	nm		179%		nm		nm		nm		nm	
Average Headcount	1,267	98%	784	91%	820	96%	614	91%	305	68%	2,891	92%
Net Rev per Head (annualized \$000)	\$852	163%	\$3,827	124%	\$435	120%	\$54	90%	\$138	nm	\$1,171	133%
People & Infrastructure cost per hd	\$134	103%	\$137	109%	\$132	106%	\$131	94%	\$189	128%	\$137	106%
Marketing Exp % of Net Revenue	12.7%	62%	6.1%	102%	14.7%	82%	33.9%	90%	0.0%	nm	6.8%	85%

- Platforms Group operating expenses totaled \$1.47 billion in FY96, 4% over plan primarily due to \$57 million of unplanned intellectual property acquisitions and technology settlements charged during FY96, along with incremental marketing spending for Internet Explorer approved at mid-year.

- The responsibility margin of 60% was 7 percentage points better than FY96 plan primarily due to higher than plan BSD and PSD revenue.

Outlook

- PSD development is focused on delivering Windows 95 OSR (OEM service release) and Internet Explorer 3.0 in August, and Internet Explorer 4.0 and Nashville in Q97-2. Nashville will be preinstalled on Windows 95 and NT Workstation PCs sold by OEMs, with an upgrade available through the retail channel.
- Release of Windows NT Server and Workstation 4.0 is on schedule for Q97-1. This release eagerly anticipated by OEMs and is expected to fuel strong

growth for both products. NTW is expected to garner 4% of the OEM preinstall business in FY97.

- Developer has a busy year planned with releases of several new products including VB Script, Visual J++, Internet Studio, and Developer Office, and updated versions of Visual Basic, Visual C++, and MSDN products.

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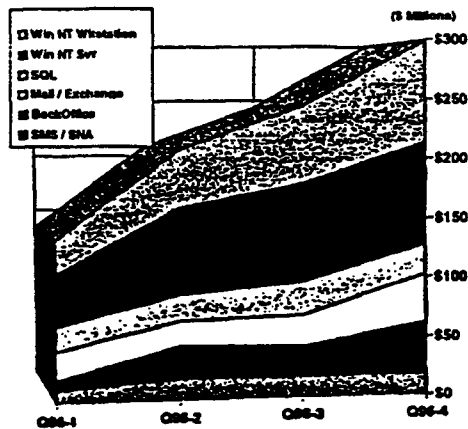
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Business Systems Review

Investments & Product Highlights

BSD Quarterly Revenue



- A beta version of Systems Management Server 1.2 was shipped to selected customers worldwide in May. New features include improved remote control capabilities, performance enhancements to inventory and job scheduling, and SNMP event forwarding and receiving.
 - SNA Server 3.0 beta was launched in June, with final RTM expected in Q97-2. This update incorporates password synchronization, host print services, increased user capacity, data encryption, and improved administration.
 - MS demonstrated Windows NT Server Wolfpack clustering technology at the PC Expo in June. Five lead server OEM's are expected to deliver the product in Q97-3.
 - MS, in conjunction with Digital, Intergraph, Intel, and several other companies, announced support for the Common Internet File System (CIFS). CIFS is an enhanced version of the Server Message Block (SMB) protocol, the file-sharing technology used in MS-DOS, Windows, Windows NT, OS/2, and leading UNIX systems.
 - Apple Computer began efforts to port Windows NT to its line of PowerPC based servers.
 - MS held an another successful Intranet strategy day on June 13th and announced that FrontPage and a Search Server would be added to Windows NT Server 4.0. MS also announced NT Directory Server will combine elements of DNS (domain name server) and X.500 as an upgrade to Windows NT Server 4.0.
 - MS announced its intention to support 64-bit data in Windows NT Cairo. This functionality is targeted to meet the needs of customers who require access to very large databases.
 - MS and Tandem announced a strategic alliance in which Tandem will port its ServerNet clustering and Nonstop ServerWare™ technologies to the Windows NT Server platform. In addition, the agreement calls for cross-licensing of technology patents.
- MS SQL Server 6.5, which shipped in April has several key new features including support for Internet applications, heterogeneous replication, better distributed transactions management, enhanced distributed management tools and Dynamic Locking, a new locking architecture.
 - MS SQL Server achieved a new TPC-C price/performance benchmark record of \$121.32 per tpmC (transaction per minute) with overall performance of 5517 tpmC. MS SQL Server currently holds four of the five top performance benchmark records.
 - Windows NT Server and Workstation 4.0 release candidates were completed in mid-June with final releases expected to be available in Q97-1.
 - BackOffice Server 2.0 was updated in early May to include Exchange Server 4.0, Internet Information Server 1.0, and MS SQL Server 6.5. Pricing remains unchanged.
 - A beta version of Microsoft Proxy Server, a secure gateway between LANs and the Internet, was released in June and downloaded by over 10,000 users the first week. Proxy Server is a high performance server integrated with Windows NT that filters and replicates Web content, and caches frequently accessed Web documents. RTM is planned for Q97-1.

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Competition

Internet Server Share	Servers	Share
Apache	104,086	35%
NCSA	59,084	20%
Netscape	44,566	15%
CERN	18,874	6%
WebSite	13,317	4%
MS IIS	11,612	4%
Other	47,854	16%
Total	299,403	100%

Source: Netcraft Web Survey of 299,403 Internet connected computers, July 1996

- In April, Netscape announced three new server products:
 - Proxy Server 2.0 will provide LAN to Internet links and caching of frequently accessed documents inside corporate firewalls.
 - Mail Server 2.0 is a client-server messaging product based on SMTP and the Internet Mail Access Protocol (IMAP4).
 - Certificate Server enables organizations to issue, sign, and manage public-key certificates using Secure Sockets Layer (SSL) for secure communication over the Internet or Intranet.

These products will be offered individually at \$995 or as part of SuiteSpot, and will be available in the second half of 1996 on Windows, Windows NT, Alpha, and UNIX platforms.

- Oracle announced a 60-day free trial offer for WebServer 2.0 beginning in late April. WebServer is a platform for Web publishing and applications offering secure connections to corporate databases, allowing users to access and publish dynamic data over Intranets and public Web sites. Following the free trial, WebServer will be available at \$2,495 for SPARC and Windows NT platforms.

- In June, Oracle announced InterOffice, a platform for developing and deploying collaborative applications based on Oracle's Universal Server®. Scheduled for delivery in the second half of 1996, InterOffice will provide support for electronic messaging, document management, workflow, video, and OLAP.
- During June, Novell began shipping betas of Green River, its next release of Netware. Key enhancements include SMP support, TCP/IP for Internet access, C-2 security, and simplified administration and installation tools. The product is expected to be available later in the fall.
- Novell also announced beta availability of GroupWise 5 (previously GroupWise XTD), with a final product launch expected later this summer. Groupwise is a client-server messaging system which integrates calendaring, scheduling, task management, shared folders, conferencing, workflow and Web access.
- In May, Lotus announced the availability of Lotus Notes 4.1 for DEC AlphaServer running Windows NT, the outcome of a development and marketing alliance announced last year by Lotus and Digital. Notes 4.1 includes the InterNotes Web Publisher which enables the creation, management and administration of Web sites using Notes. Notes 4.x for Digital UNIX is expected during the second half of 1996.
- In June, Lotus began beta testing its Domino Internet Server, which will enable Notes developers to build interactive applications that can be accessed over the World Wide Web or via a Notes interface. Due for release as part of Notes 4.5 in Q97-2, Domino is being developed for the Windows NT, Solaris, AIX and HP-UX platforms.

Personal Operating Systems Review

Investments & Product Highlights

- Windows 95 life-to-date sell-through is estimated to be about 35 million licenses. Windows 3.x life-to-date shipments now exceed 131 million.
- MS and CompuServe entered into a strategic agreement in May where CompuServe agreed to market, promote and distribute Internet Explorer (IE) as its primary web browser. In exchange, Microsoft will provide access to the CompuServe online services by adding an icon for the services to a folder on the Windows 95 desktop.
- In April, MS announced plans to integrate support for Sun Microsystems' Java technology into future versions of Windows 95 and Windows NT.

- As of April, IE 2.0 was shipping on Windows 95, Windows NT, Macintosh, and Windows 3.1. The Windows 95 version is now available in 25 languages.
- The IE 3.0 beta was released on the MS Web site in May, with enhancements to support Java added in June. Internet Explorer has been downloaded 1.6 million times to date, 700,000 of which have been the IE 3.0 beta.
- Since its March release, the Internet Starter Kit has sold-through an estimated 22,000 retail units in North America.

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Competition

Internet Browser Share (as of 7/10/96)	
Netscape Navigator (all platforms)	50%
America Online Browser	15%
Microsoft Internet Explorer	8%
Mosaic	3%
Other Browsers	5%
Unsure	19%
Total	100%

Source: Market Decisions random sampling of 150 users who accessed the WWW in the prior two weeks.

- Netscape Communications Corp. released its Navigator 3.0 beta in April which included JavaScript, real-time Internet Telephony, a shared whiteboard application, and VRML support. Navigator 3.0 also includes an Apple QuickTime plug-in and extensions for QuickTime VR. Netscape also announced in April its decision to license Borland's AppAccelerator, a just-in-time compiler which improves Java application performance, and intends to incorporate it into future Navigator releases.
- Netscape and Bell Atlantic announced Bell Atlantic will provide co-branded Netscape software to its business and residential customers.
- Netscape second quarter earnings beat analysts' expectations with strong revenue growth to \$75 million, up 36% from its first quarter. Browsers comprised 60% of revenue, servers 24%, and the remainder from services. Net earnings for the quarter totaled \$906,000, including a \$4.9 million charge related to the acquisitions of InSoft Inc., Paper Software Inc. and Netcode Corp.
- Netscape recently announced its Navigator browser has 38 million users, a claim which drew skepticism from industry press. Dataquest estimates the total number of Internet users at the end of last year was 26.4 million worldwide. Netscape is estimated to have sold 17.4 million copies of Navigator through its retail, OEM, and corporate channels.
- In June, Oracle launched PowerBrowser 1.5, a free Web development environment and navigation tool designed specifically for Intranets. PowerBrowser incorporates database and programming wizards, a personal Web server, support for Network Loadable Objects, and built-in BASIC and Java scripting.
- IBM announced an agreement with Apple which allows IBM to sub-license Mac OS to any manufacturer building systems with IBM PowerPC microprocessors. DataTech Enterprises and Taug were among the first to announce intent to sub-license under this agreement.
- In June, IBM began OS/2 Warp beta testing of the upcoming Merlin release, which will include speech recognition, Java support, and remote help capabilities which allow examination of a customer's system by modem. The update will also include Lotus Notes Mail, a client of Notes release 4. Merlin is expected to be available in the second half of 1996.
- In early July, Apple shipped System 7.5.3, the latest Mac OS upgrade with a \$99 US ERP, and a \$49 version upgrade ERP. Product features include the Apple Internet Connection Kit with Netscape Navigator, Claris Emailer Lite, access to America Online along with one-button installation, OpenDoc support, QuickTime and QuickDraw updates, and the addition of PlainTalk, a text-to-speech converter.
- In June, Apple completed a \$661 million placement of five year convertible subordinated debentures. The notes will be redeemable at the company's option after three years, will have a 6% coupon and will be convertible to common stock at \$29.205 per share. This transaction was intended to provide working capital to execute plans to return Apple to profitability.
- Apple shipped Newton Internet Enabler 1.0 (NIE), a suite of connectivity tools allowing Newton developers to create Internet-based solutions such as mail, news, Telnet and FTP applications, and enhanced mobile Internet access. NIE is available on Apple's Web site at no cost.
- Apple, IBM, Netscape, Oracle, and Sun announced support for NC Reference Profile 1, a common set of guidelines for developing low-cost, easy-to-use network computing devices.
- Sega announced Saturn Net-Link, an Internet add-on device for the Sega Saturn which enables Internet access, networked gaming, email and chat from a system costing less than \$500. The \$199 package includes a 28.8 bps modem and a customized Internet browser. Net Link is scheduled for release this Fall.
- Phillips Electronics and Sony announced plans to market a set-top box offering TV-based Internet access, connecting directly to a TV set and a telephone line, and controlled by a hand-held remote. The implementation relies on software licensed from WebTV Networks and will be available this Fall for between \$200 and \$400.

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Developer Review**Investments & Product Highlights**

- MS announced the Microsoft Developer Network (MSDN) Universal Subscription, an annual subscription simplifying custom solutions development by delivering information, technology and development tools in one comprehensive product. Developers will receive everything they currently get in the Enterprise Subscription as well as Office Professional, Project and selected Visual Development Tools, ensuring Universal subscribers are up-to-date with the latest MS tools and technologies.
- MS announced Visual Basic Applications Edition (VBA) licensing in June. By licensing VBA, MS will allow independent software vendors to embed this programming tool in their applications, turning them into customizable development platforms immediately accessible to the millions of Visual Basic programmers.
- MS announced a pact with Metrowerks Inc. which will integrate Microsoft ActiveX technologies with Java for its CodeWarrior application development products for the Apple Macintosh. The agreement enables developers to create rich, powerful Internet applications while taking advantage of existing development tool investments.
- MS announced the ActiveX Template Library (ATL) is available free of charge on the Web to C++ developers. This new library provides developers with a convenient mechanism for building lightweight and fast component object model (COM) objects.
- The MS Access Upsizing Tools for Windows 95 are now available at no charge to Access developers. These tools allow developers to migrate Access based applications into MS SQL Server.
- As of May, MSDN has been in the reseller channels. MSDN is an essential companion for developers implementing Microsoft technologies.

Competition

- Adobe Systems announced their intention to incorporate Microsoft's ActiveX technology into future tools used for creating and distributing graphically-rich documents over the Internet. Adobe intends to support ActiveX in a forthcoming version of the HTML authoring tool, Adobe PageMill.
- Apple announced it licensed Sun's Java programming environment and will make Java an integral part of its operating systems, including Mac OS, Pippin and Newton.
- Borland International announced it expects a first-quarter loss of 53 to 56 cents and the resignation of its president and chief executive officer, Gary Wetsel. The company said meager demand for Delphi has resulted in a build up of large inventories among distributors and retailers.
- IBM demonstrated a prototype of Arabica, the world's first Java Beans implementation. Arabica, which is based on OpenDoc technology, will provide an open, cross-platform component architecture for developing Java applets and applications. The Java Beans initiative will allow developers to write portable Java applets and applications using reusable software components.
- Netscape announced it is bundling Borland's AppAccelerator just-in-time dynamic compiler with Navigator in an attempt to improve Java application speed and performance.

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Consumer Systems**Authoring Tools**

- MS announced Softimage's (SI) Digital Studio will be commercially available this year. This NT-based technology will provide a single consistent application for professional nonlinear editing and compositing, 2-D and 3-D painting, audio editing, titling, special effects, and project management. SI will position Digital Studio as the cornerstone of an evolving SI solution.
- Softimage 3D 3.5 for Irix released with enhanced modeling, animation, and rendering capabilities,

as well with an effects library and special features for game developers. The NT version will be released in August.

- SI net revenue for the year was \$33 million 19% below plan primarily due to delayed shipment of NT version of 3D, lower average revenue per license due to distribution transition and competitive pressures, and lower than planned Eddie & Toonz sales

Public Network Services

- Microsoft acquired eShop, a California-based company whose technology provides an online retail store environment. eShop will be integrated into the MS Merchant Server effort.
- Several security and electronic commerce products were introduced during the quarter. Sun introduced SKIP (Simple Key management for IP). Netscape introduced LivePayment, server software for collecting payments, along with releasing Merchant System 1.5 with enhanced merchandising features. IBM introduced Net.Commerce, a virtual storefront, with their initial customers being the Atlanta Olympics and L.L. Bean. AOL deployed atOnce software from

OLI which enables members to purchase and download software directly to their PCs.

- The Federal Communications Commission is working on an advanced digital television standard which discourages the convergence of TV and computer technologies. The computer industry, including MS, along with cable companies and Hollywood have proposed and are actively lobbying for changes to promote the convergence.
- Comcast and Cox Communications each purchased a 14.5% stake in @Home, joining partners TCI and Kleiner Perkins, which own 45% and 14.5%, respectively.

Advanced Development

- MS purchased aba!, a leading developer of electronic-ink note taking and editing software for mobile computers and communicators.

- Patent search technologies developed by MS, which were originally intended for internal MS use, will be commercially licensed during FY97.

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**LOCALIZATION
FY96 Cost by Division**

(in thousands)	Desktop Apps		Developer		Consumer		Personal Systems		Business Systems		Other		Total	
	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
	Headcount	53	61	35	41	25	30	15	20	36	43	38	44	202
Japan	70	84	16	23	4	4	52	61	38	30	79	81	259	292
Redmond	16	28	4	5	3	3	4	4	10	13	1	2	38	55
Korea	20	23	2	3	0	0	4	2	10	10	2	2	38	40
Taiwan	14	19	3	4	0	0	2	2	4	7	1	1	24	33
China	110	110	29	34	58	64	60	62	61	66	59	61	377	397
Total	283	325	89	110	90	101	137	151	150	178	180	191	938	1,056
External Costs	\$ 4,180	\$ 5,580	\$ 3,805	\$ 4,147	\$ 1,588	\$ 3,493	\$ 2,277	\$ 6,265	\$ 7,280	\$ 8,789	\$ 1,988	\$ 2,431	\$ 21,142	\$ 30,718
Japan	6,940	7,285	2,740	2,443	23,838	5,128	4,788	6,653	2,008	3,673	1,456	1,487	41,768	26,679
Redmond	967	429	157	525	58	360	112	283	308	540	11	-	1,513	2,137
Korea	904	816	343	310	110	99	357	322	562	507	-	-	2,275	2,054
Taiwan	88	383	38	168	-	-	43	181	48	217	-	-	218	989
China	12,841	6,838	7,343	6,866	13,327	26,731	5,267	5,732	7,517	4,830	2,296	2,283	46,191	51,397
Total	\$ 23,433	\$ 21,354	\$ 14,427	\$ 16,576	\$ 38,821	\$ 35,811	\$ 12,844	\$ 18,446	\$ 17,531	\$ 16,756	\$ 5,752	\$ 6,228	\$ 112,867	\$ 116,154
Internal Costs	\$ 12,948	\$ 12,951	\$ 2,190	\$ 5,819	\$ 4,371	\$ 5,908	\$ 3,489	\$ 5,866	\$ 8,198	\$ 8,630	\$ 8,150	\$ 13,207	\$ 39,357	\$ 52,201
Japan	8,164	10,487	1,998	2,840	677	888	6,242	7,530	3,289	4,805	8,841	8,888	30,012	35,551
Redmond	1,313	1,543	475	831	240	437	342	291	821	801	239	190	3,389	4,064
Korea	1,504	1,866	150	347	-	174	301	217	752	651	150	96	2,657	3,351
Taiwan	1,230	850	264	364	-	-	176	182	351	323	88	103	2,106	1,802
China	8,359	8,694	4,424	3,263	7,914	6,644	8,172	6,807	6,218	6,909	7,783	6,320	42,870	38,437
Total	\$ 34,518	\$ 36,401	\$ 6,501	\$ 13,435	\$ 13,201	\$ 14,151	\$ 18,731	\$ 20,497	\$ 19,631	\$ 22,119	\$ 25,021	\$ 28,804	\$ 120,603	\$ 135,407
Total	\$ 17,141	\$ 18,544	\$ 5,995	\$ 9,964	\$ 5,959	\$ 9,401	\$ 5,776	\$ 11,931	\$ 15,489	\$ 17,439	\$ 10,138	\$ 15,838	\$ 60,499	\$ 82,919
Japan	16,104	17,782	4,739	5,284	24,515	6,116	11,030	14,186	5,296	8,678	10,087	10,365	71,780	62,430
Redmond	1,980	1,972	632	1,328	298	797	454	574	1,129	1,341	220	190	4,712	6,201
Korea	2,407	2,682	494	657	110	273	657	539	1,313	1,158	150	96	5,132	5,405
Taiwan	1,318	1,243	301	532	-	-	219	373	400	520	88	103	2,326	2,771
China	15,000	15,532	11,767	10,249	21,241	33,375	13,439	12,339	13,535	11,739	10,679	8,600	89,061	91,834
Total	\$ 57,950	\$ 57,755	\$ 23,928	\$ 28,014	\$ 52,122	\$ 49,962	\$ 31,575	\$ 35,943	\$ 37,162	\$ 42,875	\$ 32,773	\$ 25,012	\$ 233,516	\$ 251,561

NOTE: 1) Redmond Internal Cost is estimated based on headcount multiplied by the budgeted average cost per head for a Redmond R&D employee
2) Other includes: ACC, MOS/MSK, CSJ, PPG, WPG

- Over 900 projects were localized in FY96 at a total cost of \$234 million. A project is defined as a unique combination of product, version and language. This definition excludes minor localization efforts such as porting products to additional platforms or localization of retail boxes and printed documentation. The year in which localization costs are incurred often does not correspond with the year in which the project is released. Hence, a significant amount of localization costs incurred in FY96 is related to projects that will be released in FY97.
- External costs include third party product development and contingent staff, while internal costs include people and infrastructure.
- Desktop Applications released 112 language versions of Office, Word, Excel, PowerPoint, and

Project in FY96. Office and its components were localized into 25+ languages.

- Developer released 40 language versions of products such as Access, Visual Basic and Visual FoxPro.
- Consumer released 90 language versions of Works and various multimedia products. Significant investments were also made for five language versions of Encarta.
- Personal Systems released 27 language versions of Windows 95.
- Business Systems released 30 language versions of products such as NT Server and NT Workstation 3.51 and 12 language versions of Exchange.

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KEY PRODUCTS RELEASE SCHEDULE

Business Unit/Product	RTM Date		Business Unit/Product	RTM Date	
	Act/Fcst	Plan		Act/Fcst	Plan
Business Systems:					
Internet Web Server 1.0	Feb-96	Feb-96	Cinemania 96	Sep-95	Oct-95
MS Exchange Server 4.0	Mar-96	Jun-95	Music Central	Sep-95	Nov-95
BackOffice 2.0	May-96	Mar-96	3D Movie Maker	Oct-95	Sep-95
Internet Access Server 1.0	Jul-96	Apr-96	Golf 2.0 CD	Oct-95	Jan-96
Win NT Workstation 4.0	Jul-96	Jul-96	Car Source On-line	Oct-95	Sep-95
Windows NT Server 4.0	Jul-96	Jul-96	Mac Encarta 96	Nov-95	Nov-95
Systems Mgmt Server 1.2	Jul-96	Jun-96	Return of Arcade	Feb-96	Oct-95
FNW / DSMN *SUF	Aug-96	Aug-96	Reader's Digest Do-It-Yourself	Feb-96	Sep-95
SNA Server 3.0	Sep-96	Sep-96	Complete Gardening	Feb-96	Feb-96
Viper 1.0	Nov-96	Nov-96	Home Health On-line	Feb-96	Oct-95
BackOffice *SUF	Nov-96	Nov-96	MSB - Geology	Feb-96	Nov-95
MS Exchange Server 4.1	Nov-96	Nov-96	Rabbit Ears Koi and the Kola Nuts	Mar-96	Dec-95
Consumer Systems Division:			Bookshelf 96-97 (Mac)	Apr-96	Mar-96
Toonz Pix 4.0	Jul-96	Apr-96	RE-man	May-96	May-96
Digital Studio NT 1.0	Jan-97	May-96	Koi and Kola Nuts	Jun-96	Jun-96
Softimage 3D 3.0 NT	Jan-96	Mar-96	Beyond the Limit 2-WET	Jun-96	Jun-96
Softimage 3D 3.5 NT	Aug-96	Aug-96	Close Combat	Jun-96	Mar-96
Softimage 3D 3.5 Pix	May-96	May-96	Rabbit Ears, Bunyan	Jun-96	Jun-96
Eddie 3.5	Sep-96	Sep-96	On Line Games (Microbrew s)	Jun-96	Jun-96
Pegasus	Aug-96	Aug-96	MedaView	Jun-96	Jun-96
Developers:			Sidewinder 3D Pro 2.0	Jun-96	Jun-96
Visual Basic 5.0	Oct-96	Oct-96	Wine Guide 2.0	Jul-96	Jun-96
Visual C++ 5.0	Nov-96	Nov-96	Car Point 1.1	Jul-96	Apr-96
Visual Fox Pro 4.0	Aug-96	Jul-96	Music Central 2.0	Jul-96	Jun-96
Internet Studio	Nov-96	Nov-96	Cinemania 97	Jul-96	Jun-96
MSDN Universal	Jul-96	Jul-96	MSB-Pix	Jul-96	Jul-96
SourceSafe 5.0	Oct-96	Oct-96	Car Point 1.1	Jul-96	Apr-96
Jakarta 1.0	Jul-96	Jul-96	Music Central 2.0	Jul-96	Jun-96
Personal Operating Systems:			Cinemania 97	Jul-96	Jun-96
Internet Explorer 3.0	Aug-96	Jun-96	MSB-Pix	Jul-96	Jul-96
Internet Explorer 4.0	Oct-96	Sep-96	Explorapedia Transportation	Jul-96	Jul-96
Windows OSR2	Aug-96	Jul-96	Monster Truck Madness	Jul-96	Jul-96
"Nashville"	Oct-96	Sep-96	Deadly Tide	Jul-96	Jul-96
Desktop Applications:			High Score Upload	Jul-96	Aug-96
Office 97	Oct-96	Sep-96	Interactive Music Archive 2.0	Jul-96	Jul-96
Mac Office 97	May-97	May-97	Sidewinder Force Feedback Joystick	Jul-96	Jul-96
Outlook	Oct-96	Oct-96	Creative Writer 2.0	Aug-96	Aug-96
Front Page	Nov-96	Nov-96	Nck	Aug-96	Jul-96
Win Project	Oct-96	Oct-96	Online Chess	Aug-96	Aug-96
Win Publisher	Oct-96	Oct-96	B3 Substitute	Aug-96	Aug-96
Win OfficePro 95	Oct-95	Oct-95	Explorapedia Arts & Entertainment	Aug-96	Aug-96
Access 7.0	Oct-95	Oct-95	Encarta 97 World Atlas	Aug-96	Aug-96
Team Manager	Oct-96	Apr-96	Sidewinder Game Pad	Aug-96	Aug-96
Desktop Finance:			NBA Full Court Press	Aug-96	Aug-96
Money 4.0	Aug-95	Aug-95	Battlemaster	Aug-96	Aug-96
Money 97	Jul-96	Jul-96	Automap Streets Plus	Aug-96	Aug-96
Microsoft Online Services			Encarta 97 Encyclopedia	Aug-96	Aug-96
MSN Version 2.0	Sep-96	Sep-96	Electronic Travel Agent (Expedia)	Sep-96	Sep-96
Consumer:			Automap Trip Planner	Sep-96	Jul-96
Automap Streets	Jun-95	Jun-95	Helbender	Sep-96	Aug-96
Bookshelf 95	Jul-95	Jun-95	Golf 3.0	Sep-96	Aug-96
Win Works 95	Jul-95	Jun-95	Kids Online GameSpace	Sep-96	Aug-96
Creative Writer/Fine Artist Toolbox	Jul-95	Jun-95	GEX	Sep-96	Sep-96
Oceans	Jul-95	Jul-95	IntelMouse (Magellan)	Sep-96	May-96
Sidewinder Joystick	Aug-95	Aug-95	Soccer	Sep-96	Sep-96
Fury3	Aug-95	Aug-95	Ultimate Climb	Sep-96	Sep-96
EasyBall	Aug-95	Aug-95	Fight Simulator 6.0	Sep-96	Sep-96
Win Publisher 3.0	Aug-95	Aug-95	CyberChef: Let's Get Cookin' (DWT)	Sep-96	Sep-96
Win Encarta 96	Aug-95	Aug-95	Chalk Talk Cooper McCue Breaks Through	Sep-96	Sep-96
Win Encarta World Atlas	Sep-95	Sep-95	Goosebumps: Escape from Horrorland (DWT)	Sep-96	Sep-96
MSB Oceans	Sep-95	Sep-95	Mango 97	Sep-96	Sep-96
Word of Fight	Sep-95	Sep-95	MSB Solar System	Sep-96	Sep-96
			Snake's World	Sep-96	Sep-96

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SALES, MARKETING & SUPPORT
Q96-4 Finished Goods Summary

	North America		Europe		ICON		Far East		Total WW FG	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Gross Revenue	\$426.2	115%	\$404.3	88%	\$173.0	103%	\$226.7	124%	\$1,450.1	108%
Desktop 95 Adjustment	201.9	nm	80.7	nm	24.9	nm	55.6	nm	363.3	nm
Revenue Adjustments	(69.5)	190%	(14.1)	83%	(1.3)	14%	(4.1)	56%	(89.1)	130%
Net Revenue	766.6	148%	470.9	106%	195.6	123%	268.2	157%	1,724.3	132%
Cost of Revenue	86.5	92%	58.8	95%	25.2	83%	30.8	94%	221.1	92%
Gross Margin	682.1	161%	412.3	108%	171.4	123%	257.4	171%	1,523.3	140%
% of Net Revenue	89%		88%		87%		88%		89%	
Controllable Expenses										
People	49.8	112%	45.2	111%	18.2	118%	14.8	107%	128.0	112%
Infrastructure	15.1	91%	8.8	77%	5.1	95%	3.8	81%	32.9	88%
Other Misc Expenses	4.8	65%	2.5	67%	4.4	112%	4.2	308%	15.8	98%
Marketing	155.6	183%	68.2	134%	18.1	137%	37.7	289%	279.6	171%
Manufacturing Recovery	(9.1)	nm	(6.0)	nm	(2.8)	nm	(5.3)	nm	(24.5)	nm
Sales & Marketing expenses	216.0	151%	118.3	114%	43.0	116%	54.4	178%	431.7	157%
MCS Costs	31.7	132%	12.3	133%	3.1	84%	1.0	48%	48.3	128%
MPS Revenue	(32.3)	115%	(11.9)	135%	(3.4)	84%	(2.5)	23%	(48.2)	73%
G&A Costs	0.6	88%	11.2	99%	2.6	87%	2.4	88%	16.7	88%
PSD Costs	75.5	88%	32.3	89%	6.4	103%	13.6	84%	127.7	88%
PSR Revenue	(14.8)	57%	(6.3)	68%	(1.9)	138%	(3.3)	37%	(24.2)	68%
Total Controllable Expenses	276.7	138%	156.0	110%	49.8	113%	91.5	150%	552.1	128%
Responsibility Margin	405.4	180%	254.3	107%	121.6	143%	167.9	180%	971.2	148%
% of Net Revenue	53%		54%		62%		63%		56%	
Shared Resources	38.2	251%	18.3	188%	2.8	178%	5.9	231%	64.1	221%
Corporate Allocations	143.7	120%	111.8	120%	31.8	120%	41.0	120%	328.3	120%
Contribution Margin	\$229.3	247%	\$125.1	92%	\$87.1	153%	\$114.0	236%	\$576.8	164%
% of Net Revenue	29%		27%		44%		48%		33%	
% of Prior Year										
Gross Revenue	128%		118%		143%		124%		128%	
Net Revenue	168%		133%		173%		138%		157%	
Gross Margin	185%		139%		180%		168%		168%	
Responsibility Margin	257%		160%		250%		181%		213%	
Contribution Margin	1050%		234%		243%		172%		317%	
Dollars per head annualized in thousands										
Average Sales Headcount	2,172	81%	1,841	97%	761	98%	420	92%	5,224	94%
Net Revenue per Head	\$1,415	163%	\$1,023	109%	\$904	128%	\$2,745	172%	\$1,320	141%
People and Infrastructure cost per head	\$119	116%	\$117	106%	\$18	117%	\$178	109%	\$123	112%
Marketing Exp % of Net Revenue	19%	133%	13%	120%	8%	100%	14%	183%	15%	132%

Channel Highlights

- Q96-4 gross finished goods (FG) revenue was \$1.45 billion, 6% over plan and 24% over Q95-4. Strength in DAD and BSD offset weakness in Consumer and PSD.
- Net FG revenue for the quarter was \$1.72 billion, or 32% better than plan, including a \$363 million adjustment for channel sell through and returns of Desktop 95. All four geographic areas, North America, Europe, ICON, and Far East exceeded plan and combined for net revenue growth of 57% over Q95-4.
- FY96 gross finished goods revenue was \$6.82 billion, 10% ahead of plan and 51% over FY95.

Business Systems, Desktop, Applications, and Developer divisions each achieved plan, while Consumer and Personal Systems divisions fell short of plan. Leading the year over year increase was PSD with 251% growth with Windows 95 sales in the FG channel exceeding \$764 million. In addition, BSD grew 156% to \$914 million, while Developer grew 52%, Desktop Applications 32% and Consumer 17%.

- FY96 net revenue of \$6.40 billion was 10% ahead of plan. Far East was 39% over plan, Europe 7%, North America 6% and ICON 5%.

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FY96 Finished Goods Summary

	North America		Europe		JCOM		Far East		Total WW FG	
	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan	Actual	% Plan
Gross Revenue	\$2,968.9	100%	\$2,218.5	107%	\$926.2	100%	\$268.5	140%	\$6,821.2	110%
Desktop 95 Adjustment	0.0	nm	0.0	nm	0.0	nm	0.0	nm	0.0	nm
Revenue Adjustments	(780.5)	119%	(83.8)	120%	(31.8)	80%	(40.1)	148%	(416.2)	114%
Net Revenue	2,728.4	108%	2,132.7	107%	894.3	105%	248.5	138%	5,994.9	110%
Cost of Revenue	444.8	101%	273.9	100%	110.8	98%	118.7	91%	927.2	99%
Gross Margin	2,284.9	107%	1,858.8	108%	783.9	107%	129.7	107%	5,067.7	112%
% of Net Revenue	83%		87%		87%		57%		85%	
Contribution Expenses										
People	173.7	94%	168.2	101%	60.2	101%	30.9	93%	451.8	97%
Infrastructure	98.1	97%	44.8	97%	19.3	91%	16.5	82%	138.9	90%
Other Misc Expenses	28.1	94%	16.4	100%	17.3	124%	8.4	178%	71.2	104%
Marketing	450.6	108%	258.1	111%	89.9	108%	97.9	119%	862.7	108%
Marketing Recovery	(47.2)	nm	(29.7)	nm	(6.9)	nm	(18.8)	nm	(102.9)	nm
Sales & Marketing expenses	661.3	99%	462.8	101%	149.9	101%	155.0	100%	1,418.3	100%
MCS Costs	98.7	113%	38.2	129%	11.1	90%	3.7	90%	153.7	110%
MCS Revenue	(112.8)	119%	(34.5)	130%	(9.7)	80%	(1.4)	29%	(161.7)	118%
G&A Costs	2.9	94%	43.1	90%	8.8	93%	8.8	97%	64.5	90%
PSS Costs	218.7	92%	133.4	89%	21.9	88%	51.9	92%	325.9	90%
PSS Revenue	(59.3)	60%	(31.4)	87%	(5.7)	102%	(5.8)	40%	(101.9)	88%
Total Contribution Expenses	913.3	100%	597.9	98%	177.3	98%	213.3	99%	1,802.2	98%
Responsibility Margins	1,368.8	112%	1,261.0	113%	266.9	112%	67.8	144%	3,534.9	128%
% of Net Revenue	50%		60%		37%		67%		57%	
Shared Resources	127.2	102%	73.7	98%	8.7	94%	22.3	89%	231.9	98%
Corporate Materials	470.3	103%	269.0	102%	104.3	102%	134.2	102%	1,078.8	102%
Contribution Margin	1734.0	121%	2819.4	121%	2133.9	118%	5481.0	254%	32,326.6	128%
% of Net Revenue	63%		13%		32%		67%		38%	
% of Prior Year										
Gross Revenue	149%		149%		149%		163%		177%	
Net Revenue	149%		149%		149%		182%		177%	
Gross Margin	182%		182%		182%		197%		164%	
Responsibility Margin	163%		169%		163%		219%		166%	
Contribution Margin	177%		179%		179%		209%		166%	
Dollar per head, gross and net revenue										
Average Sales Headcount	2,112	91%	1,794	95%	767	95%	411	92%	5,074	93%
Net Revenue per Head	\$1,292	117%	\$1,195	112%	\$775	110%	\$2,308	132%	\$1,262	118%
People and Infrastructure cost per head	\$109	101%	\$118	108%	\$124	103%	\$184	99%	\$118	108%
Marketing Exp % of Net Revenue	15%	100%	11%	98%	9%	94%	8%	79%	12%	99%

- Desktop Applications FG sales in the quarter totaled \$938 million, \$145 million above plan. FY96 revenue was 17% above plan and comprised 58% of worldwide gross FG revenue.
- Consumer division FG sales for Q96-4 totaled \$98 million, \$35 million under plan and slightly less than Q95-4. FY96 FG revenue from Consumer products was \$536 million or 16% below plan mainly due to lower than plan software titles, the discontinuance of Bob and weak keyboard sales. Joysticks and mice ended above plan by 105% and 10%, respectively.
- Personal Systems FG revenue of \$119 million for Q96-4 were \$72 million below plan. Returns of Windows 95 and Plus! totaled \$42 million for the

quarter and \$424 million for the year. PSD in the FG channel did not make FY96 plan, falling short by 2%.

- Business Systems division FG gross revenue for Q96-4 was \$305 million. 83% over plan with Windows NT and BackOffice continuing to show strength and growth across all geographies.
- Developer Division FG sales in the quarter were \$94 million, exceeding plan by 22% driven by Visual Basic 4.0 and MSDN. Full year revenue from Developer products was \$412 million, 13% over plan. Visual Basic and MSDN positive variances offset negative variances from Fox and Visual C++.

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• Customers may return product in accordance with distribution contract terms. These terms vary by country, but allow returns for a percentage of the previous quarter's purchases, and stock rotation associated with new product releases. Q96-4 returns totaled \$153 million, primarily for Windows 95, MS Plus!, Office 95 and Office Pro 95 that were related to inventory accumulated during the launch and channel fill in Q96-1. FY96 returns totaled \$967 million versus \$404 million in FY95. Returns were notably lower in the Far East as they took advantage of the later release of DT95 products and "lessons learned" to avoid overfilling the channel. FY96 returns by region are as follows:

	Returns as a % of Gross Revenue				
	N. America	Europe	ICON	Far East	WW Total
Desktop Applications	12.7%	6.2%	7.2%	3.7%	8.7%
Consumer	13.8%	13.6%	7.6%	3.2%	12.5%
Personal Finance	36.4%	21.6%	3.7%	0.1%	26.2%
Personal Systems	31.2%	26.3%	14.8%	2.2%	27.0%
Business Systems	2.8%	5.0%	7.8%	5.3%	4.3%
Developer	5.6%	5.6%	12.7%	3.9%	5.5%
Total	15.5%	10.6%	9.7%	3.7%	12.0%

• For internal management reporting purposes, revenue from Desktop 95 products (primarily Windows 95 and Office 95) was recognized as produce was sold through the distribution channel. The impact of this reserve on net revenue by quarter was as follows:

DT95 Reserve - (millions)	
Q95-1	(\$1,009)
Q96-2	\$367
Q95-3	\$279
Q96-4	\$363

At June 30 this reserve has been fully reversed as DT95 channel inventory is not considered abnormal on a consolidated basis. Subsidiaries with channel inventory still in excess of normal charged a general returns reserve in June as follows:

Returns Reserve (DT95)	
N. America	\$20
Europe	11
ICON	2
Far East	0
Total	\$33

• As the following table illustrates, sales to the top fifteen customers made up 56% of total Q96-4 revenues.

Top Fifteen Customers Worldwide (Sell-In) (in millions)	Q96-4		Q96-3		Q96-2	
	Revenue	%	Revenue	%	Revenue	%
Ingram	178	12%	159	11%	125	9%
Mensel	156	11%	113	8%	82	7%
Stream International	94	6%	82	6%	73	5%
Computer 2000	65	4%	71	5%	122	9%
Tech Data	51	3%	29	2%	60	4%
Egghead	45	3%	25	2%	6	0%
Software Spectrum	44	3%	37	3%	43	3%
Soft Bank	40	3%	60	4%	73	5%
Tech Pacific	40	3%	30	2%	26	2%
Intelligent Electronics	23	2%	15	1%	11	1%
Microage Computer	23	2%	18	1%	12	1%
Softmat	20	1%	20	1%	18	1%
Digital Equipment	20	1%	21	2%	15	1%
Fujitsu	18	1%	21	1%	18	1%
All Others	638	44%	654	49%	717	51%
	<u>1,454</u>	<u>100%</u>	<u>1,379</u>	<u>100%</u>	<u>1,412</u>	<u>100%</u>

- The timing and quantity of channel returns contributes significantly to the variances in quarterly sales to top customers shown above. For instance, sell-in to Egghead and Microage has been fairly consistent over the past three quarters with significant returns from these customers reflected in Q96-2.
 - Gross margin from finished goods during Q96-4 was 88% versus plan of 83%. The positive variance was mainly due to the benefit of lower product costs associated with licensing program revenue. Select, MOLP, and Maintenance accounted for 59% of quarterly revenues versus a plan of 33%. In addition, the reversal of the DT95 reserve had a positive impact of over 1% on cost of revenue. For the year, FG gross margin was 85% vs plan of 83% and prior year of 83% for the same reasons.
 - Controllable expenses for Q96-4 were 28% above plan due primarily to higher than plan marketing expenditure and year end accruals. People costs were 12% over plan in Q96-4 due to accruals for items such as bonuses and president's award and higher than plan travel expense.
 - Full year people and infrastructure costs grew 21% and 11%, respectively, over the prior year, well below net revenue growth of 51%.
- Marketing expenses of \$255 million during Q96-4, were over plan by \$109 million or 75%. For the year, marketing spend was over plan by 5% but

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remained below total approved spending levels. FY96 marketing spend grew 48% over FY95 falling slightly as a percent of net revenue.

- As a percent of net FG revenue, FY96 net PSS expense was 6.6% versus plan of 7.4%. A combination of lower than planned incidents and higher than plan FG revenue drove down the PSS

expense for FY96. See PSS section for more information.

- Responsibility margin for FY96 was 55.2%, up from FY95 actual of 49.4% and plan of 50.4%.
- The following table summarizes FG net revenue by country, sorted by net revenue.

FG Net Revenue Ranking: June YTD: (000's)						
	96 Actual	96 Budget	95 Actual	% of Plan	% Growth	% of Total
1 United States	2,523,888	2,390,682	1,691,019	105.6%	49.3%	39.4%
2 Japan	828,921	575,379	440,834	144.1%	88.0%	12.9%
3 Germany	490,030	471,048	331,574	104.0%	47.8%	7.7%
4 United Kingdom	427,087	406,574	304,815	105.0%	40.1%	6.7%
5 France	321,926	327,627	261,815	98.3%	23.0%	5.0%
6 Canada	205,533	189,777	149,652	108.3%	37.3%	3.2%
7 Australia	177,360	166,034	120,545	106.8%	47.1%	2.8%
8 Italy	153,673	122,863	97,912	125.1%	57.0%	2.4%
9 Switzerland	121,072	115,716	81,867	104.6%	47.9%	1.9%
10 Sweden	106,801	106,519	84,110	100.3%	27.0%	1.7%
11 Netherlands	90,192	74,035	51,184	121.8%	76.2%	1.4%
12 Brazil	73,697	100,789	65,753	73.1%	12.1%	1.2%
13 Belgium	66,738	62,697	51,379	106.4%	29.9%	1.0%
14 Spain	58,809	47,215	33,206	124.6%	77.1%	0.9%
15 Denmark	54,760	49,491	32,260	110.6%	69.7%	0.9%
16 South Africa	48,798	41,599	32,643	117.3%	49.5%	0.8%
17 Korea	47,119	41,188	30,031	114.4%	56.9%	0.7%
18 Norway	47,064	47,567	31,318	98.9%	50.3%	0.7%
19 Austria	41,173	40,001	30,851	102.9%	33.5%	0.6%
20 Mexico	40,510	32,129	32,211	126.1%	25.8%	0.6%
21 Finland	37,228	31,181	23,294	119.4%	59.8%	0.6%
22 Hong Kong	34,740	26,000	21,596	133.6%	60.9%	0.5%
23 New Zealand	33,070	30,560	24,618	108.2%	34.3%	0.5%
24 Taiwan	29,073	30,388	25,333	95.7%	14.8%	0.5%
25 Singapore	26,843	23,188	14,127	115.8%	90.0%	0.4%
26 Czech Republic	26,600	18,516	17,148	143.7%	55.1%	0.4%
27 Portugal	25,804	21,721	15,758	118.8%	63.8%	0.4%
28 Poland	22,402	15,579	11,657	143.8%	92.2%	0.3%
29 Argentina	21,051	16,114	12,612	130.6%	66.9%	0.3%
30 Colombia	20,679	20,634	13,637	100.2%	51.6%	0.3%
31 Middle East	17,118	18,333	12,409	93.4%	37.9%	0.3%
32 Thailand	16,734	11,916	7,757	140.4%	115.7%	0.3%
33 Malaysia	15,371	13,555	7,867	113.4%	95.4%	0.2%
34 Hungary	14,822	14,959	10,160	99.1%	45.9%	0.2%
35 Caribbean	14,491	11,454	6,931	126.5%	109.1%	0.2%
36 Israel	13,679	13,878	9,514	98.6%	43.8%	0.2%
37 Chile	12,843	12,000	7,950	107.0%	61.5%	0.2%
38 India	12,253	12,233	8,242	100.2%	48.7%	0.2%
39 Russia	10,016	13,324	9,734	75.2%	2.9%	0.2%
40 Venezuela	9,824	9,189	7,305	106.9%	34.5%	0.2%
41 Turkey	8,655	5,292	4,007	163.6%	116.0%	0.1%
42 China	8,602	7,494	4,447	114.8%	93.4%	0.1%
43 Peru	8,179	5,513	3,351	148.4%	144.1%	0.1%
44 Greece	6,960	5,821	4,238	119.5%	64.2%	0.1%
45 Eastern Europe	5,996	3,518	2,838	170.4%	111.3%	0.1%
46 Slovakia	5,920	3,893	597	152.1%	891.6%	0.1%
47 Slovenia	4,577	2,974	1,969	153.9%	132.5%	0.1%
48 Ecuador	3,847	2,599	1,765	148.0%	117.9%	0.1%
49 Philippines	3,749	3,220	1,429	116.4%	162.4%	0.1%
50 Morocco	3,302	3,255	2,521	101.4%	31.0%	0.1%
51 Indonesia	2,684	3,373	1,973	79.6%	36.0%	0.0%
52 Uruguay	2,645	2,432	885	108.8%	198.5%	0.0%
53 HQ & Other	0	0	562	NM	NM	NM
Total Net Revenue	6,404,904	5,823,037	4,253,211	110.0%	50.6%	100.0%

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NORTH AMERICA FINISHED GOODS REVIEW

Region Highlights

- The Enterprise Customer Unit implemented a new customer segmentation model worldwide. This model provides a framework to focus on top sales opportunities within the Enterprise. Its primary objectives are to optimize allocation of limited field resources and marketing programs, and improving customer satisfaction so that revenue growth opportunity is maximized. Additionally, MS has formed a strategic alliance with Tandem Computers to promote Windows NT whereby the companies will cross license technology, and Tandem will port it's high-end Serverware middleware software to Windows NT.
- Sam Jadallah was promoted to Vice President of the Organization Customer Unit replacing John Nielson who was named to head the Information Products Group in the Interactive Media Division. Jadallah was most recently general manager of worldwide business strategy managing the microsoft.com and customer marketing database groups. Prior to that assignment Jadallah led the redesign of Microsoft's support organization in anticipation of the launch of Windows NT.
- US headcount utilization was critically evaluated during the FY97 budgeting process. The goal was to create a more logical view of how headcount resources are deployed and what changes might be made to better position resources to address selling opportunities and respond to competitive threats. As a result, approximately 150 positions will be redeployed in the US in FY97 to direct selling positions from indirect selling or marketing roles. Most of these positions will be moved from Redmond to the district field offices.
- The End User Customer Unit (EUCU) is responsible for sales and marketing activities to household, small business and channel partners that serve these customers. The EUCU is currently facing competitive threats in the home office suite and internet browser categories, primarily in the retail channel. An effective response will be implemented in the August through January time frame. Over the past quarter, the EUCU has implemented six key processes which produce close integration of the product groups with North American Operations and leverage off the "Segment Team" reorganization completed in Q96-3. These processes are aimed at increasing revenue and reducing costs through more efficient communication and support of channel partners in the areas of product launches, marketing and promotional initiatives, retail outlet coverage, and inventory management.
- As the importance of technology in Education increases, the North American sales organization has formed an Education Customer Unit to focus on this growing market. Liz King was named as general manager of this new customer unit which will focus on driving Windows penetration and academic edition revenue in the K-12 and Higher Education markets, developing a leveraged selling model for these markets, and projecting a leadership image for Microsoft in the education community.
- Finished goods gross revenue in North America totaled \$636 million during the quarter, exceeding plan by \$82 million or 15%. Desktop Applications Division (DAD) and Business Systems Division (BSD) products drove the variance. Gross revenue during Q96-4 grew 26% over Q95-4 and 5% over Q96-3.
- Desktop 95 packaged product inventory reached normal levels in the North American channel except for an estimated \$20 million of product which is expected to be returned in Q97-1. Recapping the Desktop 95 situation, during FY96 packaged product sell-in revenue totaled \$694 million, falling short of plan by \$261 million or 27%. Returns were \$460 million or 40% of gross shipments. Desktop 95 license-type sales (including new maintenance paid under 16-bit Select contracts which allow a customer to upgrade to Desktop 95 products) amounted to \$431 million, exceeding plan by \$48 million or 13%.
- Gross revenue from DAD products, principally Office and Office Pro, totaled \$383 million for Q96-4, exceeding plan by \$91 million or 31%. This strong performance was mainly due to Select and New Maintenance revenue exceeding plan by \$102 million. Macintosh based products continue to perform poorly against plan with revenue and licenses \$15 million (48%) and 45,000 (29%), respectively, under plan for the quarter. On a year-to-date basis, these products were under plan in revenue by \$55 million (38%) and licenses by 136,000 (19%). This was mainly due to slower than expected sales of Mac Office and license mix shifts to lower priced Academic and Maintenance.

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- Gross revenue from Personal Operating Systems Division (PSD) products was \$75 million during Q96-4 or 98% of plan. Year-to-date revenue from PSD products totaled \$600 million or 98% of plan. MS DOS and Windows 3.x sales volume continued strong and exceeded plan by \$41 million for Q96-4, \$159 million year to date. A substantial portion of this variance was Windows 3.x New Maintenance which totaled \$33 million (573,000 licenses) for the quarter and \$107 million (2,088,000 licenses) year-to-date.
- Gross revenue from Consumer products totaled \$54 million for the quarter, 29% under plan, with substantially all product categories under plan. The New Business or "Titles" category was 63% under plan during Q96-4 and 22% under plan year-to-date, with lower than expected sales of key products such as Golf, Fury3, Cinemania, AutoMap, Bookshelf, and Encarta. Established Business was also under plan 16% and 7% for the quarter and year, respectively. Hardware was 9% over plan for the quarter but 2% under plan year-to-date. Total Consumer product revenue decreased 6% from the same quarter in the previous year, while year-to-date revenues have grown \$24 million (9%) from the previous year. Hardware revenue year-to-date grew \$39 million (35%) year over year, while software revenue decreased by \$15 million (8%).
- Gross revenue from BSD products totaled \$156 million during the quarter, 127% ahead of plan, due to strong sales of Windows NT (Workstation, Servers and Client licenses), the BackOffice bundle product, Exchange and courseware. Improvements in overall client/server ratios (compared to both budget and prior year) also contributed to the positive variance versus plan. BSD revenue year-to-date exceeded plan by \$224 million or 101%. BSD revenue during Q96-4 grew 183% compared to the same quarter last year and FY96 revenue grew \$267 million or 150% compared to prior year.
- Gross profit margin during Q96-4 was 89% of net revenue compared to plan of 82% due to lower standard product costs from higher than planned mix of CD versus disk product (38% plan compared to 54% actual CD mix) and lower than expected scrap and rework costs as adequate scrap provisions for Desktop 95 returns were charged in the periods the product was sold into the channel. Additionally, the Desktop 95 reserve of \$142 million and the associated cost of revenue of \$10 million which was reversed in Q96-4 had the effect of reducing cost of revenue as a percent of revenue and improving gross profit margin. On a year-to-date basis, gross profit margin exceeded plan by nearly 1% of net revenue and improved over the prior year by 2% despite the large scrap charges taken in connection with the Desktop 95 returns described previously.
- Direct operating expenses were over plan by \$1.3 million during the quarter primarily due to negative variances in travel & entertainment, training, and supplies expenses partially offset by positive variances in infrastructure and other costs. On a year-to-date basis direct operating expenses were under plan by \$25 million or 9%, with people costs \$11 million or 6% under plan due mainly to lower than planned headcount and outsourcing costs.
- Q96-4 net marketing expense of \$147 million was \$72 million (96%) higher than plan. On a year-to-date basis, marketing spend totaled \$403 million or 14.8% of net revenue compared to plan of \$383 million (14.8% of net revenue) and approved spending of \$405 million. Broad Reach spending totaled \$28 million or 3.7% of net revenue in Q96-4, and \$99 million for the year compared with plan of \$91 million.
- Q96-4 net PSS costs totaled \$61 million which was on plan for the quarter.
- Responsibility margin for FY96 was 49.6% or 4.5% higher than FY95 and in dollar terms grew \$524 million or 63%.

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EUROPE FINISHED GOODS REVIEW

Region Highlights

- At the end of Q96-4 the Central Europe region was reorganized into 3 separate regions - Germany, Switzerland/Austria and Eastern Europe. The Regional Directors of the 3 regions now report directly to Michel Lacombe, VP Europe. The reorganization is aimed at focusing management attention on growth opportunities in Eastern Europe and managing the more difficult market conditions in Germany and Austria. In addition, at year end an Internet and Developer Customer Unit was formed at the EHQ to target the Internet opportunity in Europe.
- During Q96-4 an Eastern Europe Headquarters group was formed in Munich to better manage growth in the region. The region is planning to grow revenue to over \$120 million in FY97 and plans to open new subsidiaries in Romania and Croatia.
- The overall economic situation in Germany continued to worsen evidenced by increasing unemployment and budget cuts in the public sector. The German economy is not expected to recover dramatically within the next 12 to 18 months and both private households and enterprises are expected to cut their expense budgets.
- Late in Q96-4, ESCOM, a major German OEM with a significant European retail presence, entered bankruptcy proceedings and is in the process of being liquidated. MS claim is for \$5.9 million of outstanding accounts receivable and approximately \$13 million of unbilled, unreported OEM shipments. The prospects of recovery are low and this amount is fully covered by reserves.
- A large anti-piracy campaign began in France, in association with the BSA, to target the Small Organization market with 10,000 phone calls and 100 raids planned. The program is reinforced by an advertising campaign.
- Gross finished goods revenue in Europe totaled \$404 million for Q96-4, 12% below plan mainly due to lower than expected sales of Windows 95 and Consumer products.
- For the year, gross FG revenue in Europe totaled \$2.2 billion, 7% over plan and 46% over FY95, although on a local currency basis gross revenue was only 2.5% over plan. Positive revenue variances were due to Desktop Apps New Users (\$148 million over plan) and Business System New Users (\$76 million), partially offset by weaker than planned revenue from Windows 95 (\$142 million under plan).
- Remaining Desktop 95 channel reserves of \$81 million reversed during the quarter, with \$11 million in general sales returns reserves identified for any additional returns of Desktop 95 products.
- Q96-4 gross revenue in the UK totaled \$104 million, 10% over plan, due to strong sell-in of Office, Office Pro and BSD products. For the year, UK revenue was \$448 million, 6% over plan and 43% better than FY95. Revenue from DAD products was 19% over plan, growing 33% over FY95. BSD revenue ended the year 29% above plan due to strong sales of Windows NT and BackOffice servers, with year over year growth of 167% in terms of revenue and 221% in terms of licenses.
- Q96-4 gross FG revenue in France was 10% below plan at \$68 million due to high returns of Windows 95 during May and June. Before these returns, France would have finished 4% over plan due to a successful spring promotion of DAD products. Windows 95 penetration in Enterprise accounts is estimated at only 10% but is expected to grow to 30% in FY97. BSD revenue was 38% over plan in the quarter and grew by 100% over last year. For the full year, gross revenue was \$440 million, about as planned and 27% better than FY95.
- Gross revenue in the Southern region of Europe (Spain, Portugal, and Italy) was \$45 million, 9% over plan despite \$3 million in returns of Windows 95. BSD revenues were strong and included an important BackOffice win with the Italian Postal Service (4,500 servers and 13,000 clients). Portugal finished the quarter 22% below plan due to lower than planned upgrades to 32-bit applications by Enterprises and strong pressure from the competition with regard to prices and marketing campaigns. Gross revenue for the year totaled \$248 million, 25% and 54% over plan and last year, respectively.
- Q96-4 gross revenue from the Central region (Germany, Austria and Switzerland) was 29% below plan at \$102 million. Despite the negative environment, the German subsidiary finished the year 4% over plan and 50% over FY95. Austria and Switzerland followed the same negative trend during the quarter with gross revenue 17% and

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25% below plan, respectively, but finished the year 2% and 4% over plan.

- Due to \$2 million in Windows 95 product returns in the quarter, Eastern Europe's gross revenue finished 16% below plan. For the year, gross revenue was \$93 million, 24% over plan and 69% over the previous year. Distribution infrastructure continues to develop in the region and desktop market shares are above 80%, but piracy rates are still very high.
- Gross revenue both in the Benelux and Nordic regions was negatively impacted by high returns of Windows 95 and was 24% and 10% below plan for the quarter respectively. For the year, gross revenue in Benelux totaled \$159 million, 12% over plan. Nordic ended the year 6% over plan with \$257 million in revenue.
- Cost of revenue in Europe as a percentage of net revenue during Q96-4 was 12.4%, one and a half points better than plan. Higher than planned CD-

ROM mix and a more favorable license mix offset by higher than planned program and processing costs were the main drivers of this positive variance.

- Controllable expenses were 10% above plan for Q96-4 primarily due to marketing expenses which were 28% over plan. On a year-to-date basis and before foreign exchange impact, marketing expenses were 3% below plan.
- On a year-to-date basis, responsibility margin for Europe was 59.1% of net revenue, well ahead of plan of 55.8% and the previous fiscal year of 53.1%.
- With the exception of Eastern Europe and the Southern region, Europe is forecasting very little growth for the next twelve months. The FY97 plan anticipates 10% growth in gross revenue at constant dollar rates and 4% at budgeted dollar rates. Responsibility margin is planned to increase slightly to 59.6% due to more favorable costs of revenue.

FAR EAST FINISHED GOODS REVIEW

Region Highlights

- The release of the localized versions of Windows 95 in Q96-2 added to the continued adoption of Windows as the standard platform in the Far East. The Windows penetration rate (all versions of Windows on Intel PC shipments) in the Far East increased to 88% in FY96, up from 67% in FY95. Q96-4 Windows 95 FG revenue was \$14 million, 6% of total FG revenue. For FY96, Windows 95 revenue was \$104 million, 11% of total FG revenue.
- Momentum from the Japanese, Hangeul, and Traditional Chinese language versions of Office 95 launched during Q96-2 contributed to continued strong sales across the region in FY96. Simplified Chinese versions of Windows 95 and Office 95 were launched in the PRC in March. The localized versions of Office Pro 95 with Access 7.0 were shipped to distributors and resellers in late March and Q96-4. Gross FG revenue from Desktop products in Q96-4 was \$142 million, 21% above plan. Revenue from Desktop products for FY96 was \$570 million, representing 58% of total FG revenue.
- Japan finished the year as the second largest subsidiary after the United States with gross FG revenue of \$866 million. Year over year gross FG revenue grew 109% in local currency due to high PC sales along with the continued adoption of Windows and the introduction of Office 95

products. MS Japan contributed 13% of Microsoft's worldwide FG revenue in FY96 up from 10% in FY95.

- PC sales in Japan grew by 62.3% in FY96 over FY95 driven by lower prices of PC's and software, and easier to use systems. Estimated PC sales (units of Intel CPU's) by quarter are as follows:

Q96-1	1,232,000
Q96-2	1,448,000
Q96-3	1,638,000
Q96-4	1,479,000

- Microsoft has a majority market share in Japan for office suites with Lotus Office and Ichitaro Office for Windows as the second and third leading suite products. MS Excel is the leading spreadsheet, but faces competition from Sanshiro for Windows and Lotus 1-2-3 for Windows. Ichitaro for Windows is the leading word processing program.
- With approximately 50% of all Windows 95-capable PCs shipped in Japan bundled with word processing or spreadsheet software, MS's strategy in Japan is to aggressively pursue bundling Japanese version of 32-bit Excel and Word with all OEM's. Word and Excel unit sales which are

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- recorded in the finished goods channel, represent approximately 31% of this segment with an average revenue per license of \$49 each.
- In Q96-4 Microsoft started full operations in the PRC by engaging a Chinese company to manufacture Simplified Chinese language products in Shanghai and completing the installation of a financial accounting and billing system in Beijing. Sales and marketing offices were opened in both Shanghai and Guangzhou in FY96.
 - Q96-4 gross FG revenue for the region was \$237 million, 24% above plan. Q96-4 net FG revenue of \$288 million was 57% above plan and slightly above Q96-3 net FG revenue of \$285 million. FY96 net FG revenue was \$948 million, 39% above plan and 82% over the prior year.
 - In spite of high software piracy, net FG revenue in China during Q96-4 totaled \$4 million (54% over plan), an increase of 72% over Q96-3.
 - Net FG revenue in Taiwan increased in Q96-4 to \$9 million and was 29% above Q96-3 net revenue. For FY96, net FG revenue was \$29 million, slightly below plan in US dollars, as a result of economic uncertainty and political unrest occurring earlier in the fiscal year.
 - The US dollar continues to strengthen relative to the Japanese Yen, with the average exchange rate going from 93.4 Yen per US dollar in Q96-1 to 105.6 Yen in Q96-4. In Q96-4, gross FG revenue in local currency was \$82 million over plan offset by unfavorable foreign exchange variance of \$36 million. Controllable expenses for the region in Q96-4 were over plan by \$33 million, reduced by a \$10 million favorable foreign exchange variance.
 - Net FG revenue in Q96-4 reflects the reversal of the \$56 million reserve for Desktop 95 inventory, as only normal stocking levels of inventory remain in the channel at year-end.
 - Local language versions of Windows NT 3.51 and SQL Server 6.0 were shipped in Q96-3. The sell-in of these products continued in Q96-4. Gross FG revenue from Business Systems Division products in Q96-4 was \$36 million, 19% over plan.
 - Consumer products revenue for Q96-4 of \$11 million was 13% over plan mainly due to strong sales of hardware (\$6 million) and Entertainment products (\$3 million).
 - Developer revenue was \$24 million. \$6 million over plan due principally to strong sales of Visual Basic and C++ products.
 - Cost of revenue for Q96-4 was 10.7% of net revenue versus plan of 17.9%. The majority this favorable variance resulted from increased CD mix which totaled 72% of product versus plan of 29%. The reversal of the channel inventory reserve also had a 1% favorable impact on cost of revenue for the quarter.
 - People expenses were \$1 million above plan in Q96-4 primarily due to additional headcount approved at mid-year reviews, accrual of management incentives and other liabilities. Net PSS costs were slightly below plan in Q96-4, with the shortfall in PSS recovery income being offset by reduced costs. The MCS practices in the region are in a start up phase in FY96; and in Q96-4, net MCS costs slightly exceeded plan as a result of delays in hiring consultants.
 - Net marketing expense was \$31 million in Q96-4, \$21 million over plan. Net marketing expense for FY96 was \$78 million, \$16 million over plan before the favorable foreign exchange impact of \$9 million. During the year, \$4 million of additional spending was approved for Internet related products, \$10 million for the Word/Office campaign in Japan, and \$1 million for the introduction of Exchange.
 - Responsibility margin for Q96-4 was \$188 million or 65% of net FG revenue versus a plan 57%. Responsibility margin in Q96-4 was aided by the reversal of the \$56 million channel inventory reserve. Responsibility margin for FY96 was \$618 million or 65% compared to plan of \$336 million or 49%.

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ICON FINISHED GOODS REVIEW

Region Highlights

- During Q96-4 ICON was reorganized into six geographies representing the key business opportunities for the region. Australia and New Zealand were combined to form a new South Pacific Region; a new South East Asia group was created based in Malaysia incorporating the ASEAN nations. India became an independent territory allowing focus on the growth potential there. Similarly, Brazil became a territory separate from Latin America. The Africa, Mediterranean and Middle East region (AMME) headquarters moved to London to co-locate with the UK subsidiary. Finally, Latin America was more accurately renamed Spanish America.
- Distribution issues in Brazil continue to limit the subsidiary's ability to generate revenue. Stream closed its manufacturing and distribution operations in the Brazil after a year long trial failed to justify investment in the business. This setback can be attributed in part to their failure to establish regular customers other than Microsoft and general price inflation for paper and raw materials. This inflation has caused a significant portion of the publishing industry to choose to import their product rather than produce locally. As a result, MS product will be sourced directly from Canyon Park until a new manufacturing contract can be negotiated with a replacement local partner.
- Following the bankruptcy of two other major distributors in Brazil early this year, a third, Solaris, entered protracted negotiations with shareholders and creditors which stretched through most of Q96-4. Amounts due from Solaris are considered at risk although MS Brazil has booked sufficient reserves to cover it's exposure. This continuing issue however constrains growth in this market.
- Negotiations are continuing with two multinational distributors to enter the Brazilian market in early FY97. Microsoft will retain exclusive software distribution rights for a period of time in return for cash loans, repayable over a period of time and based on the distributors' success in the marketplace.
- New offices in Saudi Arabia and Egypt are now fully staffed and operational. These add to new subsidiaries that were opened earlier in the year in the Philippines, Indonesia, Vietnam, Costa Rica and Guatemala. Further additions in FY97 will include Kenya and Ivory Coast.
- Q96-4 gross revenue in ICON totaled \$173 million, 103% of plan and growing 43% over last year. This increase was driven by strong volumes of licensed product in Australia which finished the quarter 24% better than plan.
- Hebrew and Arabic versions of Windows 95 were finally released during the quarter, significantly behind schedule. As a consequence, both Israel and Middle East subsidiaries failed to meet revenue plans for FY96.
- Product mix in Q96-4 was heavily oriented toward products in the Desktop Applications Division. Increased license revenue particularly benefited Office, New User and OfficePro, Existing User, which were both significantly above plan. Continued strong volumes in the Business Systems Division across a range of products was offset by lower than planned Windows 95 sell-in.
- Controllable expenses increased in Q96-4 by \$10 million compared to Q96-3. Increased marketing expenses to improve sell through of Windows 95 and the annual Latin American trade show in Miami in June accounted for \$5 million of the growth. Year end bonuses, late hiring, additional travel and bad debt expenses accounted for the remainder of the increase.
- ICON ended FY96 with responsibility margin of 51%, 3 percentage points better than plan and 5 points better than FY95. Year over year growth was driven by a 47% increase in revenue combined with a 2 percentage point reduction in cost of revenue. Operating expenses during the year grew 34%, although excluding marketing costs, expenses grew 27%.
- For FY97 the ICON region has budgeted revenue growing 27% to \$753 million with a two percentage point improvement in responsibility margin to 54%. Ninety-six new heads have been approved for FY97 primarily focused on the key growth markets of India & Southeast Asia.

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OEM REVIEW

(\$ in millions)	Q96-4		FY96	
	Actual	% plan	Actual	% plan
Gross Revenue	\$741.0	146%	\$2,707.9	138%
Revenue Adjustments	(2.1)	nm	(61.5)	nm
Net Revenue	738.9	145%	2,646.4	135%
Cost of Revenue	21.2	62%	114.3	99%
Gross Margin	717.7	151%	2,532.1	137%
% of Net Revenue	97%		96%	
Controllable Expenses				
People	9.2	116%	30.5	98%
Infrastructure	1.8	101%	6.6	94%
Other Misc Expenses	19.6	122%	74.1	120%
Marketing	11.0	226%	20.0	102%
Marketing Recovery	(0.6)	nm	(0.8)	nm
Direct Expenses	41.1	134%	130.5	109%
Distributors:				
G&A Costs	0.7	87%	2.9	83%
Net PSS	2.8	91%	12.2	100%
Distributions	3.5	90%	15.1	95%
Total Controllable Expenses	44.6	129%	145.6	108%
Responsibility Margin	673.1	153%	2,386.6	140%
% of Net Revenue	91%		90%	
Shared Resources	0.2	172%	0.5	83%
Corporate Allocations	140.3	121%	458.0	102%
Contribution Margin	\$532.6	164%	\$1,928.0	153%
% of Net Revenue	72%		73%	
<u>Dollar per head annualized in thousands</u>				
Average Headcount	243	93%	230	90%
Net Revenue per Employee	\$12,162	156%	\$11,506	150%
People and Infrastructure cost per head	\$181	121%	\$161	108%

Business Highlights

- FY96 gross revenue of \$2.71 billion was 38% better than plan and grew 65% over FY95. Q96-4 revenue of \$741 million continued the quarterly growth trend seen throughout the year. These results are due to PC unit growth, faster than planned conversion to Windows 95 which bears higher royalty rates, increase in sales to Small Systems Builders (SSBs), and licensing of more non-OS products.
- Net OEM revenue of \$2.65 billion was 29% of total MS revenue, up slightly from 28% in FY95. Contribution margin of \$1.93 billion was 73% of net revenue and represented 47% of total MS

contribution margin, excluding those channels still in investment mode.

- FY96 Mouse sales totaled 12.3 million units, 5% over budget. Although under budget, Q96-4 Keyboard sales of 152,000 units were 68% greater than in Q96-3.
- Q96-4 Cost of revenue of \$21 million was under budget due to reduction of the keyboard obsolescence reserve in light of improved sales. FY96 Cost of revenue as a percent of net revenue was below plan largely due to lower than planned keyboard sales.

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Significant Customers

	Q96-4			FY96			Growth from FY95
	Actual	Plan	Variance	Actual	Plan	Variance	
Top 10 Multi-Nationals							
Compaq	\$ 54.5	\$ 41.3	\$ 13.2	\$ 195.4	\$ 193.9	\$ 1.5	24.8%
IBM	50.7	26.1	24.6	174.6	86.7	87.9	101.4
NEC	48.6	20.8	27.8	154.7	72.2	82.5	235.6
Gateway 2000	45.7	27.4	18.3	165.7	121.8	43.9	75.2
Dell	38.5	19.9	18.6	134.1	72.1	62.0	143.8
Hewlett Packard	34.5	20.0	14.5	107.3	67.8	39.5	119.9
Packard Bell	32.8	25.4	7.4	116.9	109.6	7.3	58.2
Fujitsu	26.7	1.8	24.9	76.4	7.0	69.4	2446.7
Toshiba	26.6	17.7	8.9	88.0	60.1	27.9	53.8
AST	16.5	16.7	(0.2)	66.9	69.2	(2.3)	23.7
Other Multi-Nationals	75.2	83.8	(8.6)	392.6	319.4	73.2	50.6
Total Multi-Nationals	450.3	300.9	149.4	1,672.6	1,176.8	492.8	78.6
Small System Builders	121.2	56.6	64.6	375.2	208.8	166.4	107.4
Named Accounts	169.5	151.1	18.4	660.1	569.1	91.0	26.7
Gross Revenue	741.0	508.6	232.4	2,707.9	1,957.7	750.2	65.3
Revenue Adjustments	(2.1)	-	(2.1)	(61.5)	-	(61.5)	NA
Net Revenue	\$ 738.9	\$ 508.6	\$ 230.3	\$ 2,646.4	\$ 1,957.7	\$ 688.7	60.3%

- Rapidly changing technology, price cuts leading to narrow margins, and stiff competition are negatively impacting some hardware manufacturers and leading to channel consolidation. NEC purchased an interest in Packard Bell, Siemens Nixdorf purchased interests in Escom, which announced bankruptcy in June, and Vobis, and Samsung increased their funding of AST.
- Multinational PC companies continued to gain market share worldwide, generally at the expense of local middle-tier companies, as can be seen in the slower growth of the Named Account segment. Compaq, Dell, and Gateway 2000 each have established a significant presence in Europe and the Far East.
- The Small Systems Builder (SSB, also known as Delivery Service Partner, or DSP) channel revenue

doubled to \$375 million from FY95. This channel and OEMs selling directly to end users are expected to grow the fastest in FY97.

- In a successful quest to gain market share from NEC and Apple, Fujitsu sharply cut prices in the Japanese market. Both NEC and Fujitsu reported strong Windows 95 shipments. In one year, Fujitsu has grown from being OEM's 72nd largest revenue producer to the 9th.
- After a slow start, IBM began shipping significant volumes of Windows 95 in Q96-4. Windows 95 carries a much higher royalty rate than Windows 3.1. If these shipment trends continue, IBM has the potential of being a \$200 million customer in FY97.

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PUBLIC NETWORK SALES REVIEW

P&L Summary

(\$ in millions)	Q96-4			FY96		
	Actual	Plan	% Plan	Actual	Plan	% Plan
Net Revenue	(\$0.2)	\$0.0	nm	\$0.0	\$0.0	nm
Cost of Revenue	0.0	0.0	nm	0.0	0.0	nm
Gross Margin	(0.2)	0.0	nm	0.0	0.0	nm
Controllable Expenses						
People	3.0	2.4	127%	8.7	8.7	99%
Infrastructure	0.5	0.5	92%	1.6	2.0	80%
Other Misc Expenses	0.0	0.1	31%	0.2	0.6	40%
Marketing	2.2	2.5	88%	5.0	8.6	59%
Marketing Recovery	0.0	0.0	nm	0.0	0.0	nm
Broad Reach	0.0	0.0	nm	0.0	0.0	nm
Direct Expenses	5.7	5.5	104%	15.5	19.9	78%
Distributions (PSS Costs)	0.2	0.3	0%	0.8	1.4	0%
Total Controllable Expenses	5.9	5.8	101%	16.3	21.2	77%
Responsibility Margin	(6.0)	(5.8)	nm	(16.3)	(21.2)	nm
Corporate Allocations	4.3	3.4	124%	12.0	12.8	93%
Contribution Margin	(\$10.3)	(\$9.3)	nm	(\$28.3)	(\$34.0)	nm
Dollar per head, annualized in thousands						
Average Headcount	66	67	99%	53	55	96%
People and Infrastructure per Head	\$210	\$172	122%	\$193	\$194	99%

Public Network Sales (formerly AT Sales) Highlights

- Prepaid fees for three of the nine ISDN Wizard license agreements were received during the quarter and deferred pending receipt of royalty reports for confirmation of the actual number of site licenses sold. Total amount deferred in Q4-96 was approximately \$750,000.
- On June 4th and 5th, PNS sponsored a Network Operator Briefing simultaneous with Microsoft's announcement of the "Normandy" product as a platform for commercial internet and on-line services. The event was attended by 210 teleco, cable, ISP and on-line service customers and feedback was extremely positive.
- The PNS team worked closely with IPTD in negotiating the CompuServe strategic alliance, which was announced on June 4th. Under the agreement, CompuServe will be the first customer to deploy Normandy to run its CompuServe Information Service, and SPRYNET. CompuServe and Microsoft further agreed to offer access to CompuServe services in Windows 95 via an icon in a desktop folder that will connect users to either the CompuServe Information Service or WOW!. CompuServe will market, promote and distribute Internet Explorer as its primary browser for the CompuServe online services.
- FY96 controllable expenses were below plan primarily due to marketing spend which was delayed due to the reorganization of AT Sales and Consumer Systems Division during the fiscal year. Q96-4 controllable expenses were above plan due to accruals for June reimbursements for year-to-date travel and marketing events held late in the year. Year-to-date, these expenses were as planned.
- In FY97 the PNS business model will include revenue from the sale of specific Microsoft products for commercial use by named PNS accounts such as large telecommunication, cable, ISP or on-line service companies and sold by the PNS sales force. Internet Explorer, Normandy, ISDN, and MSN Access are expected to be the main contributors to planned PNS revenue of \$23 million.

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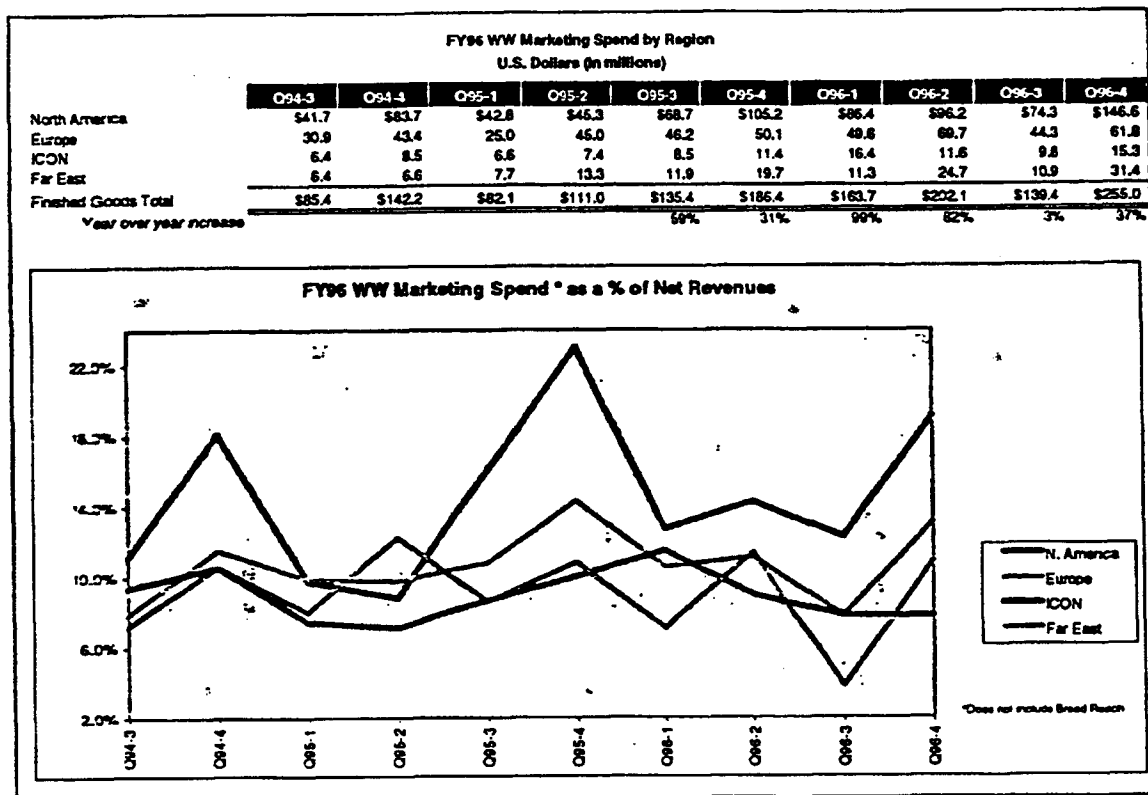
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MARKETING EXPENSE REVIEW



- Net worldwide marketing expense for the quarter was \$255 million, an increase of 83% from Q96-3 and an increase of 37% from Q95-4. This increase reflects year-end accrual of committed dollars and the clean up of old invoices.
- No region exceeded approved marketing spend although the worldwide FG total exceeded budget by 5%.

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MICROSOFT CONSULTING SERVICES REVIEW

Results of Operations

(US \$ in millions)	Q96-4			Q95-4		FY96		
	Actual	Plan	Var	Actual	% Change	Actual	Plan	Var
Consultant	\$32.5	\$35.9	(\$3.4)	\$21.5	51%	\$109.4	\$116.1	(\$6.7)
Subcontractors	15.7	8.0	7.7	7.7	103%	52.3	30.1	22.2
Net Revenues	48.2	43.9	4.3	29.3	65%	161.7	146.2	15.5
People	28.3	27.7	(0.6)	16.7	70%	92.5	101.8	9.3
Infrastructure	4.6	5.1	0.5	2.7	68%	16.4	19.3	2.9
Subcontractors	15.9	4.9	(11.0)	7.3	117%	42.5	18.3	(24.2)
Other	(0.5)	1.1	1.6	(0.0)	nm	2.3	3.6	1.3
Expenses	48.3	38.8	(9.5)	26.7	81%	153.7	143.0	(10.7)
Responsibility Margin	(0.1)	5.1	(5.2)	2.6	(106%)	8.0	3.2	4.8
Headquarter Allocations	2.8	1.7	(1.1)	1.3	116%	7.2	7.5	0.3
Estimated G&A	0.8	0.8	-	0.7	12%	3.1	3.1	-
Contribution Margin	(\$3.7)	\$2.6	(\$6.3)	\$0.6	nm	(\$2.3)	(\$7.4)	\$5.1
MCS Practice Headcount	933	970	37	571	63%	933	970	37
MCS Headquarters Headcount	28	40	12	30	(7%)	28	40	12
Consultant Revenue/Head	\$139	\$148	(\$9)	\$151	(8%)	\$117	\$120	(\$3)
Consultant Expenses/Head	\$139	\$140	\$1	\$136	(2%)	\$119	\$129	\$9

Note: Coris (acquired in FY96) has been included in Q96-4 and FY96. Q95-4 has not been restated to include Coris.

Business Initiatives

- A new consulting management system from Axiom was implemented in the UK at the end of June and went fully operational July 1. France,

Germany, Italy, Mexico and the Far East are all scheduled for implementation early in FY97.

Business Results

- Q96-4 net revenue exceeded plan by \$4 million due primarily to increased use of subcontractors. FY96 MCS revenue totaled \$162 million compared to plan of \$146 million. Of the total, 68% was generated by MCS consultants and 32% from subcontractors.
- Subcontractor revenue was \$8 million above plan for Q96-4 with related subcontractor expenses exceeding plan by \$11 million. MCS utilizes subcontractors to meet business objectives and to meet demand that can not be fulfilled with existing resources.
- FY96 contribution margin was a loss of \$2 million compared to a planned loss of \$7 million. North America contributed \$6 million to the margin which was offset by losses in Europe, ICON and Far East of nearly \$3 million each. Subcontractor use contributed \$10 million to the FY96 contribution margin, \$8 million occurring in North America.
- Worldwide MCS headcount grew 63% during FY96. North America with total headcount of 550, ICON with 109, and Far East with 26, were all below plan while Europe at 248 heads was over plan.

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WORLDWIDE PSS

Worldwide Gross PSS Cost and PSS Revenue for Finished Goods Channel

(In millions)	Q96-4						FYTD96					
	Actual			Plan			Actual			Plan		
	PSS Cost	PSS Rev	Recov %	PSS Cost	PSS Rev	Recov %	PSS Cost	PSS Rev	Recov %	PSS Cost	PSS Rev	Recov %
NAFG	\$76.2	\$14.8	19%	\$66.9	\$26.2	30%	\$321.6	\$59.3	18%	\$348.2	\$99.6	29%
Europe FG	34.4	6.3	18%	38.1	9.0	24%	140.1	31.4	22%	159.4	36.0	23%
ICON FG	6.7	1.9	28%	6.5	1.3	21%	23.1	5.1	22%	26.1	5.0	19%
Far East FG	14.1	1.3	9%	16.8	3.5	21%	54.0	5.8	11%	66.4	12.9	19%
Total FG	\$131.5	\$24.2	18%	\$148.3	\$40.0	27%	\$538.7	\$101.5	19%	\$600.1	\$153.4	26%

Worldwide Net PSS Cost as a Percentage of Finished Goods Channel Revenue

(In millions)	Q96-4				FYTD96			
	Actual		Plan		Actual		Plan	
	PSS Cost	Cost Rev%	PSS Cost	Cost Rev%	PSS Cost	Cost Rev%	PSS Cost	Cost Rev%
Consumer	\$537	13%	\$539	7%	\$24.0	9%	\$22.8	7%
Desktop	30.5	4%	35.7	5%	127.5	3%	142.1	4%
POS	36.9	26%	33.9	15%	159.5	13%	148.2	11%
Developer	16.2	17%	14.8	19%	62.3	15%	62.7	18%
BSD	17.9	6%	18.0	10%	63.9	7%	70.9	12%
Total Net Cost	\$107.3	7%	\$108.3	8%	\$437.2	7%	\$446.7	8%

Business Highlights

- As a percent of net FG revenue, net PSS costs were 6.8% versus plan of 7.7% and 7.4% in FY95. Net PSS costs for the FG channel totaled \$437 million for the year, 2% below plan. Gross PSS costs of \$539 million were 10% below plan largely due lower than planned support incidents. PSS revenue of \$102 million was 34% below plan also due to lower than plan fee-based incidents.
- Support incidents were less than plan due to a number of factors including the impact of new support policies, product mix, and product improvements which reduce the number of incidents per unit.
- In Q96-4, General Electric purchased a Premier Global agreement to support its worldwide implementation of Exchange. This annual agreement represents \$1 million in support revenue and provides worldwide mission critical support to GE.
- Premier Watch, a new Windows NT remote monitoring service was implemented. Premier Watch uses the Internet to monitor critical customer servers 24 hours a day and delivers targeted analysis of server performance and availability. Key goals of this new offering center around achieving higher levels of system availability and performance from Windows NT and BackOffice applications.
- Domestic Premier customer satisfaction grew to an all-time high in Q96-4. Overall Premier satisfaction was 97%, with 62% of those customers indicating they were very satisfied.
- Online support services were expanded to include NNTP newsgroups on the Internet allowing customer-to-customer discussions about Microsoft products. Accordingly, direct support via CompuServe was discontinued effective April 20th.
- For the second year in a row, Microsoft AnswerPoint earned the "best of category" award for excellence in the Service and Support Provider (Software) category in PC World Magazine's annual poll of a diverse panel of 2,000 experts.

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GENERAL & ADMINISTRATIVE

(in millions)	Q96-4							
	Actual		Plan		% of Plan	Prior Year	% of PY	
ITG	566.1	34%	\$57.1	32%	116%	\$57.5	34%	115%
Finance	14.6	8%	12.7	7%	115%	15.3	9%	95%
Human Resources	40.7	21%	34.8	19%	117%	30.2	18%	135%
MS Services Group	17.8	9%	17.6	10%	101%	15.2	9%	117%
Real Estate	27.0	14%	30.1	17%	90%	24.1	14%	112%
Legal	22.6	12%	22.3	12%	101%	24.1	14%	94%
Executive and Other	4.7	2%	5.4	3%	86%	5.3	3%	89%
Total G&A	193.5	100%	179.9	100%	108%	171.6	100%	113%
Distributions to Domestic Departments	(103.8)	(54%)	(103.3)	(57%)	100%	(82.4)	(48%)	126%
Total	589.7	46%	576.7	43%	117%	589.2	52%	101%

(in millions)	FY 96							
	Actual		Plan		% of Plan	Prior Year	% of PY	
ITG	\$233.8	34%	\$222.6	32%	105%	\$185.3	34%	126%
Finance	50.4	7%	50.1	7%	101%	48.2	9%	104%
Human Resources	138.9	20%	135.6	20%	102%	103.2	19%	135%
MS Services Group	61.6	9%	66.6	10%	92%	48.5	9%	127%
Real Estate	91.1	13%	101.0	15%	90%	71.9	13%	127%
Legal	84.2	12%	89.2	13%	94%	72.5	13%	116%
Executive and Other	23.4	3%	22.0	3%	107%	23.4	4%	100%
Total G&A	683.4	100%	687.0	100%	99%	553.0	100%	124%
Distributions to Domestic Departments	(372.0)	(54%)	(389.6)	(57%)	95%	(282.5)	(51%)	132%
Total	\$311.4	46%	\$297.5	43%	105%	\$270.5	49%	115%

- Total general and administrative costs include functional corporate cost centers that support MS on a worldwide basis such as legal services, corporate finance, and IT project development, and certain expenses to support domestic headcount departments such as employee benefits, facilities costs, infrastructure operation, and administrative services.
- For financial reporting, the latter costs are distributed to domestic product, sales, and administrative groups and included in people and infrastructure expenses as general, building and grounds costs. For internal management reports, the remaining net corporate G&A costs are allocated to the channels and product groups as part of corporate allocations.
- ITG costs include application development, regional support, and distributed infrastructure costs. These costs are driven primarily by demand from supported organizations for new technology and tools, support of existing systems, and sales increased demands on the corporate WAN and telecommunications network.
- Human Resources costs are driven primarily by employee headcount. Allocated expenses include recruiting, employee development, payroll, and stock administration. Distributed HR costs include domestic employee benefits such as health insurance, 401(k) match, and health club dues.
- MS Services group provides administrative support including building services, library services, mail, food and beverage, administrative services, procurement, travel services, and copy centers. These costs are driven by user demand and are indirectly correlated to headcount growth.
- Real Estate & Facilities costs include allocated functional costs related to facilities planning and development that are driven primarily by growth in domestic headcount and distributed infrastructure costs such as depreciation, rent, utilities, and maintenance which are driven by the number of employees and contingent staff using MS facilities.
- Finance, legal, and executive costs are corporate functional groups supporting MS on a worldwide basis.

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INFORMATION TECHNOLOGY

- ITG application development costs were \$12 million over plan in Q96-4 primarily due to consulting costs in excess of plan and approved variances on certain projects like SAP and Channel Measurement. Infrastructure costs were about \$1 million below plan for the quarter. For the year, ITG application development costs were \$18 million over plan, while infrastructure costs were under plan by \$7 million.
- During Q96-3, IT application development responsibility and resources were moved to the functional business units allowing them to directly manage development projects and to assume P&L responsibility for project costs. However, financial information is captured to consolidate all business unit IT costs under a "virtual" ITG division for comparability with prior periods. In FY97, IT development costs will be reported as part of the business unit expenses as well as on a consolidated basis.

Major Development Projects

Project	Actual	Plan	Status
MS Product	\$3,487	\$2,714	Implemented Metaphase package June 96; BOM Config/Release milestones completed June 96
Web Response	2,321	2,831	Version 1.6 scheduled for release in August 96
Compass	3,032	1,806	Version 3.4.10 moved into production
MS Manager	3,340	1,770	MS Manager 4.0 scheduled for release in February 97
Channel Measurement	4,752	4,061	MS Sales 3.0 in Beta
SAP	7,471	2,375	G/L (phase II) rolled out July 96
Genesis	3,690	4,950	ASN programs moved into production; Master Planning to be complete July 96

- The current phase of MS Product consolidates information for OEM products, MS Press, Marketing parts, Far East products, and MSN into the system. This phase also integrates this system with other systems such as Infobase.
- Web Response provides corporate and home end-users an electronic means for requesting service via MSN. Also includes customer front-end tools for MSN, billing interfaces to MSN and issue router functionality to escalate or transfer issues between sites.
- Compass is a support tool for ECU replacing the current SR/Man tool. The new system will enhance product support service delivery from a quality and efficiency standpoint for major Microsoft customers.
- MS Manager is a cross-functional application that is distributed across North America, ICON, FE, and Europe. It supports PSS, account management, and direct marketing activities in the subsidiaries in which it is deployed. Manager centralizes a significant portion of customer data in a central data warehouse.
- Channel Measurement will provide an integrated view of worldwide channel data, including purchases, , and inventory of Microsoft's channel partners, giving users the ability to analyze the effectiveness of sales and marketing programs, representatives, and channel activity.
- SAP financial software is being implemented on NT and SQL Server worldwide to replace the current ROSS, subsidiary MacPac, and Platinum accounting systems with a central corporate general ledger. SAP will also provide an integrated administrative procurement system and fixed asset ledger for worldwide use. The domestic implementation of the procurement, fixed assets and general ledger is complete. During FY97, the international rollout will be substantially complete.
- Genesis is a tool to re-engineer the North American Supply Chain by moving CPC from a "push" model to a "pull" model for replenishment and just-in-time production through better forecasting and coordination of suppliers and distribution channels.

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REAL ESTATE & FACILITIES

Worldwide Facility Distribution & Capital Spending

(\$ in millions, square feet in thousands)

Location	Facilities Distribution		Q96-4 Capital Spend			FY96 Capital Spend		
	Square Feet	Mix	Actual	Plan	Variance	Actual	Plan	Variance
Puget Sound	4,370	57%	\$41.5	\$40.0	(\$1.5)	\$201.4	\$293.9	\$94.0
Other Domestic	1,186	16%	8.3	3.2	(5.1)	19.8	19.1	(0.7)
International	2,068	27%	16.5	0.9	(15.6)	61.2	34.7	(26.5)
	<u>7,624</u>	<u>100%</u>	<u>\$66.3</u>	<u>\$44.1</u>	<u>(\$22.2)</u>	<u>\$282.5</u>	<u>\$347.7</u>	<u>\$65.2</u>

- Worldwide space capacity is now over 7.6 million square feet. There were no additions in Q96-4.
- Construction of Buildings 30, 31, and 32 on the northeast corner of the Campus was commenced during the quarter. These buildings are expected to be occupied in Q97-3. When completed, the buildings will add 365,000 square feet to the portfolio and capacity for 1,500 people. The total cost of this project is \$116 million, with the majority of the spending to occur in FY97.
- Site work on the Augusta project located between Building 22 adjacent to SR 520 and the south west section of the main campus began in July 96. By Q98-3, this \$184 million dollar project will add 566,377 square feet to the portfolio. Additionally, a building permit for the 415,415 square feet Troon project has been obtained. Troon will be located next to Augusta.
- Construction of the Thames Valley Park project in the UK was begun in July 96. The construction site can be monitored real-time through the MS intranet at <http://wsh-01-web/finadm/ld/facil/watchrvp.htm>. Total cost at completion is expected to be \$49 million.
- Tenant improvements were started on the Canyon Park Data Center in June 96. This leased 32,000 square feet building will provide server and telephone expansion for ITG. Work is expected to be completed during Q97-4. Total cost of this project excluding ITG equipment is \$24 million.
- Tenant improvements for MS Studio commenced in June 96. Completion is expected in Q97-3 and total costs are estimated at \$22 million.
- Building 28 adjacent to Buildings 26 and 27 in the southwest section of Campus will cost approximately \$31 million and will add another 100,000 square feet to the portfolio.

Puget Sound Capital Spending

	YTD	YTD	Variance
	Actual	Plan	
Committed Projects	\$111.6	\$138.6	\$27.0
Tenant Improvements	38.7	70.6	31.9
Furniture & Fixtures	15.8	15.2	(.6)
New Construction	25.4	46.6	21.2
All Other	9.5	22.9	13.4
Total	\$201.0	\$293.9	\$92.9

- FY96 capital spending is below plan primarily due to timing lags between actual and plan. FY96 capital spend for the Puget Sound region was on committed projects (like Redmond West and Building 27), tenant improvements on new sites

and existing buildings (like remodeling of buildings 1-6 and the ITG data center) and new construction. New construction represents Campus projects expected to occur through FY98. When completed, these buildings will add over 1.5 million square feet to the existing Campus portfolio. As noted above, construction began on the first set of buildings in July 96. As building permits are approved, the remaining projects will start in FY97 subject to executive approval and space needs. Total capital spending on these projects is estimated at \$600 million over the next three years.

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SUMMARY OF DISTRIBUTED G&A COSTS

(in millions)	Q96-4					FY96				
	Actual		Plan		% Plan	Actual		Plan		% Plan
ITG										
Deprecation	\$10.4	29%	\$12.7	34%	82%	\$36.4	27%	\$45.4	32%	83%
Maintenance & repairs	3.5	10%	2.3	6%	149%	11.4	9%	9.4	7%	121%
Telecommunications	6.5	18%	6.2	17%	106%	24.8	18%	24.0	17%	103%
Contract & temporary labor	3.2	9%	1.9	5%	170%	10.4	8%	7.8	5%	134%
Payroll & taxes	4.0	11%	4.5	12%	88%	15.0	11%	16.8	12%	89%
PC procurement fee	2.8	8%	3.3	9%	86%	12.7	9%	13.0	9%	97%
Other	5.8	16%	6.3	17%	92%	23.4	17%	25.2	18%	93%
	<u>36.2</u>	<u>100%</u>	<u>37.1</u>	<u>100%</u>	<u>97%</u>	<u>134.2</u>	<u>100%</u>	<u>141.6</u>	<u>100%</u>	<u>95%</u>
Human Resources										
Healthcare benefits	15.4	49%	15.0	58%	103%	55.4	52%	56.9	56%	97%
401(k) match	4.0	13%	3.9	15%	102%	15.8	15%	16.6	16%	95%
Health clubs	1.6	5%	1.4	5%	115%	6.1	6%	5.3	5%	115%
Product Group recruiting	8.3	26%	3.9	15%	214%	22.6	21%	15.4	15%	147%
Other	2.2	7%	1.7	7%	128%	7.1	7%	6.7	7%	105%
	<u>31.5</u>	<u>100%</u>	<u>25.9</u>	<u>100%</u>	<u>121%</u>	<u>106.9</u>	<u>100%</u>	<u>100.9</u>	<u>100%</u>	<u>106%</u>
MS Services Group										
Copy center	3.6	25%	2.8	20%	131%	11.7	24%	11.0	21%	107%
Information services	2.7	19%	2.6	19%	104%	10.3	22%	10.2	20%	101%
Food & beverages	2.5	18%	3.0	22%	85%	9.8	20%	9.4	18%	104%
Mail center	1.8	13%	2.3	17%	80%	7.4	16%	9.1	18%	82%
Media services	2.3	16%	2.2	17%	103%	7.7	16%	7.6	15%	101%
Corporate events	0.3	2%	0.3	2%	116%	2.3	5%	2.4	5%	95%
Company store	(0.5)	(3%)	(0.5)	(4%)	92%	(4.2)	(9%)	(2.3)	(5%)	178%
Travel services	(0.2)	(1%)	(0.1)	(1%)	145%	(2.7)	(6%)	(0.5)	(1%)	542%
Supplies procurement	1.7	12%	1.1	8%	155%	5.4	11%	4.3	8%	125%
	<u>14.3</u>	<u>100%</u>	<u>13.5</u>	<u>100%</u>	<u>105%</u>	<u>47.8</u>	<u>100%</u>	<u>51.2</u>	<u>100%</u>	<u>93%</u>
Real Estate										
Rent & utilities	7.1	27%	7.7	27%	92%	25.3	29%	29.2	30%	67%
Deprecation	8.3	32%	9.7	34%	85%	28.9	34%	33.5	35%	86%
Maintenance & repairs	2.7	10%	1.7	6%	158%	8.2	9%	6.8	7%	120%
Supplies & equipment	4.8	18%	5.7	20%	83%	10.5	12%	10.5	11%	100%
Other	2.9	11%	4.0	14%	73%	13.2	15%	15.9	17%	83%
	<u>25.7</u>	<u>100%</u>	<u>28.9</u>	<u>100%</u>	<u>89%</u>	<u>86.1</u>	<u>100%</u>	<u>95.9</u>	<u>100%</u>	<u>90%</u>
Other	<u>(3.8)</u>		<u>(2.1)</u>		<u>181%</u>	<u>(3.0)</u>		<u>0.0</u>		<u>n/m</u>
Total	<u>\$103.8</u>		<u>\$103.3</u>		<u>100%</u>	<u>\$372.0</u>		<u>\$389.6</u>		<u>95%</u>

- Distribution costs are categorized as service costs to the company where the distributing group controls the unit cost and the receiving business unit drives unit consumption. For example, Human Resources manages benefit costs per person, but increases in company headcount drive total benefit costs.
- Distributed ITG infrastructure expenses are under plan Q96-4 and year to date primarily due to a \$2.3 million positive variance in depreciation and amortization as a result of actual capitalized purchases lagging plan. Contract labor is over plan in the computer operations and network services group, but is partially offset by lower payroll costs due to lower than planned contractor to employee conversions.
- Distributed HR costs were over plan in Q96-4 and at plan for the year primarily due to product group recruiting costs. Product group hiring has been significantly higher than anticipated by the recruiting group although per head recruiting costs were as planned.
- Distributed MSG costs were over plan for FY96 primarily due to plan overruns in the copy center and for supplies procurement. User demand exceeded plan even though unit costs are below plan. The negative amounts in the company store and travel represent the impact of store profits and travel rebates respectively.
- Distributed real estate costs were 90% plan for the year primarily due to lower housed headcount than planned, depreciation costs related to lower than planned and lagged capital spending, and lease income from Cascade Place not anticipated in the FY96 plan. Additionally, utility costs were lower than plan due to lower than expected headcount and below normal water usage on the sports fields as a result of the Windows 95 launch last August. Supplies and equipment costs are over plan for Q96-4 and year to date due to a ergonomic furniture retrofit program completed this quarter.

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COMPARATIVE BALANCE SHEET AND CASH FLOW

Balance Sheet

(in millions)

	Q96-4		Q96-3		Change
Assets					
Current assets:					
Cash and short-term investments	\$6,940	69%	\$6,770	71%	\$170
Accounts receivable - net	639	6	681	7	(42)
Inventories	21	0	33	0	(12)
Other	239	2	212	2	27
Total current assets	<u>7,839</u>	<u>78</u>	<u>7,696</u>	<u>80</u>	<u>143</u>
Property, plant and equipment, net	1,326	13	1,281	13	45
Other assets	928	9	613	6	315
Total assets	<u>\$10,093</u>	<u>100%</u>	<u>\$9,590</u>	<u>100%</u>	<u>\$503</u>
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	\$ 808	8%	\$ 652	7%	\$ 156
Accrued compensation	202	2	142	1	60
Unearned revenue	560	6	545	6	15
Income taxes payable	484	5	616	6	(132)
Other	371	4	309	3	62
Total current liabilities	<u>2,425</u>	<u>24</u>	<u>2,264</u>	<u>24</u>	<u>161</u>
Minority interest	125	1	125	1	0
Put warrants	635	6	606	6	29
Stockholders' equity:					
Common stock and paid-in capital	2,924	30	2,677	29	247
Retained earnings	3,984	39	3,918	41	66
Total stockholders' equity	<u>6,908</u>	<u>69</u>	<u>6,595</u>	<u>70</u>	<u>313</u>
Total liabilities and stockholders' equity	<u>\$10,093</u>	<u>100%</u>	<u>\$9,590</u>	<u>100%</u>	<u>\$503</u>

- Cash and short-term investments increased less than 3% as strong cash flow from operations was largely offset by investments in long-term assets and purchases of Microsoft stock. Stock purchases for the quarter totaled \$490 million.
- Net accounts receivable continued to decline from a peak of \$1.05 billion in Q96-1 reflecting payments on accounts with extended terms related to the Desktop 95 launch.
- Other long-term assets reflect investment in MSNBC and Mtel, partially offset by a \$16 million reduction in the value of publicly traded equities.
- Unearned revenue totaled \$560 million at June 30, 1996 and includes \$425 million of revenue deferred under GAAP on sales of operating system products. Other unearned revenue consists primarily of maintenance contracts.

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Cash Flow Summary

(in millions)

	Q96-4	Q96-3	Change
Beginning cash and short-term investments	\$ 6,770	\$ 6,017	\$ 753
Net income	559	562	(3)
Depreciation and amortization	143	183	(40)
Change in accounts receivable	77	34	43
Change in inventories	14	73	(59)
Change in other assets	(20)	(13)	(7)
Change in liabilities	133	54	79
Cash flow from operations	906	893	13
Cash provided from exercise of stock options	257	426	(169)
Cash used for stock buy back	(489)	(370)	(119)
Cash used for purchase of property and equipment	(152)	(123)	(29)
Cash used for long-term investments	(367)	(52)	(315)
Effect of exchange rates on cash	15	(21)	36
Net change in cash and short-term investments	170	753	(583)
Ending cash and short-term investments	\$ 6,940	\$ 6,770	\$ 170

- Depreciation and amortization reflects accelerated depreciation on PCs recognized for GAAP and accelerated amortization of certain IPR no longer in use. Accelerated depreciation recognized for GAAP was \$42 million in Q96-4 and \$80 million in Q96-3.

- During Q96-4, 4.1 million shares of MS stock were repurchased for \$489 million, offset by premiums received on put warrants of \$29 million.

CAPITAL MARKET ACTIVITIES

Portfolio Management - Family of Funds

	Cash & Money Mkt	Enhanced Money Mkt	Short Term	Intermediate	Opportunity	Total
Portfolio Allocation:						
Q96-3	36%	23%	23%	17%	2%	100%
Q96-4	32%	22%	23%	20%	3%	100%
Cash Balances (in millions):						
Q96-3	2,351	1,477	1,476	1,097	121	6,521
Q96-4	2,132	1,510	1,539	1,360	173	6,713
Total Rate of Return (Pre-tax)**:						
Q96-3	5.55%	5.72%	4.72%	1.25%	22.16%	4.89%
Q96-4	5.76%	5.88%	6.01%	5.47%	9.87%	5.54%

* Market values. Values do not include foreign currency balances.

** Annualized data is provided for illustrative purposes. Past performance is not meant for use as a predictor of future results.

- Portfolio allocations and cash balances were more evenly distributed across the Family of Funds in Q96-4 with an increased emphasis on longer duration funds.
- Total rate of return increased approximately 1% to 5.8% as compared to Q96-3 reflecting a more positive market environment.

- Portfolio income contributed \$.50 to Microsoft's EPS in FY96 (15% of total) representing cash flow of \$295 million from interest income plus tax-related and unrealized gains in market value of \$25 million.

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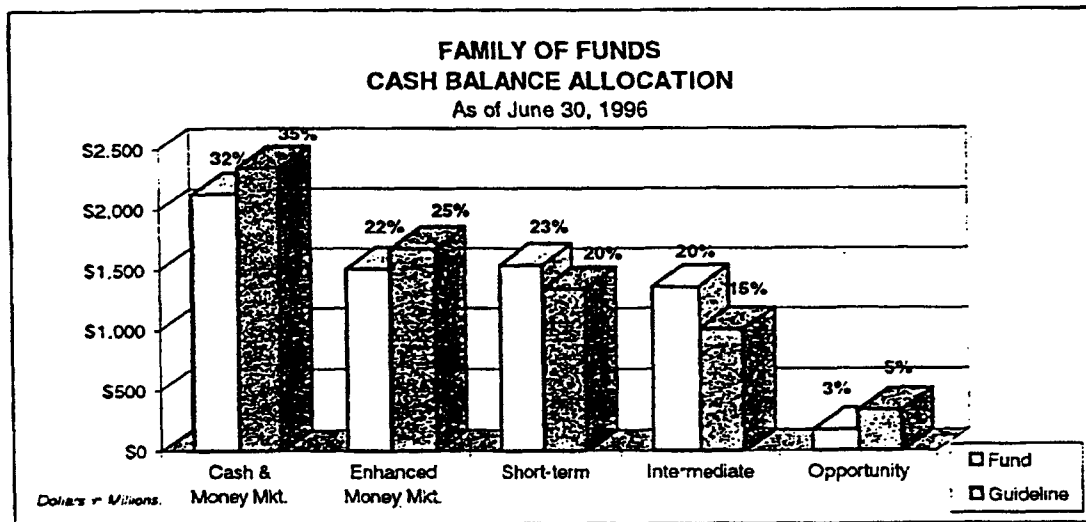
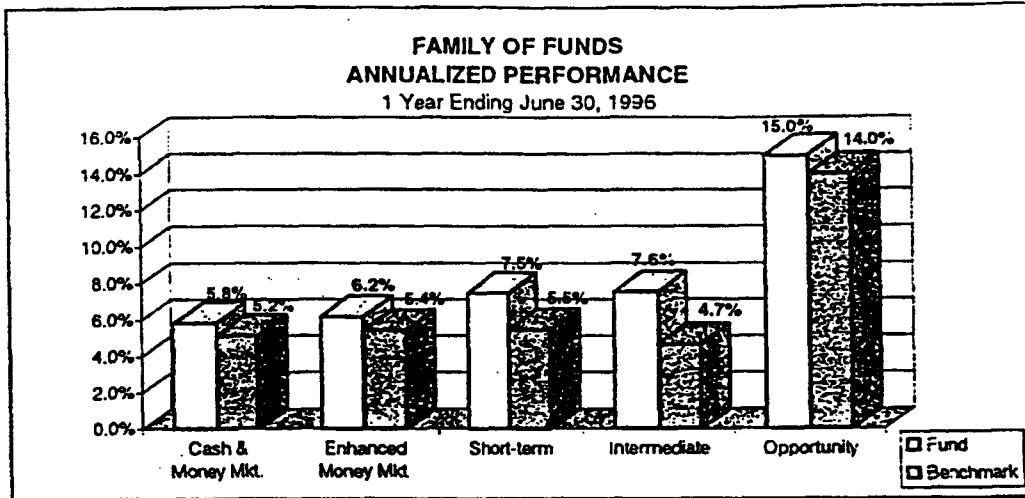
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- Continued strength in economic indicators during Q96-4 led investors to anticipate rate increases by the Federal Reserve and push market interest rates higher.
- Market interest rates matching the maturities of the MS Family of Funds rose during the quarter. Specifically, six month US Treasury Bill yields rose 16 basis points to 5.4%, three year US T-Note yields rose 40 basis points to 6.3%, and five year US T-Note yields rose 41 basis points to 6.5%.
- Portfolio durations were positioned at levels below equivalent fund benchmark durations due to anticipated increases in market interest rates.
- All Family of Funds portfolio returns exceeded their respective benchmarks for the year. The longer duration Short-term and Intermediate funds, which represent 43% of the portfolio, outperformed their benchmarks by 203 and 290 basis points, respectively.
- The Strategic Opportunity Portfolio which represents about 3% of the total portfolio delivered an annualized return of just under 10% during the quarter. Returns on many of the securities included in this fund are linked to the performance of MS stock which increased about 6% during the quarter.

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ACCOUNTS RECEIVABLE

Worldwide Accounts Receivable

(in millions)

	DSO				Aging Summary				
	Q96-1	Q96-2	Q96-3	Q96-4	Total	Current	1-30	31-60	60+
Finished Goods					\$242	\$210	\$10	\$4	\$18
North America	60	91	53	34					
Europe	72	69	59	43	194	137	30	10	17
Far East	56	49	60	45	117	96	13	6	2
AIME	85	108	110	97	24	20	2	1	1
APAC	91	180	179	128	112	87	16	2	7
Latin America	132	158	159	138	79	60	3	3	13
Total Finished Goods	69	77	65	48	768	610	74	26	58
DEM	29	26	19	19	127	101	10	12	4
MSN					16	16	0	0	0
Other					44	24	15	3	2
Total accounts receivable	60	61	51	40	\$955	\$751	\$99	\$41	\$64
						79%	10%	4%	7%
Reserves for sales returns					(458)				
Allowance for doubtful accounts					(189)				
Reserves - Other					20				
Earned, unbilled revenues					311				
Accounts receivable-net					\$529				

- Worldwide gross accounts receivables declined to \$955 million from \$1.17 billion at the end of last quarter as collection efforts were expanded to include resolution of all remaining excess Desktop 95 products either by payment or return credits.
- Worldwide DSO continued to improve during the quarter moving from 51 days at the end of Q96-3 to 40 days as extended term agreements related to the launch expired and regular contract terms were again in place.
- Select and MOLP receivables continued to increase and totaled \$322 million, or 34% of total receivables, up from \$302 million (26% of total) last quarter. The current portion of these

receivables improved to 62% as compared to 42% at the end of last quarter.

- Reserves for sales returns decreased from \$615 million to \$458 million as channel inventories continue to decline to normal levels.
- The bankruptcy of two major distributors in Brazil resulted in a \$6.8 million write-off during FY96. Solaris, another distributor in Brazil, is also having financial difficulty resulting in an additional \$5.2 million exposure which has been fully reserved. Negotiations are under way with Tech Data to facilitate their entry into Brazil during Q97-1 which will help strengthen the local distribution channel.

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Accounts Receivable of the Ten Largest Customers Worldwide

(in millions)

	Total		Aging Summary			
	Balance	Percent	Current	1-30	31-60	Over 60
Tech Pacific	\$64	7%	\$48	\$11	\$1	\$4
Merisel	60	6%	59	0	1	0
Ingram Micro	46	5%	42	3	0	1
GT Interactive Software	37	4%	21	2	1	13
Stream International	34	4%	28	3	1	2
Packard Bell	29	3%	29	0	0	0
Fujitsu	27	3%	26	1	0	0
Computer 2000	21	2%	19	1	1	0
Tech Data	21	2%	21	0	0	0
CHS Electronics	20	2%	18	1	1	0
Total ten largest	359	38%	311	22	6	20
Other	596	62%	440	77	35	44
Total Q96-4	\$955	100%	\$751	\$99	\$41	\$64
Total Q96-3	\$1.165		\$841	\$140	\$81	\$103
Aging mix of top ten			87%	6%	2%	6%
Aging mix of total			79%	10%	4%	7%
Q96-3 Aging mix of total			72%	12%	7%	9%

- Total accounts receivable for the top ten worldwide customers accounted for 38% of the total at June 30, 1996, down from 42% at the end of Q96-3. This decrease reflects both major reductions in receivables from Ingram, Olivetti, and Computer 2000 due to resolution of Desktop 95 inventory issues, and a small increase in revenues from the top three accounts, Tech Pacific, Merisel, and Ingram.
- More than 50% of the over 60 day aging is related to GT Interactive. More strict enforcement of their 180 day contract terms has resulted in \$6 million of product returned in June leaving \$16 million past due at June 30, 1996. An additional return of \$3.5 million will be processed in July and GTI has agreed to pay the remaining past due amounts.
- Merisel continues efforts to sell all or part of their worldwide operations to raise needed capital. Merisel has maintained their account on a current basis to insure continuity of shipments, payment of rebates and marketing allowances.
- Amounts due from Ingram-Micro, Microsoft's largest distributor, totaled \$46 million at quarter end, down from \$140 million as remaining issues with Desktop 95 inventory have been resolved.
- Amounts due from Packard Bell were current at the end of June, with \$24 million paid on July 3rd. However, they still represent a significant risk to MS as their usage reports continue to be late and payment terms are net 90 days compared to net 30 days for most other OEMs. A new contract, including payment terms of net 60 days, has been negotiated and is pending signature. NEC has assumed a major role in the Packard Bell operations and will in all likelihood control the financial future of this troubled company by the end of FY97. Packard Bell continues to pay interest charges for all late payments, and since 1994 has paid over \$3 million in late charges.

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INVENTORY

(in millions)

	Q96-4							Q96-3	Change	
	Finished Goods					OEM	Other			Total
	North		Far East	Icon	FG					
America	Europe									
Raw Materials	\$13.8	\$5.2	\$1.9	\$3.7	\$24.6	\$0.1	\$1.8	\$26.5	\$38.8	(\$12.3)
Work in Process	0.4	0.0	0.0	0.1	\$0.5	0.0	0.0	0.5	1.5	(1.0)
Finished Goods	67.1	24.4	7.8	12.1	\$111.4	18.9	8.7	139.0	155.4	(16.4)
Gross Inventory	81.3	29.6	9.7	15.9	136.5	19.0	10.5	166.0	185.7	(29.7)
Reserves for Obsolescence	(54.7)	(15.4)	(1.6)	(12.5)	(\$84.2)	(3.1)	(59.5)	(146.8)	(162.9)	16.1
Net Inventory	\$26.6	\$14.2	\$8.1	\$3.4	\$52.3	\$15.9	(\$49.0)	\$19.2	\$32.8	(\$13.6)

- Gross inventories decreased \$30 million during Q96-4 primarily in North America. Reductions in finished goods inventory reflects scrapping of obsolete and excess Desktop 95 product, while better forecasting and improved materials management has resulted in a \$10 million decrease in raw materials.

- Reserves for obsolescence decreased \$16 million during Q96-4 due to actual scrapping of obsolete and excess Desktop 95 inventory, offset by an increase in corporate reserves to cover other inventory exposures.

PROPERTY, PLANT, & EQUIPMENT

(in millions)

Property, plant and equipment - net (\$ in millions)			
	Q96-4	Q96-3	Increase
Land	\$184	\$207	(\$23)
Buildings	786	763	23
Leasehold Improvement	193	165	27
Furniture and Equipment	288	274	14
Computer Equipment	882	792	90
	\$2,332	\$2,201	\$131
Accumulated Depreciation	(1,006)	(920)	(86)
Total	\$1,326	\$1,281	\$45

- In Q96-4 Microsoft sold buildings and land near London in anticipation of the construction of new facilities for MS UK. The sale resulted in a net loss of \$15 million and reduced land and buildings wazzu above by \$23 million and \$18 million, respectively.

- Other additions to buildings and leasehold improvements reflect continued construction on campus as more fully described in the Real Estate and Construction section.
- Purchases of computer equipment totaled \$90 million during the quarter, up from \$55 million in Q96-3.

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OTHER ASSETS

(in millions)

Financial assets	Cost			Market Value (if public)		
	Q96-4	Q96-3	Change	Q96-4	Q96-3	Change
TCI (MOSP J.V.)	\$125	\$125	--	\$137 (a)	\$140 (a)	(\$3)
Wang	84	84	--	--	--	--
Mtel	55	30	25	26 (b)	27 (b)	(2)
Stac Inc.	38	38	--	50	47	3
MSNBC	28	18	10	--	--	--
Santa Cruz Operation	20	20	--	31	25	5
UUNet	16	16	--	276	106	170
MicroUnity	15	15	--	--	--	--
Individual	11	11	--	12	16	(4)
Lightspeed	10	10	--	--	--	--
Matrox	6	6	--	3	3	0
Tandem	6	--	6	--	--	--
Academic Systems	5	4	1	--	--	--
Monotype	3	3	--	--	--	--
DreamWorks	2	2	--	--	--	--
Citrix Systems	2	2	--	--	--	--
Helicon	1	--	1	--	--	--
ASCII NT	1	1	--	--	--	--
DreamWorks Interactive	--	1	(1)	--	--	--
Vanstar	--	--	--	26	16	10
	<u>428</u>	<u>386</u>	<u>42</u>	<u>\$560</u>	<u>\$380</u>	<u>\$180</u>
Mark to market and valuation allowance	(49)	(30)	(19)			
Net financial assets	379	356	23			
Intellectual property rights	214	212	3			
Accumulated amortization	(92)	(94)	2			
Net intellectual property rights	122	118	5			
L/T Loans & Other	427	140	287			
Total other assets	<u>\$328</u>	<u>\$613</u>	<u>\$315</u>			

a) Valuation includes 1,388,888 shares of Liberty Media.

b) Excludes MS's 1.4 million warrants in Mtel, 1.1 million of which have certain performance requirements, with an estimated current market value in excess of \$5 million.

- Total financial assets include equity and equity-related investments. MS maintains allowances to cover operating losses and declines in the estimated value of non-public investments and mark to market adjustments for publicly traded investments.
- Total market value of investments in public companies increased \$180 million during the quarter, primarily due to a significant increase in the stock price of UUNet.
- Intellectual property rights represent purchased code or other intellectual property and rights. IPR costs in excess of \$1 million are capitalized and

amortized as a product development cost over periods averaging about two years. IPR increased \$3 million during the quarter, reflecting new purchases including Exos (\$4 million) and eShop (\$40 million), offset by write-offs of Colusa (\$12 million) and Aspect (\$12.5 million), and the retirement of fully amortized IPR totaling \$15 million.

- Long term loans and other increased primarily due to a \$250 million investment in Quadramics, a financial services company.

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Highlights of Current Investments (See Appendix for additional details)

- The MSNBC 24 hour news cable and interactive online joint ventures were launched on Monday, July 15. The cable JV was launched with approximately 21 million subscribers, including recent agreements with Cox, Adelphia, Time Warner's Philadelphia region and other small MSOs to distribute the MSNBC channel. Investment in MSNBC at Q96-4 reflects \$41 million funding for the Cable JV and \$9 million for the Interactive JV, offset by MS share of operating losses of \$13 million and \$9 million, respectively.
- The HP-SCO relationship continues to make progress with plans to deliver a 64-bit version of Unix for the P7 platform by mid-1998. Both companies have committed large development teams with 200 people from SCO and 350 people from HP on the project. At present, MS intends to maintain its investment and royalty contracts with SCO.
- On April 29, UUNET entered into a merger agreement with MFS Communications Company, Inc. (MFS). Under terms of the agreement, UUNET will become a wholly owned subsidiary with each of its shares exchanged for 1.777776 shares of MFS common stock. This deal was valued at \$1.98 billion or a 37% premium over UUNET's market value. Upon completion of the merger, Microsoft will receive 7.4 million shares of MFS stock with a current value of about \$237 million and will hold a 4.1% interest in the combined companies. UUNET, MFS and MS intend to continue the existing Network Agreement without modification except that MS will no longer make advances for equipment purchased under the Equipment Loan Agreement after the effective date of the merger.
- MicroUnity is facing severe financial problems and is expected to run out of operating funds before July 31 unless additional financing can be obtained. MU closed its fab plant on July 2 and its board is evaluating the possibility of splitting the company into two entities, one focused on chips and software for cable data and the other focused on development of media processor architecture. MS is currently working with other preferred investors on a proposal to restructure MU.
- Individual announced an agreement to acquire FreeLoader, Inc. for 1.8 million shares and \$2.0 million in cash. FreeLoader is a developer of an online web delivery service which repeats predefined searches of the world wide web on a regular schedule.
- Lightspan expects to raise \$20 million in August, 1996, \$10 million from a new investor and \$10 million from existing investors.
- Metricom postponed a \$75 million convertible debt offering citing weak technology stock prices. Currently, Metricom has about \$41 million in cash and short term investments on-hand.
- Academic Systems has installed its Interactive Mathematics software on 16 college campuses as of March 31, 1996 and released its Interactive Mathematics software for Windows in May 1996.
- DreamWorks Interactive will ship its first five titles this fall. Cyberchef, Chalktalk and Goosebumps, Escape from Horrorland will ship on September 18th and Movie Maker and Neverhood will ship on October 18th. A distribution agreement with Microsoft is close to completion under which MS will receive a fee for distributing DWI titles. To date, MS has contributed \$11.45 million to DWI and will have contributed \$15.8 million by the end of Q97-1. DWI revenue is projected to be \$6.5million in CY96 and \$41.5 million in CY97.
- As of June, 1996 Vanstar had hired 174 systems engineers, with 119 achieving MS Certified Systems Engineer status. To date, MS has provided Vanstar with \$10 million in marketing development funds.

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New Deals

Electric Gravity, Inc.

- On May 23, 1996, MS completed the acquisition of Electric Gravity, Inc. Electric Gravity is the developer of the Internet Game Zone, a site for multi-player games such as chess and bridge. The Internet Game Zone will be available to all Internet users with MSN members receiving special benefits.

eShop Inc.

- On June 20th, Microsoft acquired eShop Inc. in a share-for-share exchange valued at \$40 million. eShop is the developer of eShop Technology, a merchandising and shopping system that enables merchants and hosts to build internet and online commerce operations.

- The next version of eShop Technology, eHTML, integrates with standard HTML browsers and provides improved wallet, payment, and merchandising features. Microsoft will ship Tandem Computers Inc.

- On May 1, 1996 Microsoft and Tandem signed the NonStop ServerWare for Windows NT Server Funding and Development Agreement under which Tandem will extend its high-availability, fault-tolerant transaction processing and database products to the Windows NT Server platform.

- Microsoft will provide Tandem \$35 million to fund development of these products over the next six quarters, repayable through a royalty on sales of Tandem products. In addition, Microsoft

Entex Information Services, Inc.

- One June 24, 1996, Microsoft and Entex signed the Microsoft Office and BackOffice Infrastructure Agreement. Under terms of this agreement, Entex will deploy a dedicated team of 150 technicians offering consulting, integration and support services for Microsoft products.
- To fund this effort, Microsoft loaned Entex \$8.1 million, to be repaid on a fixed schedule over six years.

- The transaction was structured as an asset acquisition for \$975,000 of MS stock plus assumption of \$25,000 in liabilities. Penny options worth \$2.2 million will also be granted over 3 years to the two founders who have relocated to Microsoft.

eHTML as Microsoft Merchant 1.0 in early FY97-4.

- The company also operates eShop Plaza, an Internet shopping mall. MSN will work with eShop Plaza merchants to transfer their offerings to MSN.

- Twenty eShop employees are relocating from San Mateo, CA to Redmond. Twelve have joined IPTD, and eight have joined MSN.

purchased an at-the-money option to buy one million shares of Tandem stock for \$11.24 each in exchange for \$5.7 million.

- The companies also signed a Patent Cross License, a Cluster Code License and Development Agreement, and a Marketing Agreement that obligates the parties to each spend \$12 million over four years to promote the relationship and the NonStop ServerWare for Windows NT Server products.

- Microsoft also received a warrant to purchase 75,000 Entex common shares, which represents about 1% of the company, at a strike price of \$72. Entex is privately held and intends to go public in late 1996.

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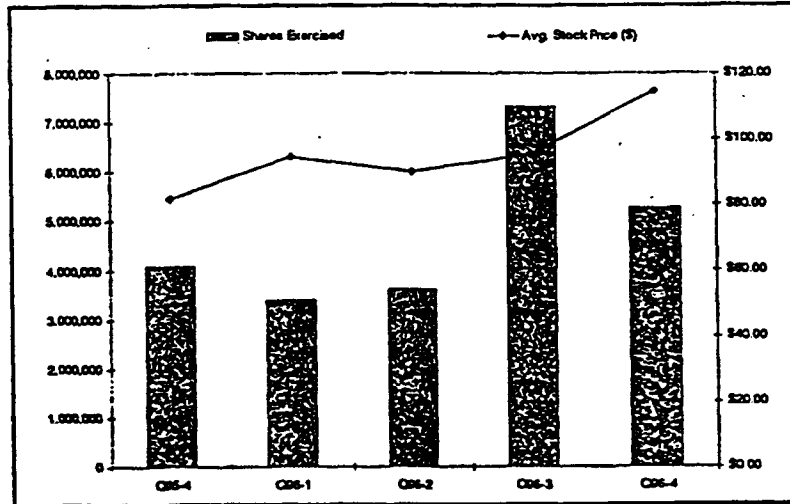
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RISK MANAGEMENT & HEDGING ACTIVITIES

Stock Options Grants and Exercises



- MS stock traded at an average price of \$114.83 during Q96-4. The highest closing price during the quarter was \$125.00 and the lowest closing price was \$101.125.
- In Q96-4 the number of stock option transactions was 6,929, an increase of 59% over the same period in FY95. The number of shares exercised was 5.3 million, a 29% increase from Q95-4.
- During Q96-4, 790 stock option grants were issued, totaling 1.15 million shares. Of this total, 606,000 shares were dated in Q96-4, with the balance dated in prior quarters due to overlapping window periods.
- Cumulative outstanding options on 6/30/96 totaled 119.1 million with an average price of \$44.14. Authorized but unissued options totaled 187 million.
- A total of 338,440 ESPP shares were issued for the six month period ending 6/30/96 to 10,680 domestic employees at a purchase price of \$76.29 per share. International ESPP is reported in odd numbered quarters.

Stock Repurchases

	for all splits	(millions)	Cost
FY90	3,570,750	\$ 46	\$13.07
FY91	10,938,500	197	17.96
FY92	3,959,635	135	34.09
FY93	6,257,000	250	39.96
FY94	8,639,000	348	40.24
FY95	11,669,000	698	59.82
Q96-1	1,600,000	151	94.18
Q96-2	4,000,000	373	93.32
Q96-3	3,840,000	370	96.47
Q96-4	4,065,000	490	120.59
Life to date	52,534,925	\$3,058	52.24

- During Q96-4, Microsoft purchased 4.1 million shares at an average price of \$120.59. During FY96, Microsoft purchased 13.5 million shares at an average price of \$102.52. A total of 58.5 million shares have been purchased life-to-date at an average price of \$52.24.

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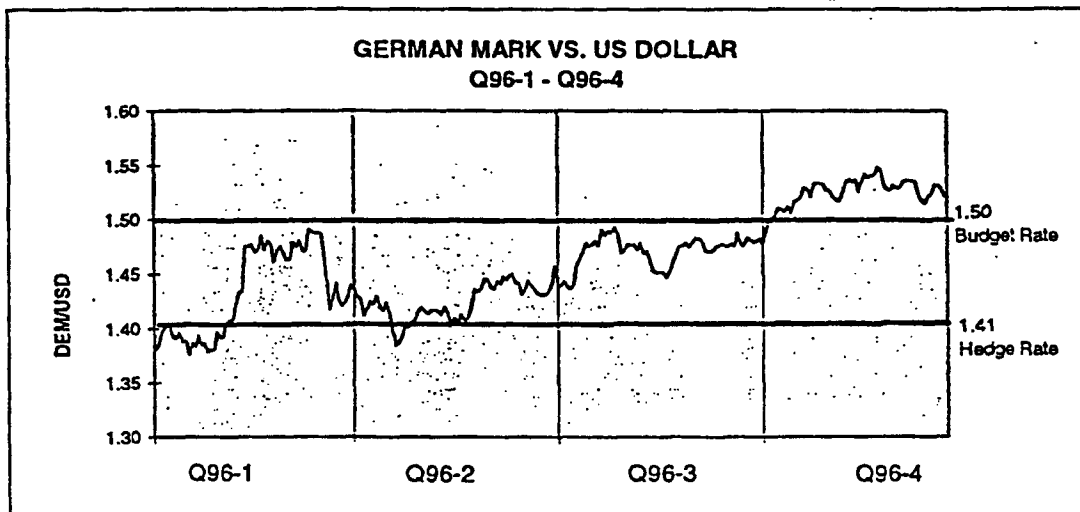
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Put Warrants

- At quarter end, 13 million put options were outstanding, with strike prices ranging from \$95-\$104, and an average strike of \$99.85. Maturities range from 6 to 18 months. Life-to-date program proceeds total \$173 million, \$17 million of which represent put options that have expired. Incremental premiums of \$29 million were earned during Q96-4, bringing the total earned in FY97 to \$124 million.
- This program has enhanced the buyback program by reducing life-to-date stock buyback cost per share by \$2.95, from \$52.24 to \$49.29.
- To recognize the amount that would be required to purchase all 13 million shares at their put option strike prices, a liability of \$1.3 billion would be required as an offset to retained earnings; this liability was reduced to \$635 million by selling "capped puts" which limit our liability to the difference between the \$99.85 average strike price and the "caps" of \$51 per share.

Foreign Exchange Hedging



- The dollar strengthened 2.6% versus the major European currencies during Q96-4, trading between a range of 1.48DM/\$ and 1.55DM/\$. The dollar similarly strengthened 2% versus the Japanese yen during Q96-4, trading between a range of 105Y/\$ and 110Y/\$.
- In Q96-1, Treasury bought foreign currency put options to hedge Microsoft's total forecasted FY96 foreign exchange denominated net cash flow exposure of \$1.3 billion. The financial instruments used were average rate put options for seventeen different currencies. Microsoft realized a net gain on these contracts of \$5 million in Q96-4 and \$14 million for the year.
- Treasury also has a continuing program to actively hedge the monthly exposure to foreign currency-denominated accounts receivable on a short-term rolling 30 day basis.

Insurance Renewals

- Most property and casualty insurance coverage was renewed on July 1. Coverage in most insurance areas remained the same, however, some insurance programs were significantly restructured with substantially increased limits and deductibles.

Consolidated Errors & Omissions Liability Insurance

- Microsoft has historically maintained errors & omissions (E & O) insurance for software and electronic products and for print publishing. With the addition of MSN in Q96-1 a third E & O program for network related liabilities was added. To improve program efficiency and to reduce

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conflicts among insurers in the event of a "media convergence" claim, all E & O coverages on July 1 were consolidated into a single catastrophe risk program covering both professional E & O and content related risks. Microsoft's software E & O, publishing E & O, and MSN network E & O insurance programs were discontinued with the inception of the new consolidated E & O policy.

- A Microsoft developed insuring form was used for this first ever consolidation of technology media risks by the commercial insurance market. The policy form is flexible enough to accommodate additional media exposures, such as broadcasting, as Microsoft's business continues to change. The

Global Property Insurance

- On July 1 Microsoft's domestic and international property insurance programs were merged into a single global program. Under the global program, Chubb insurance will provide worldwide coverage with a \$5 million primary coverage limit. Several insurers will share an "excess" limit of \$250 million each loss above the Chubb policy. The policy deductible increases from FY96 levels (\$100,000 US and \$10,000 International) to \$1 million each claim. Based on past loss experience, the nearly \$1 million in global insurance premiums saved will more than cover the expected losses below the increased deductible. Total cost for FY97 is approximately \$1.4 million versus FY96 cost of \$2.1 million.

Excess Liability Insurance

- Catastrophe liability coverage for bodily injury and property damage situations was increased from \$100 million to \$200 million each loss. Primary exposures driving the need for an increase were high profile public marketing events and tenant

Domestic Casualty Insurance

- This program includes primary general and automobile liability and interstate workers compensation. Continued adverse liability claims experience caused Hartford, the incumbent insurer, to significantly cut back on coverage and increase retentions on the general liability program. At the same time, claim service in the

Global Automobile Insurance

- The global automobile program entered its third year on July 1. As planned, the program transitions to a retrospectively rated program for FY97, meaning subsidiaries who manage their

consolidated E & O program provides a total coverage limit of \$75 million, subject to a deductible of \$1 million each claim or \$5 million in an annual period. The annual premium for FY97 is \$1,295,000. This compares to expiring limits of \$10 million for software E & O; \$5 million for publisher's E & O and \$10 million for network related claims, with deductibles of \$100,000

to \$500,000 each loss and a combined premium of approximately \$1 million. There is a \$25 million umbrella limit in addition to all of the limits indicated in this section. Thus, the total consolidated E & O limit is \$100 million, the expiring software E & O limit was \$35 million, etc.

- The global program provides several significant coverage enhancements. Puget Sound earthquake limits are now \$250 million (increase of \$50 million); coverage for Japanese earthquake is now \$35 million (an increase of \$25 million); coverage for Puerto Rico earthquake is now \$25 million (an increase of \$10 million); and coverage for California earthquake is now \$15 million (an increase of \$10 million). Coverage was also broadened for direct and contingent business interruption risks.

legal liability risk associated with occupancy of leased facilities. Premium for the added \$100 million in coverage was \$100K, the industry minimum.

workers' compensation area was not meeting MS requirements. For these reasons MS changed from Hartford to Kemper Insurance. Kemper provided the best combination of price, coverage form, and service. Total premiums for this program for FY97 are \$685K versus FY96 premiums of \$885K.

automobile fleet experience will receive premium savings and those who do not will receive surcharges. There are approximately 1,100 automobiles in the program worldwide.

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Employment Practices Liability Insurance

- A catastrophe liability insurance program is under consideration for employment related risks - discrimination, wrongful termination, harassment, etc. The commercial insurance market for this risk has matured considerably in recent years, with

substantial limits available at competitive premiums. The primary exposure for MS is a class action employee lawsuit, meaning a high limit, high deductible program will be pursued.

Selected Summary of Insurance and Limits Insured

- Domestic and international property - \$250 million each loss, subject to earthquake sublimits of \$35 million Japan; \$25 million Puerto Rico; and \$15 million California. (Several increases in earthquake coverage over FY96—\$50 million Puget Sound, \$25 million Japan; \$10 million Puerto Rico and California).
- Domestic and international business interruption - \$250 million each loss.
- General, umbrella and excess liability—\$200 million each occurrence (\$100 million increase over FY96).
- Software errors and omissions liability—\$100 million each claim (\$65 million increase over FY96).
- Publisher's errors and omissions liability—\$100 million each claim (\$65 million increase over FY96).
- Network media and broadcasting liability—\$100 million each occurrence (\$65 million increase over FY96).
- Fiduciary liability—\$25 million each claim (\$10 million increase over FY96).
- Employee fidelity (Crime)—\$25 million each loss.
- Special indemnity (K & R)—\$100 million each occurrence (\$50 million increase over FY96).

Additional Areas of Risk Financing Under Review

- Risk management continues to look at efficient methods for financing intellectual property (patent infringement), corporate reimbursement for directors and officers, and credit accumulation risks. A captive insurance company is under continuing review. Simultaneously, alternatives to a captive which afford greater tax and financial accounting benefits than a captive are also under review.

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**INVESTOR RELATIONS
MSFT Sell Side Ratings**

Firm	Analyst	Rating	Firm	Analyst	Rating
Alex Brown	Mary McCaffrey	Strong Buy	Merrill Lynch	Luz Parler	Strong Buy
Bear Stearns	Janie Kuppen	Buy	Montgomery	David Readerman	Buy
Cowen & Co	Drew Brousseau	Strong Buy	Morgan Stanley	Mary Meeker	Market Outperform
Dean Witter	Peter Rubicam	Strong Buy	Paine Webber	N/A	Buy
Dillon, Read & Co.	Frank Michnoff	Buy	Prudential	N/A	Buy
DMG	Michael Kwaitnetz	Buy	Raymond James	N/A	Strong Buy
Firs. Boston	Esther Schreiber	Buy	Roberts, Stephens	Rich Edwards	Strong Buy
Furman Secz	Sandy Hegorah	Recommended	Smith Barney	Terre Murphy	Strong Buy
Goldman Sachs	Rick Sherlund	Mod. Outperform	Sound View	John Maxwell	Strong Buy
Hamprecht & Gust	Christopher Gavin	Buy	William Blair	Laura Lederman	Buy

NOTES:

1. N/A indicates analysts have recently switched firms and are in process of being replaced.
2. Mary Meeker downgraded MSFT from a strong buy during May based upon the stock hitting her 12 month price target of \$120 within a month of her releasing her target price.
3. New Coverage Initiated: DMG/CJ Lawrence (Michael Kwaitnetz) waived coverage of MSFT with a buy rating.

Institutional Buyers and Sellers

Top 5 Buyers Q96-4		Investment Style	Turnover Rate	Change Since March	Current Position June
Institutions					
Fidelity Management & Research		Growth	Mod	3,500,000	4,700,000
Janus Capital Corporation		Momentum	High	1,592,936	3,250,936
Phoenix Home Life Insurance Company		Momentum	High	951,472	951,472
Prudential Insurance Co. of America		Value	Low	892,000	1,392,500
Sacomon Brothers Inc.		Growth	High	851,949	851,949
Total				7,798,357	
Top 5 Sellers Q96-4		Investment Style	Turnover Rate	Change Since March	Current Position June
Institutions					
Morgan Stanley Asset Management Inc.		Growth	Mod	-840,000	1,900,000
Aeris Investment Management		Growth	Low	-638,984	515,976
PCM Capital Management		Growth	Mod	-619,000	2,052,300
Provident Investment Counsel		Growth	Low	-485,721	5,290,977
Chase Manhattan Corp		G/I	Low	-472,500	1,577,500
Total				-3,056,205	

- Mutual fund managers Fidelity and Janus were the top two buyers during the quarter, taking the opportunity to buy after MSFT's strong Q96-3 earnings release. The Magellan fund has yet to come back into the stock, although there is wide spread speculation that the fund will again start purchasing tech stocks based upon the past performance of its new manager, Robert Stansky.
- Momentum player Phoenix Home came into the stock for the first time in Q96-4, purchasing nearly a million shares. Based upon this investor's profile, this position will most likely be sold off by the end of Q97-1.
- Morgan Stanley Asset Management was the number one seller of MSFT during the period, as Morgan's top technology analyst, Mary Meeker, removed MSFT from the strong buy list based upon price. Most of the sell off came from retail investors.

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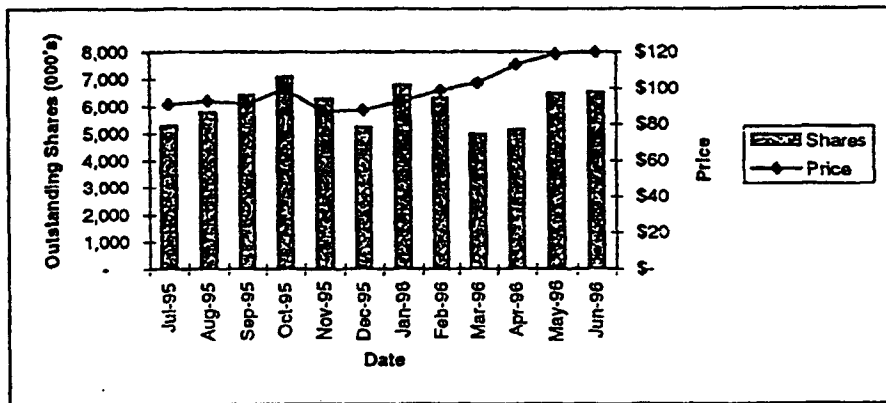
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Top Institutional Holders

Top 15 Institution	Investment Style	Turnover Rate	June Position
BZW (Wells Fargo) Investment Advisors	Index	Low	13,734,747
Bankers Trust Company	Index	Low	7,725,091
Alliance Capital Management L.P.	Growth	Low	6,537,456
Provident Investment Counsel	Growth	Low	5,290,977
State Street Boston	Index	Low	5,166,017
Fidelity Management & Research	Growth	Mod	4,700,000
Putnam Investment Management	Growth	Mod	3,988,000
Investors Research Corporation	Momentum	High	3,350,000
College Retirement Equities Fund	Index	Low	3,346,750
Columbus Circle Investors	Momentum	High	3,300,000
Janus Capital Corporation	Momentum	High	3,260,936
Jennison Associates Capital Corp.	Growth	Mod	3,201,950
California Public Employees' Retirement System	Index	Low	3,025,000
Texas Teachers' Retirement System	G/I	Low	3,015,000
W.P. Stewart & Co.	Growth	Low	2,995,092

Short Positions



- Short interest in MSFT shares increased by less than one percent during June in contrast to the better than 5% rise for the Nasdaq. Large cap technology companies continued to show substantial increases in their short positions during the month with Cisco leading all Nasdaq issues with a greater than 25% increase.
- It should be noted that outstanding short positions represent under two days average trading volume.

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Industry Watch

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COMPETITOR HIGHLIGHTS

Oracle

- Oracle released May quarter and fiscal year earnings per share of \$0.40 and \$0.95 compared to prior year results of \$0.27 and \$0.66, respectively. May results beat analyst consensus estimates by \$0.02 and overcame suggestions that sales in the database market were cooling down. Some analysts believe the company has made efforts to prevent a significant shortfall in first quarter earnings similar to prior years.
- Oracle held their Intranet Strategy briefing on July 16th. Key highlights were:
 - WebServer 3.0 - a technology that links Web servers to large transaction-oriented databases and enterprise applications.
 - InterOffice - collaboration software, including e-mail scheduling and workflow.
 - Features in Designer/2000 for the Web and Developer/2000 which facilitate the transition of client/server applications to corporate Intranets.
 - ConText - a search engine which searches and summarizes using SQL.
 - Video Server - a plug-in which enables real-time streaming of video content over an Intranet.
- Web Request Broker - a development platform which will interoperate with Web servers from Microsoft, Netscape, and others.
- Analysts viewed Oracle's positioning of their Intranet solutions as extensions of their database expertise positively, however, they do not anticipate any significant near term revenue gains.
- Analysts expect Oracle to continue increasing their market share in the RDBMS server line by stealing share from Sybase and they foresee 60% compound annual growth in the enterprise resource planning (ERP) applications market for the next few years. Oracle has a 21% market share in the ERP market.
- Raymond J. Lane was promoted to the new post of president and chief operating officer and he will head a 10-member committee of top managers that will have some influence over product development. Larry Ellison will retain ultimate authority over product development.
- Oracle claimed to beat Microsoft and Netscape to market with the first browser, PowerBrowser 1.5, to offer support for both Java and Basic scripting.

Novell

- Novell commented that the rise of the Internet and Windows NT create opportunities to promote its NetWare Directory Services (NDS) and other administrative and management services that are bundled in NetWare. Over the next year, Novell will deliver NDS on NT and UNIX platforms and is making plans for NDS for the Internet with native support for open Internet standards and protocols.
- Analysts are very cautious about Novell's future prospects with an anticipated 20% decline in revenues in the second half of 1996 due to the sales of the UNIX business to SCO and the personal productivity business to Corel, and the rise of Windows NT. On a positive note, migration of customers to NetWare 4.1 and the repurchase of shares, approximately 23 million shares through the first six months of 1996 and board approval for 37 million shares, are seen as restricting the stock's downside.
- In July, Novell announced availability of GroupWise WebAccess, a product that allows users access to their Universal In Box via the Internet and any HTML 1.0-compliant Web browser, Novell InnerWeb Publisher and NetWare Web Server 2.5, which allow users to publish, access and manage information on corporate intranets and the Internet, and NetWare Client 32 for DOS/Windows, which provides 16-bit DOS and Windows 3.1 desktop users with full 32-bit access to NetWare services.
- Announced an expansion of their strategic alliance with Hewlett-Packard to deliver complete networking solutions to customers in small to medium-sized businesses, enterprise, and Internet/intranet services markets. HP can now ship any or all of Novell's products on its NetServer family of PC servers.

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Sun Microsystems

- Excluding charges of \$0.23 per share related to the acquisition of Integrated Micro Products, Sun reported June quarter revenues of \$2.02 billion and earnings per share of \$0.85 compared to year earlier results of \$1.64 billion and \$0.63, respectively. Fiscal 1996 results showed revenues of \$7.1 billion and earnings per share of \$2.65 compared to year earlier results of \$5.9 billion and \$1.81, respectively. Sun's results exceeded analyst estimates by \$0.01 per share with orders and backlog also exceeding expectations.
- Analysts are encouraged by Sun's sales of UltraSPARC powered Enterprise servers and software which has driven and should continue to drive operating profit margins up. Also, HP's delay in shipping servers based on the PA-8000

RISC chip until late 1996 is expected to help Sun stay ahead of HP without aggressive pricing.

- Some analysts expect Java licensing agreements and affiliated products, such as just in time compilers and other tools needed to develop Java applications, to generate meaningful revenue over the next couple of quarters. They also expect Java chips, a set of CPU chips set to be rolled out over the next year that will run the Java language in native mode, to be a catalyst for significant change in network computing. They believe Java chips will facilitate the construction of the "thin client", a computer on a network that needs little in the way of system administration or special treatment in contrast to the higher maintenance PC.

IBM

- IBM's earnings of \$2.51 per common share for the June quarter declined compared to \$2.97 in the prior year due to a drop in memory prices and foreign currency exchange rates. Results exceeded consensus estimates by \$0.07 and the stock closed up \$11.88 after the announcement. Software revenues increased 4% over the prior year to \$3.2 billion.
- The most cumbersome remaining restrictions of the 1956 Consent Decree with the Justice Department will be lifted in approximately 6 to 8 months when the settlement is signed. Parts of the decree were lifted in January. Certain less cumbersome restrictions on the AS/400 and S/390 businesses will remain in effect for 4 to 5 years. Analysts expect the settlement to have a significant impact on IBM's top and bottom lines.
- With the expiration of a five year non-compete agreement with its spin-off, Lexmark International Inc., IBM announced re-entry into the low-end printer market. Analysts say IBM's four new models are competitive with those of Lexmark and industry leader Hewlett-Packard.
- IBM and Sears sold Prodigy to International Wireless Inc., a closely held telecommunications investment group for an estimated \$250 million in cash and securities.
- Lotus announced plans with PointCast Inc. to develop an information delivery system based on Lotus Notes, Lotus' Domino server, the Internet and PointCast technologies. The system will enable corporations to broadcast personalized news directly to users' computer screens within an intranet.

- IBM expanded its licensing agreement with Netscape to include server software from the Netscape SuiteSpot family and Netscape Commercial Applications for AIX, and IBM plans to bundle Netscape Navigator on its RS/6000 servers.
- Dataquest reported that Lotus SmartSuite's share of the worldwide suite market grew to 20.1% of unit shipments in Q1 1996, up from 15.4% in Q4 1995, while SmartSuite's share of revenues declined from 8.1% to 6.7% during the same period. The share shifts reflected increased bundling of the product by IBM.
- IBM is having trouble keeping up with the rapidly growing demand for CD ROMs in its notebook PCs, which (like certain other vendors) require proprietary CD ROM drives. A CD ROM shortage has developed for its ThinkPad series and has become a bottleneck on sales for that line. For the industry as a whole, IDC reports that last year only 6% of notebook PCs in the US shipped with CD ROM drives but that CD ROM-equipped notebooks will increase to almost 45% of US notebook shipments this year.
- IBM expects to launch an Internet-based shopping plaza named World Avenue with approximately 20 retailers in the fall. For a 5% commission. World Avenue allows retailers to avoid the technological burden of constructing Internet sites while benefiting from cross traffic between mall stores.

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Netscape

- Announced June quarter revenues of \$75 million, a 34% increase over the March quarter, and earnings per share of \$0.01. Excluding charges of \$0.06 per share for the acquisitions of InSoft, Inc., Paper Software Inc., and Netcode Corp., June earnings exceeded analyst estimates by \$0.01 and March earnings by \$0.03. Analysts were surprised by the sequential server revenue increase despite a 60% price cut at the end of the March quarter. Many analysts significantly raised their 1996 and 1997 estimates following the release.
- Analysts believe Netscape's future success is dependent upon continued dominance in the browser market and aggressive acquisition of client/server technology through strategic alliances or outright acquisitions. Navigator is viewed as Netscape's "Trojan Horse", providing them a presence in 92 of the Fortune 100 companies. However, analysts assume any loss in Netscape's claimed 38 million Navigator user base or desktop market share would have a ripple effect throughout Netscape's product line, not just the browser, and would significantly impact revenues.
- Netscape hosted an Internet Calendaring Summit on July 24 to develop a set of Internet calendaring protocols to be submitted to the Internet Engineering Task Force (IETF), an Internet standards body. Approximately 20 companies attended, including Lotus, Hewlett-Packard, and Novell.
- During the quarter product releases included SuiteSpot, a suite of server software for use on intranets, Netscape FastTrack, a server for users creating their first Web sites, and the Navigator 3.0 and Navigator 3.0 Gold betas. Final release of the two Navigator products is expected in September. SuiteSpot reseller relationships and/or strategic partnerships were announced with Hewlett-Packard, Compaq, Digital Equipment, EDS, IBM, Sun, and others.

Other

- Michael Cowpland, Corel Corp. chief executive officer, said he expected retail figures in June would show Corel ahead of Microsoft in the suite market (retail sales represent about 15% of the overall suite market). Corel recently released its 32-bit suite, with channel fill inflating retail sell-in figures. He also said he hopes to garner 25 to 30 percent of the overall word processing "suite" market in the next three to four months, chiefly at the expense of Microsoft.

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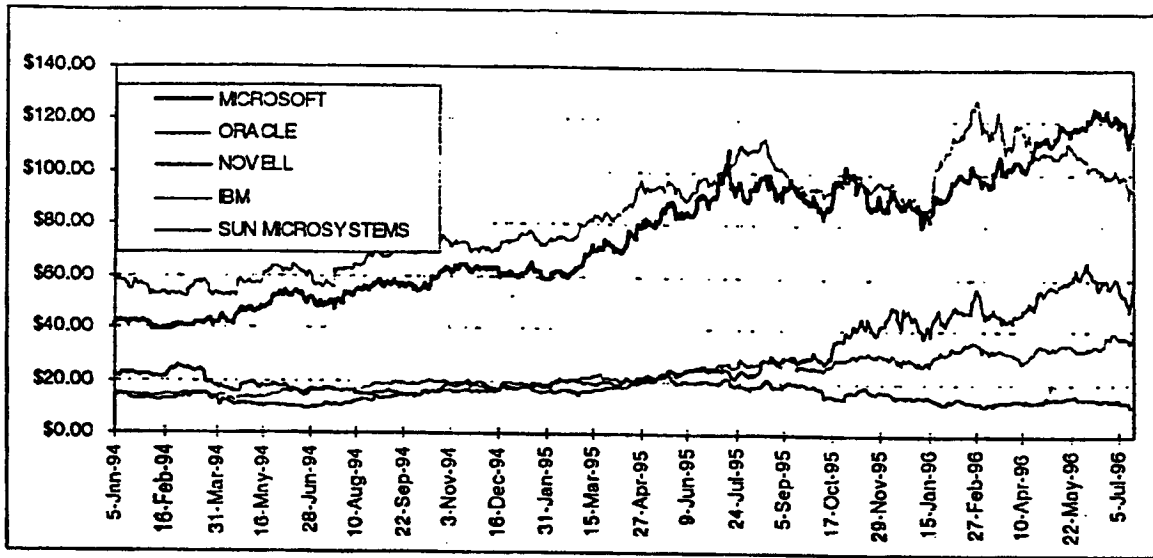
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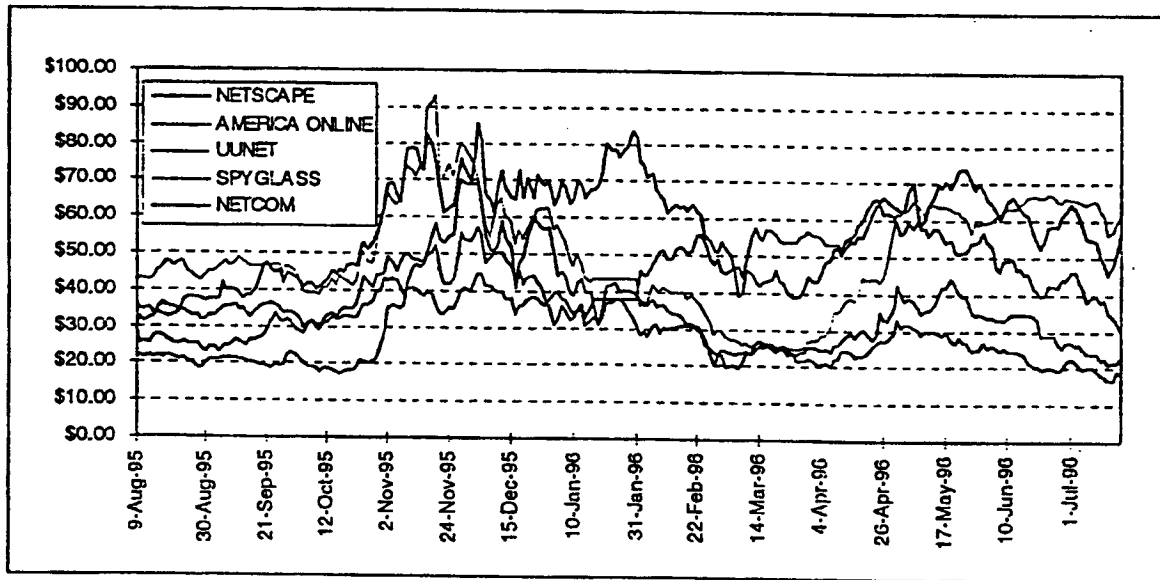
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KEY COMPETITOR STOCK PRICES



INTERNET/ONLINE STOCK PRICES



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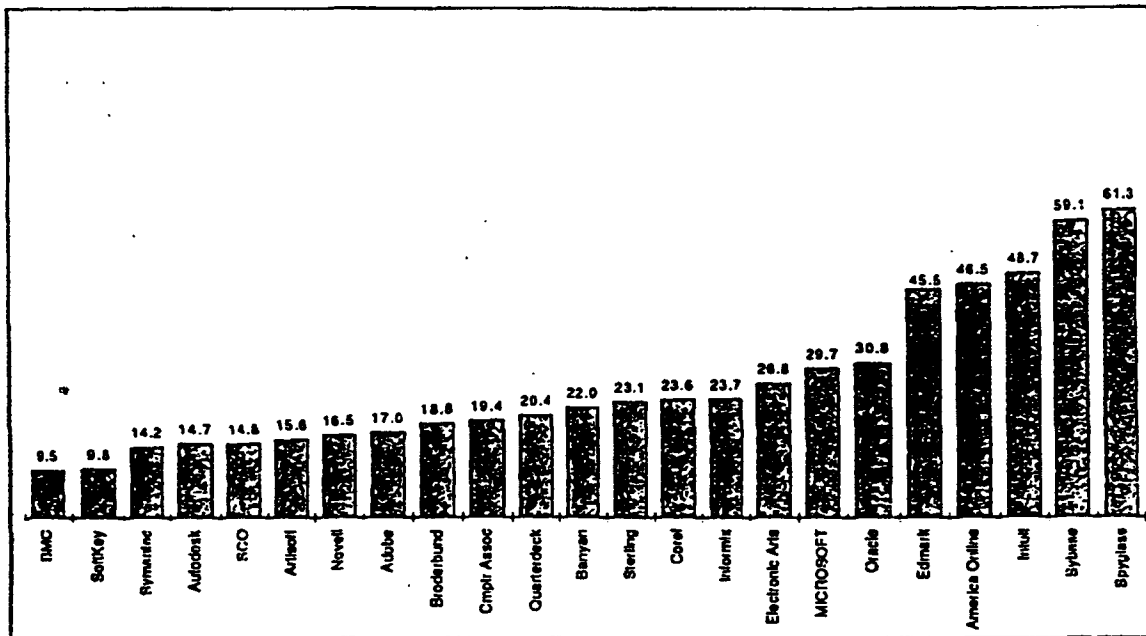
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SOFTWARE FORWARD P/E RATIOS

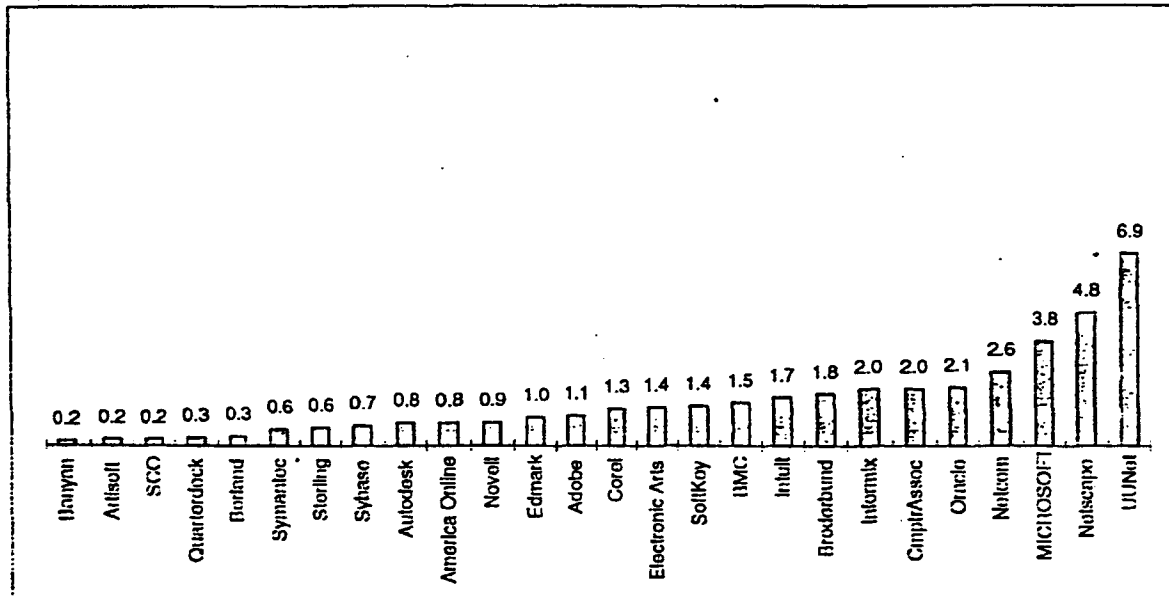


Forward P/E ratios are calculated based upon June 28, 1996 stock prices and analyst's consensus estimates for the next four quarters.

The P/E ratio for Netscape (178) and UUNet (162) were excluded to maintain a normal scale.

MARKET VALUE PER EMPLOYEE

(in millions)



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TOP THREE SOFTWARE COMPANIES

(in millions)

Most recent quarter	Microsoft 6/30/96		Novell 4/30/96		Oracle 5/31/96	
Net revenue	\$ 2,255	100.0%	\$ 188	100.0%	\$ 1,464	100.0%
Cost of revenue	241	10.7	68	36.2	322	22.0
Gross profit	2,014	89.3	120	63.8	1,142	78.0
Research and development	453	20.1	70	37.2	119	8.1
Sales and marketing	661	29.3	127	67.6	548	37.5
General and administrative	90	4.0	35	18.6	69	4.7
Total operating expenses	1,204	53.4	232	123.4	736	50.5
Operating income	810	35.9	(112)	(59.6)	406	27.7
Nonoperating income	50	2.2	29	15.4	3	0.2
Income before income taxes	860	38.1	(83)	(44.2)	409	27.9
Provision (benefit) for income taxes	301	13.3	(28)	(14.9)	143	9.7
Net income	\$ 559	24.8%	\$ (55) (a)	(29.5)%	\$ 266	18.2%
Average shares outstanding	645		362		672	
EPS	\$ 0.87		\$ (0.15)		\$ 0.40	
Trailing twelve months	Microsoft		Novell		Oracle	
Net revenue	\$ 8,671	100.0%	\$ 1,645	100.0%	\$ 4,223	100.0%
Cost of revenue	1,188	13.7	413	25.1	1,096	26.0
Gross profit	7,483	86.3	1,232	74.9	3,127	74.0
Research and development	1,432	16.5	333	20.2	440	10.4
Sales and marketing	2,657	30.7	543	33.0	1,549	36.7
General and administrative	316	3.6	156	9.5	233	5.5
Nonrecurring charge	-	-	18	1.1	-	-
Total operating expenses	4,405	50.8	1,050	63.8	2,222	52.6
Operating income	3,076	35.5	182	11.1	905	21.4
Nonoperating income	301	3.5	72	4.4	15	0.4
Income before income taxes	3,379	39.0	254	15.5	920	21.8
Provision (benefit) for income taxes	1,184	13.7	85	5.2	317	7.5
Net income	\$ 2,195	25.3%	\$ 169	10.3%	\$ 603	14.3%
Average shares outstanding	640		371		666	
EPS	\$ 3.43		\$ 0.46		\$ 0.91	

- a) Novell suspended packaged goods shipments during the April quarter to reduce its stuffed channel inventory by \$225 million. Results also include a \$0.04 per share gain on the sale of WordPerfect to Corel.

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TOP THREE SOFTWARE COMPANIES - continued

(in millions)

	Microsoft 6/30/96		Novell 4/30/96		Oracle 5/31/96	
Balance sheets						
Current assets:						
Cash and short-term investments	\$ 6,940	69%	\$ 1,181	57%	\$ 841	25%
Accounts receivable - net	639	6	357	17	1,085	32
Inventories	21	-	17	1	-	-
Other	239	3	104	5	358	11
Total current assets	7,839	78	1,659	80	2,284	68
Property, plant and equipment - net	1,326	13	357	17	686	20
Capitalized software	-	-	-	-	99	3
Other assets	928	9	51	3	288	9
	<u>\$ 10,093</u>	<u>100%</u>	<u>\$ 2,067</u>	<u>100%</u>	<u>\$ 3,357</u>	<u>100%</u>
Current liabilities	\$ 2,425	24%	\$ 361	17%	\$ 1,455	43%
Long-term liabilities	-	-	-	-	23	1
Other liabilities	125	1	17	1	9	-
Put warrants	635	6	90	4	-	-
Stockholders' equity	6,908	69	1,599	78	1,870	56
	<u>\$ 10,093</u>	<u>100%</u>	<u>\$ 2,067</u>	<u>100%</u>	<u>\$ 3,357</u>	<u>100%</u>
Other data						
Closing stock price (June 28, 1996)	\$120.13		\$13.88		\$39.44	
Common shares outstanding	645		362 (a)		672	
Market value	\$77,484		\$5,025		\$26,504	
Price/revenue ratio	8.9x		3.1x		6.3x	
Price/earnings ratio - trailing twelve	35.0x		30.2x		43.3x	
Price/earnings ratio - future 4 quarters	29.7x		16.5x		30.8x	
Headcount (most recent disclosure)	20,561		5,900		12,500	
Net revenue/employee (in thousands)	\$422		\$279		\$338	
Book value per share	\$10.71		\$4.42		\$2.78	
Price/book value ratio	11.2x		3.1x		14.2x	
Growth statistics (over comparable quarter):						
Revenue	39%		(64%)		44%	
Research and development	72%		(25%)		47%	
Sales and marketing	31%		(14%)		44%	
General and administrative	5%		(3%)		39%	
Net income	52%		(158%)		47%	

- a) Novell repurchased 23 million shares in the first half of FY96 with a board-authorized repurchase of up to a total of 37 million shares through October 1996.

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INDUSTRY REVIEW

Software Companies

(in millions)

	Adobe 5/31/96	Artisoft 3/31/96	Autodesk 4/30/96	BMC 3/31/96	Banyan 3/31/96
Income statement					
Most recent quarter					
Net revenue	\$204	\$15	\$136	\$128	\$30
Net income (loss)	22	(7) (a)	19	39	0
EPS	0.29	(0.45)	0.39	0.74	0.02
Trailing twelve months					
Net revenue	\$756	\$59	\$532	\$429	\$119
Net income (loss)	73	(23)	81	106 (c)	(25) (e)
EPS	1.01	(1.57)	1.64	2.02	(1.46)
Net income (loss) as a % of net revenue	10%	(39%)	15%	25%	(21%)
Balance sheet					
Cash					
Cash	\$523	\$39	\$174	\$130	\$23
Other current assets	162	25	168	98	46
Other assets	336	12	178	380	35
	<u>\$1,021</u>	<u>\$76</u>	<u>\$520</u>	<u>\$608</u>	<u>\$104</u>
Liabilities					
Equity	\$238	\$20	\$177	\$224	\$59
	<u>754</u>	<u>56</u>	<u>343</u>	<u>384</u>	<u>45</u>
	<u>\$1,021</u>	<u>\$76</u>	<u>\$520</u>	<u>\$608</u>	<u>\$104</u>
Other data					
Closing stock price (June 28, 1996)	\$35.88	\$8.75	\$29.88	\$28.75	\$7.25
Common shares outstanding (in million)	76	14	49	53	17
Market value (in millions)	\$2,727	\$123	\$1,464	\$1,524	\$123
Price/revenue ratio	3.6x	2.1x	2.8x	3.6x	1.0x
Price/earnings ratio - trailing twelve	35.7x	n/m	18.3x	14.2x	n/m
Price/earnings ratio - future 4 qtrs.	17.0x	n/m	14.7x	9.5x	22.0x
Headcount (most recent disclosure)	2,319	600	1,788	987	692
Net revenue/employee (in thousands)	\$326	\$98	\$297	\$434	\$172
Book value per share	\$9.92	\$4.00	\$7.00	\$7.25	\$2.65
Price/book value ratio	3.6x	2.2x	4.3x	4.0x	2.7x
Growth statistics (over comparable quarter):					
Revenue	8%	4% (b)	(2%)	33%	(26%)
Research and development	48%	70%	19%	(64%) (d)	(7%)
Sales and marketing	11%	(14%)	10%	49%	(19%)
General and administrative	17%	(29%)	(1%)	22%	(3%)
Net income	(38%)	(146%) (a)	(27%)	1032% (d)	(90%) (f)

a) Artisoft's current quarter includes charges of \$12.3 million relating to the acquisition of Stylus Innovation.

b) Artisoft's comparable quarter included revenues and net income of the Eagle Technology business unit which sold in January 1995.

c) BMC recorded acquisition charges of \$23 million in the December quarter.

d) BMC's comparable quarter includes acquisition charges of \$29 million.

e) Banyan's trailing 12 month results include after tax charges of \$11 million.

f) Banyan's sales of Vines and ENS have decreased significantly from the comparable quarter.

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Software Companies - continued

(in millions)

Income statement	Computer				
	Borland 6/30/96	Assoc. 3/31/96	Corel 5/31/96	Informix 6/30/96	Intuit 4/30/96
Most recent quarter					
Net revenue	\$35	\$1,110	\$87	\$226	\$136
Net income (loss)	(14) (a)	265	1	22	(0)
EPS	(0.45)	1.05	0.01	0.14	(0.01)
Trailing twelve months					
Net revenue	\$196	\$3,505	\$248	\$828	\$521
Net income (loss)	(3)	(56) (c)	1	102	(2) (d)
EPS	(0.08)	(0.23)	0.01	0.69	(0.04)
Net income (loss) as a % of net revenues	(1%)	(2%)	0%	12%	(0%)
Balance sheet					
Cash	\$87	\$201	\$7	\$253	\$220
Other current assets	28	1,247	98	267	111
Other assets	120	3,568	268	248	140
	<u>\$235</u>	<u>\$5,016</u>	<u>\$373</u>	<u>\$768</u>	<u>\$471</u>
Liabilities	\$76	\$3,534	\$88	\$286	\$166
Equity	159	1,482	285	482	305
	<u>\$235</u>	<u>\$5,016</u>	<u>\$373</u>	<u>\$768</u>	<u>\$471</u>
Other data					
Closing stock price (June 28, 1996)	\$9.13	\$71.00	\$10.38	\$22.50	\$47.25
Common shares outstanding (in millions)	31	253	69	155	45
Market value (in millions)	\$283	\$17,963	\$716	\$3,488	\$2,126
Price/revenue ratio					
Price/revenue ratio	1.4x	5.1x	2.9x	4.2x	4.1x
Price/earnings ratio - trailing twelve					
Price/earnings ratio - trailing twelve	n/m	n/m	n/m	32.7x	n/m
Price/earnings ratio - future 4 qtrs.					
Price/earnings ratio - future 4 qtrs.	n/m	19.4x	23.6x	23.7x	48.7x
Headcount (most recent disclosure)					
Headcount (most recent disclosure)	900	9,000	450	1,718	1,228
Net revenue/employee (in thousands)					
Net revenue/employee (in thousands)	\$218	\$389	\$551	\$482	\$424
Book value per share					
Book value per share	\$5.13	\$5.86	\$4.13	\$3.11	\$6.78
Price/book value ratio					
Price/book value ratio	1.8x	12.1x	2.5x	7.2x	7.0x
Growth statistics (over comparable quarter):					
Revenue	(36%) (b)	38%	148% (e)	38%	38%
Research and development	14%	19%	243%	57%	33%
Sales and marketing	3%	(12%)	106%	43%	37%
General and administrative	n/a	n/a	133%	35%	65%
Net income	(604%)	25%	2008%	(2%)	(2%)

- a) Borland's current quarter includes a \$2.9 million tax benefit relating to a settlement reached with the IRS.
- b) Borland experienced lower than expected sales in the United States.
- c) Computer Associates' trailing twelve months include purchased R&D charges of \$808 million for the Legent acquisition.
- d) Intuit's trailing twelve month results include purchased R&D and merger costs of \$44 million, offset by the Microsoft termination fee of \$41 million.
- e) Corel's current quarter includes the operations of WordPerfect. Prior quarters will not be restated for the purchase.

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Software Companies - continued

Income statement	Quarterdeck	Santa Cruz	Sterling	Sybase	Symantec
	3/31/96	Operation 3/31/96	3/31/96	6/30/96	6/30/96
Most recent quarter					
Net revenue	\$47	\$51	\$164	\$250	\$109
Net income (loss)	1 (a)	3	152 (d)	(25) (f)	3 (g)
EPS	0.03	0.08	4.42	(0.33)	0.06
Trailing twelve months					
Net revenue	\$126	\$197	\$636	\$994	\$439
Net income (loss)	3 (b)	(31) (c)	224	(24)	24
EPS	0.47	(0.90)	8.48	(0.32)	0.47
Net income (loss) as a % of net revenues	3%	(16%)	35%	(2%)	6%
Balance sheet					
Cash	\$24	\$49	\$662	\$185	\$139
Other current assets	205	62	192	257	90
Other assets	(133)	49	251	320	66
	<u>\$96</u>	<u>\$160</u>	<u>\$1,105</u>	<u>\$762</u>	<u>\$295</u>
Liabilities	<u>\$52</u>	<u>\$65</u>	<u>\$338</u>	<u>\$328</u>	<u>\$107</u>
Equity	<u>44</u>	<u>95</u>	<u>767</u>	<u>434</u>	<u>188</u>
	<u>\$96</u>	<u>\$160</u>	<u>\$1,105</u>	<u>\$762</u>	<u>\$295</u>
Other data					
Closing stock price (June 28, 1996)	\$9.38	\$7.25	\$77.00	\$23.63	\$12.50
Common shares outstanding (in millions)	34	38	29	75	55
Market value (in millions)	\$319	\$276	\$2,233	\$1,772	\$688
Price/revenue ratio	2.5x	1.4x	3.5x	1.8x	1.6x
Price/earnings ratio - trailing twelve	20.2x	n/m	9.1x	n/m	26.9x
Price/earnings ratio - future 4 qrts.	20.4x	14.8x	23.1x	59.1x	14.2x
Headcount (most recent disclosure)	1,060	1,205	3,700	2,528	1,442
Net revenue/employee (in thousands)	\$119	\$163	\$172	\$393	\$305
Book value per share	\$1.29	\$2.50	\$26.45	\$5.79	\$3.42
Price/book value ratio	7.2x	2.9x	2.9x	4.1x	3.7x
Growth statistics (over comparable quarter):					
Revenue	53%	(5%)	19%	4%	(1%)
Research and development	56%	13%	(21%)	25%	15%
Sales and marketing	128%	(5%)	26%	14%	3%
General and administrative	2%	17%	n/a	22%	(20%)
Net income	(79%) (a)	(37%)	656%	(168%) (e)	(56%) (g)

- a) Quarterdeck recorded a \$4 million charge for the acquisition of Datastorm, which reduced EPS \$0.12 in the March quarter.
- b) Quarterdeck's trailing twelve month results include non-recurring charges of \$13.3 million and acquisitions of Datastorm, Internetwave, StarNine Technologies, Landmark Research and others.
- c) SCO's trailing 12 months include a \$38 million charge for the Novell UNIX business acquisition.
- d) Sterling's current quarter includes a \$240 million gain from an initial public offering of a subsidiary.
- e) Sybase's comparable quarter includes a \$20 million charge for the purchase of in-process technology.
- f) Sybase's North America and Europe revenues were significantly below plan and expenses were predicated on higher revenues.
- g) Symantec's current quarter includes \$1.3 million in acquisition and other non-recurring expenses.

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Internet/Online Companies

(in millions)

Income statement	America				
	Online 3/31/96	Netcom 6/30/96	Netscape 6/30/96	Spyglass 3/31/96	UUNet 3/31/96
Most recent quarter					
Net revenue	\$312	\$28	\$75	\$5	\$43
Net income (loss)	15	(11)	1 (c)	1	0
EPS	0.14	(0.99)	0.01	0.07	0.01
Trailing twelve months					
Net revenue	\$911	\$87	\$191	\$15	\$104
Net income (loss)	22 (b)	(28)	9	3	(12)
EPS	0.29	(2.67)	0.11	0.24	(0.39)
Net income (loss) as a % of net revenue	2%	(32%)	5%	18%	(11%)
Balance sheet					
Cash	\$129	\$111	\$140	\$35	\$45
Other current assets	105	5	70	8	29
Other assets	609	82	97	5	82
	<u>\$843</u>	<u>\$198</u>	<u>\$307</u>	<u>\$48</u>	<u>\$156</u>
Liabilities					
Equity	\$403	\$29	\$120	\$6	\$74
	<u>440</u>	<u>169</u>	<u>187</u>	<u>42</u>	<u>82 (e)</u>
	<u>\$843</u>	<u>\$198</u>	<u>\$307</u>	<u>\$48</u>	<u>\$156</u>
Other data					
Closing stock price (June 28, 1996)	\$43.75	\$27.00	\$62.25	\$21.44	\$66.25
Common shares outstanding (in million)	111	12	88	12	33
Market value (in millions)	\$4,856	\$324	\$5,478	\$257	\$2,186
Price/revenue ratio					
Price/revenue ratio	5.3x	3.7x	28.6x	17.7x	21.1x
Price/earnings ratio - trailing twelve	n/m	n/m	555.3x	91.0x	n/m
Price/earnings ratio - future 4 qtrs.	46.5x	n/m	177.9x	61.3x	161.6x
Headcount (most recent disclosure)					
Headcount	5,000	153	1,150	48	306
Net revenue/employee (in thousands)	\$182	\$565	\$166	\$303	\$339
Book value per share					
Book value per share	\$3.96	\$14.08	\$2.13	\$3.50	\$2.48
Price/book value ratio	11.0x	1.9x	29.3x	6.1x	26.7x
Growth statistics (over comparable quarter):					
Revenue	186%	166%	433%	89% (d)	186%
Research and development	365%	158%	249%	171%	(33%)
Sales and marketing	181%	28%	295%	99%	112%
General and administrative	162%	4%	130%	74%	70%
Net income	559% (a)	n/m	132%	145%	189%

a) AOL's comparable quarter includes a \$7.6 million charge for acquired research and development.

b) AOL's trailing twelve months include \$17.8 million in write-offs for purchased R&D.

c) Netscape's current quarter includes charges of \$6.1 million, or \$0.06 per share, for the acquisitions of InSoft, Paper Software, and Netcode Corporation.

d) Spyglass comparable quarter included \$.4 million from a visualization tools business which was sold.

e) UUNet has agreed to a merger with MFS Communications valued at approximately \$2 billion at the time of the announcement.

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Consumer Software Companies

(in millions)

Income statement	Broderbund	Edmark	Electronic Arts	SoftKey
	5/31/96	3/31/96	6/30/96	6/30/96
Most recent quarter				
Net revenue	\$35	\$6	\$81	\$76
Net income (loss)	6	(0)	0	(144) (b)
EPS	0.29	(0.02)	0.00	(3.63)
Trailing twelve months				
Net revenue	\$191	\$32	\$531	\$236
Net income (loss)	48 (a)	3	40	(299) (c)
EPS	2.23	0.40	0.73	(9.34)
Net income (loss) as a % of net revenue	25%	9%	7%	(127%)
Balance sheet				
Cash	\$174	\$30	\$192	\$97
Other current assets	21	10	93	87
Other assets	14	4	125	782
	<u>\$209</u>	<u>\$44</u>	<u>\$410</u>	<u>\$966</u>
Liabilities	<u>\$36</u>	<u>\$5</u>	<u>\$78</u>	<u>\$698</u>
Equity	<u>173</u>	<u>39</u>	<u>332</u>	<u>268</u>
	<u>\$209</u>	<u>\$44</u>	<u>\$410</u>	<u>\$966</u>
Other data				
Closing stock price (June 28, 1996)	\$32.25	\$20.00	\$26.75	\$18.94
Common shares outstanding (in million)	21	7	55	40
Market value (in millions)	\$677	\$132	\$1,471	\$758
Price/revenue ratio	3.5x	4.1x	2.8x	3.2x
Price/earnings ratio - trailing twelve	14.5x	50.1x	36.7x	-
Price/earnings ratio - future 4 qtrs.	18.8x	45.5x	26.8x	9.8x
Headcount (most recent disclosure)	438	156	1,077	512
Net revenue/employee (in thousands)	\$436	\$206	\$493	\$462
Book value per share	\$8.24	\$5.96	\$6.04	\$6.70
Price/book value ratio	3.9x	3.4x	4.4x	2.8x
Growth statistics (over comparable quarter):				
Revenue	(3%)	10%	1%	118%
Research and development	19%	76%	31%	213%
Sales and marketing	28%	57%	19%	93%
General and administrative	4%	41%	32%	18%
Net income	(12%)	(116%)	(96%)	(2,953%) (b)

- a) Broderbund's trailing twelve months include a \$16 million break-up fee from the terminated merger with The Learning Company.
- b) SoftKey's current quarter includes a \$162 million charge relating to the acquisitions of The Learning Company, Minnesota Educational Computing Corporation (MECC), and Compton's New Media.
- c) SoftKey's trailing twelve months include charges of \$353 million related to acquisitions of The Learning Company, MECC, and Compton's New Media.

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Hardware Companies

(in millions)

	AST	Apple	Compaq	DEC	DeL	Gateway
	3/31/96	6/28/96	6/30/96	3/31/96	4/30/96	6/30/96
Income statement						
Most recent quarter						
Net revenue	\$530	\$2,179	\$4,001	\$3,621	\$1,638	\$1,137
Net income (loss)	(116) (b)	(32) (d)	267	115	82	51
EPS	(2.59)	(0.26)	0.96	0.74	0.83	0.66
Trailing twelve months						
Net revenue	\$2,208	\$10,515	\$16,501	\$14,503	\$5,798	\$4,413
Net income (loss)	(372)	(781) (c)	828 (e)	454	292	222
EPS	(9.17)	(6.31)	3.00	2.97	2.93	2.57
Net income (loss) as a % of net revenues	(17%)	(7%)	5%	3%	5%	5%
Balance sheet						
Cash	\$127	\$1,359	\$1,927	\$1,738	\$853	\$363
Other current assets	648	3,095	4,708	5,924	1,177	638
Other assets	209	891	1,356	2,645	216	310
	<u>\$984</u>	<u>\$5,345</u>	<u>\$7,991</u>	<u>\$10,307</u>	<u>\$2,246</u>	<u>\$1,311</u>
Liabilities	\$789	\$3,325	\$2,827	\$6,340	\$1,278	\$1,310
Equity	<u>195 (a)</u>	<u>2,020</u>	<u>5,164</u>	<u>3,967</u>	<u>968</u>	<u>622</u>
	<u>\$984</u>	<u>\$5,345</u>	<u>\$7,991</u>	<u>\$10,307</u>	<u>\$2,246</u>	<u>\$1,311</u>
Other data						
Closing stock price (June 28, 1996)	\$6.75	\$21.00	\$49.13	\$45.13	\$50.88	\$34.00
Common shares outstanding (in millions)	45	124	277	157	98	78
Market value (in millions)	\$304	\$2,604	\$13,608	\$7,085	\$4,986	\$2,651
Price/revenue ratio	0.1x	0.2x	0.8x	0.5x	0.9x	0.8x
Price/earnings ratio - trailing twelve	n/m	n/m	16.4x	15.2x	17.3x	13.2x
Price/earnings ratio - future 4 yrs.	n/m	n/m	10.7x	12.5x	13.3x	10.5x
Headcount (most recent disclosure)	5,700	13,729	21,137	60,900	8,400	9,000
Net revenue/employee (in thousands)	\$387	\$766	\$781	\$240	\$690	\$490
Book value per share	\$4.33	\$16.29	\$18.64	\$25.27	\$8.06	\$8.49
Price/book value ratio	1.6x	1.3x	2.6x	1.8x	6.3x	4.0x
Growth statistics (over comparable quarter):						
Revenue	(21%)	(15%)	14%	4%	44%	48%
Research and development	17%	(8%)	47%	10%	20%	n/a
Sales and marketing	(5%)	(10%)	13%	7%	43%	57%
General and administrative	n/a	n/a	n/a	n/a	n/a	n/a
Net income	(1,668%) (b)	(131%)	9%	56%	64%	48%

- a) AST anticipates a restructuring charge of \$10-\$15 million and a reduction in force approximating 1,000 employees over the next year. Samsung Electronics, 49.9% owner of AST, has placed one of their executives as AST's chairman.
- b) AST's lower than expected results were due to product development issues and pricing pressures.
- c) Apple's trailing twelve months reflect an after-tax inventory writedown of \$388 million and restructuring charges of \$130 million after-tax.
- d) Apple's current quarter includes a \$39 million after tax gain on the sale of their investment in America Online.
- e) Compaq's trailing twelve months include a \$241 million, or \$0.87 per share, charge for purchased in-process technology in connection with the acquisitions of NetWorth and Thomas-Conrad Corp.

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Hardware Companies - continued

(in millions)

	Hewlett Packard	IBM	Intel	Silicon Graphics	Sun
	4/30/96	6/30/96	6/30/96	3/31/96	6/30/96
Income statement					
Most recent quarter					
Net revenue	\$9,880	\$18,183	\$4,621	\$677	\$2,018
Net income (loss)	723	1,342	1,041	53	122
EPS	1.37	2.51	1.17	0.31	0.62
Trailing twelve months					
Net revenue	\$35,955	\$73,416	\$18,016	\$2,597	\$7,095
Net income (loss)	2,767	3,274 (a)	3,733	216	476
EPS	5.25	5.97	4.21	1.22	4.53
Net income (loss) as a % of net revenues	8%	4%	21%	8%	7%
Balance sheet					
Cash	\$3,288	\$6,377	\$4,715	\$519	\$990
Other current assets	14,816	32,559	4,910	1,154	2,044
Other assets	8,814	38,538	9,675	662	767
	<u>\$26,918</u>	<u>\$77,474</u>	<u>\$19,300</u>	<u>\$2,335</u>	<u>\$3,801</u>
Liabilities					
Put warrants	0	0	750	0	0
Equity	<u>13,002</u>	<u>21,528</u>	<u>13,884</u>	<u>1,473</u>	<u>2,251</u>
	<u>\$26,918</u>	<u>\$77,474</u>	<u>\$19,300</u>	<u>\$2,335</u>	<u>\$3,801</u>
Other data					
Closing stock price (June 28, 1996)	\$99.63	\$99.00	\$73.44	\$24.00	\$58.88
Common shares outstanding (in millions)	528	534	888	174	197
Market value (in millions)	\$52,602	\$52,866	\$65,213	\$4,176	\$11,599
Price/revenue ratio					
Price/revenue ratio	1.5x	0.7x	3.6x	1.6x	1.6x
Price/earnings ratio - trailing twelve	19.0x	16.6x	17.4x	19.6x	13.0x
Price/earnings ratio - future 4 qtrs.	17.9x	8.2x	14.8x	9.8x	18.1x
Headcount (most recent disclosure)					
Headcount (most recent disclosure)	105,200	302,196	41,600	3,750	17,407
Net revenue/employee (in thousands)	\$342	\$243	\$433	\$693	\$408
Book value per share					
Book value per share	\$24.63	\$40.31	\$15.64	\$8.47	\$11.43
Price/book value ratio	4.0x	2.5x	4.7x	2.8x	5.2x
Growth statistics (over comparable quarter):					
Revenue	33%	4%	19%	17%	22%
Research and development	24%	15%	39%	27%	73%
Sales and marketing	23%	0%	16%	23%	14%
General and administrative	n/a	n/a	n/a	n/a	n/a
Net income	25%	(22%)	18%	(22%)	(5%)

a) IBM's trailing twelve months include a \$1.8 billion charge for the write off of purchased technology in the Lotus acquisition. Earnings per share would have been \$3.26 higher without the charge.

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FY97 INCOME STATEMENT (GAAP BASIS)

(in millions)	FY97 Budget		FY96 Actual		Growth
Net Revenue	\$10,122	100%	\$8,671	100%	17%
Operating Expenses:					
Costs of Revenue	1,175	12%	1,188	14%	(1%)
Research and Development	1,772	18%	1,432	17%	24%
Sales and Marketing	2,771	27%	2,657	31%	4%
General and Administrative	289	3%	316	4%	(9%)
Total Cost & Expenses	6,008	59%	5,593	65%	7%
Operating Income	4,115	41%	3,078	118%	34%
Interest Income - Net	410	4%	320	4%	28%
Equity in investee operations	(126)	(1%)	(34)	(0%)	nm
Other Income (Expenses)	(45)	(0%)	15	0%	nm
Income before Income Taxes	4,354	43%	3,379	39%	29%
Provision for Income Taxes	(1,524)	(15%)	(1,184)	(14%)	29%
Net Income	\$2,830	28%	\$2,195	25%	29%

- Net revenue adjusted for GAAP is budgeted at \$10.1 billion, a 17% increase over FY96 and includes a planned net deferral of \$279 million related to unearned operating system revenue.
- Cost of revenue is planned for 12% of net revenue decreasing from 14% primarily due to changes in license mix and lower finished goods costs. Finished goods CD media mix is planned to increase to 61% from 58% in FY96.
- Research and development spend is budgeted for \$1.77 billion, an increase of 24% over FY96. As a percent of net revenue R&D spend is planned to increase to 17.5% versus 16.5% in FY96. For GAAP reporting, R&D spend excludes investments in the MSNBC and DreamWorks joint ventures which are shown as non-operating items.
- Budgeted sales and marketing costs total \$2.77 billion, an increase of 4.3% over FY96. As a percent of net revenue, sales and marketing expense is planned to decrease to 27.4% from 30.6% in FY96.
- Sales expenses are planned to total \$1.23 billion or 12.1% of net revenue as compared to \$1.16 billion, or 13.4%, in FY96.
- Marketing expenses are planned to increase 7.6% to \$1.09 billion. Broad Reach spending is planned to total \$111 million, a \$65 million decrease over FY96.
- PSS expenses are planned to decrease to 4.5% of net revenue as compared 5.6% in FY96, with costs totaling \$457 million, a 6.4% decrease over FY96.
- General and administrative expenses are planned to decrease to 2.9% of net revenue from 3.6% in FY96, primarily reflecting certain ITG business unit costs now included in cost of revenue and sales and marketing.
- Worldwide headcount is planned to grow 16.3% to 23,904 by the end of FY97.

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CHANNEL MANAGEMENT P&L

(in millions)

	Net Revenue		Cost of Revenue		Controllable Expenses & Shared Net Resources		Allocations		Contribution Margin	
	Actual	Growth	Actual	% Net Rev	Actual	% Net Rev	Actual	% Net Rev	Actual	% Net Rev
North America FG	\$3,137.8	15.0%	\$459.1	4.3%	\$1,112.2	10.4%	\$673.5	6.3%	\$893.1	8.4%
Europe FG	2,198.7	3.1%	274.5	2.6%	660.2	6.2%	458.7	4.3%	805.3	7.5%
ICON FG	753.8	26.9%	130.6	1.2%	227.2	2.1%	156.4	1.5%	239.6	2.2%
Far East FG	1,012.3	6.8%	134.3	1.3%	246.8	2.3%	213.3	2.0%	417.9	3.9%
Total Finished Goods	7,102.6	10.9%	998.5	9.4%	2,246.4	21.0%	1,501.9	14.1%	2,355.8	22.1%
WW OBM	3,139.9	18.7%	129.0	1.2%	157.7	1.5%	640.4	6.0%	2,212.8	20.7%
PNS	23.0	nm	1.0	0.0%	20.7	0.2%	31.9	0.3%	(30.6)	(0.3%)
Total Business	10,265.5	13.4%	1,128.5	10.6%	2,424.8	22.7%	2,174.1	20.4%	4,538.0	42.5%
Software	39.6	25.3%	3.4	0.0%	26.3	0.2%	33.1	0.3%	(23.2)	(0.2%)
Press	102.5	31.2%	47.2	0.4%	26.3	0.2%	21.0	0.2%	8.1	0.1%
MSN	288.0	458.6%	195.2	1.8%	172.3	1.6%	181.8	1.7%	(261.4)	(2.4%)
Non-Specific Mgmt	(17.1)	nm	(4.0)	(0.0%)	9.5	0.1%	-	n/a	(22.6)	(0.2%)
Total Mgmt P&L	\$10,679	15.9%	\$1,370	12.8%	\$2,659	24.9%	\$2,410	22.6%	\$4,239	39.7%

- All regions are planning slower growth compared to FY96 due to a combination of factors, including the Windows 95 bubble, the strengthening dollar, lower PC growth, a conservative pricing assumption, and continued worries about saturation in the Desktop Applications business. This is offset by continued strong growth in Business Systems and renewed growth in the Interactive Media Division (formerly Consumer) business, particularly for games on the Windows 95 platform.
- Responsibility margin is typically budgeted to decrease year over year due to conservative revenue assumptions and optimistic assumptions about the timing of new hires. However, FY97 is forecasted to have improved responsibility margin due to continued improvements in gross margin, improvements in PSS efficiency and slight reduction in marketing as a percent of net revenue. The improved profitability will allow for

an increased investment in product development, which is expected to exceed \$2 billion in FY97.

- Sales and marketing headcount growth will be moderate with no headcount being added in North America. Europe will add 28 heads primarily in the growing markets of Italy, Spain and Eastern Europe. An additional 200 heads are being added in Far East and ICON, primarily in Japan, PRC, India and South East Asia. In addition, approximately 225 MCS heads will be added worldwide.
- The table on the following page contains excerpts of market size data points from the "yellow book", a summary of various data points consolidated during the budget process. The data points are defined below and copies of the yellow book can be obtained by contacting the Corporate Planning on the *corpplan* alias.

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CONSOLIDATED HEADCOUNT
FY97 Plan and FY96 Actual

	FY96	FY97				Growth
	Actual (1)	Q97-1	Q97-2	Q97-3	Q97-4	
Channels						
North America	4,514	4,930	4,952	4,967	4,973	10.2%
Europe	2,830	3,103	3,108	3,122	3,116	10.1%
ICON	992	1,220	1,229	1,233	1,233	24.3%
Far East	753	822	877	895	932	23.8%
OEM	247	269	273	277	277	12.1%
Channel Press	58	77	79	79	79	36.2%
Channel Softimage	114	128	129	133	133	16.7%
PNS	72	* 82	88	89	90	25.0%
Other Channel	-	8	8	8	8	n/a
Total Channels	9,580	10,639	10,743	10,803	10,841	13.2%
Product Groups						
Platforms Group						
Desktop & Business Systems	1,764	1,902	2,012	2,078	2,207	25.1%
Consumer Platforms	318	379	392	400	403	26.7%
Internet Platforms & Tools	1,944	2,027	2,105	2,176	2,243	15.4%
Softimage	180	183	185	186	186	3.3%
Platforms Mgmt	258	302	334	380	440	70.5%
Subtotal Platforms	4,464	4,793	5,028	5,220	5,479	22.7%
Applications & Content Group						
Desktop Applications	1,500	1,669	1,692	1,716	1,736	15.7%
Desktop Finance	87	125	136	147	158	81.6%
Hardware	105	119	119	119	119	13.3%
Interactive Media	1,073	1,347	1,584	1,739	1,860	73.3%
Interactive Media Invest	-	-	-	-	-	n/a
Apps & Content Mgmt/Research	179	198	227	249	255	42.5%
Subtotal Apps & Content	2,944	3,458	3,758	3,970	4,128	40.2%
Total Product Groups	7,408	8,251	8,786	9,190	9,607	29.7%
Press	77	87	87	88	88	14.3%
Worldwide Operating Groups (WOG)						
ITG	429	520	537	551	554	29.1%
Finance	394	422	433	436	436	10.7%
Human Resources & Admin	889	980	969	949	941	5.8%
Corporate Mktg. & Advertising	42	50	50	50	50	19.0%
Subtotal WOG	1,754	1,972	1,989	1,986	1,981	12.9%
Law & Corporate Affairs	243	290	296	298	298	22.6%
Executive Staff	8	8	8	8	8	n/a
Total before operations (2)	19,070	21,247	21,909	22,373	22,823	19.7%
Operations	1,491	1,650	1,264	1,262	1,081	(27.5%)
Total	20,561	22,897	23,173	23,635	23,904	16.3%

(1) FY96 actuals have been restated to reflect FY97 organization changes.

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**CONSOLIDATED CAPITAL
FY97 Plan**

	Buildings	Furniture & Equip., Auto and Telecom	Leasehold Improvements	Non-PC Computer Expense	Personal Computers	Grand Total	Purchase Code	FY97 PC Users
Channels								
North America	11,589,439	12,904,820	-	14,896,462	10,700,904	47,901,425	-	1,387
Europe	-	14,122,838	10,298	4,063,840	8,899,900	26,896,776	-	1,325
ICDN	-	1,048,132	468,028	792,818	2,057,326	4,366,105	-	282
Far East	-	223,913	195,652	1,118,806	634,327	2,172,499	-	89
OEM	-	539,685	-	86,369	508,884	1,112,737	-	97
Channel Press	-	51,636	-	12,463	223,195	287,293	10,000	42
MS On-Line	-	5,000,000	-	17,858,000	-	22,858,000	-	-
Channel Software	-	163,249	1,439	1,067,400	565,965	1,798,054	-	46
PMS	-	85,783	-	156,404	346,279	588,466	-	42
Other Channel	-	-	-	-	39,852	39,852	-	3
Subtotal	11,589,439	32,139,835	675,418	39,832,962	23,765,238	108,012,902	10,000	3,313
Product Groups								
Platforms Group								
Desktop & Business Systems	350,000	106,000	-	6,366,287	13,283,080	20,105,367	20,000,000	2,536
Consumer Platforms	-	40,000	-	1,944,900	1,176,252	3,161,152	-	189
Internet Platforms & Tools	726,776	997,171	-	4,874,520	9,312,058	15,820,525	40,000,000	1,781
Software	-	40,638	-	937,367	1,108,603	2,086,608	-	127
Platforms Mgmt	-	243,389	-	898,220	3,295,861	4,437,471	-	593
Subtotal Platforms	1,076,776	1,337,168	-	15,021,295	28,175,804	45,611,133	60,000,000	3,168
Applications & Content Group								
Desktop Applications	81,820	26,667	-	738,853	11,023,820	11,871,263	7,600,000	2,116
Desktop Finance	-	16,200	-	260,413	970,588	1,247,201	-	188
Hardware	-	-	-	819,355	382,290	1,201,645	-	59
Interactive Media	9,570,423	2,014,894	-	26,679,381	14,834,867	53,099,565	2,000,000	2,431
Interactive Media Invest	-	-	-	-	-	-	-	-
Apps & Content Mgmt/Research	-	132,850	-	266,025	2,794,160	3,191,035	-	229
Subtotal Apps & Content	9,652,343	2,186,611	-	28,764,027	30,005,729	70,610,706	9,600,000	5,023
Total Product Groups	10,729,119	3,523,779	-	43,785,322	58,181,623	116,221,843	69,600,000	12,192
Press	-	-	-	83,200	237,497	320,697	-	61
Worldwide Operating Groups (WOG)								
Operations	2,345,775	17,661,195	12,253,786	12,812,974	3,987,133	49,060,863	1,239,921	639
ITG	-	23,896,155	-	52,579,028	1,556,788	78,031,971	-	173
Finance	-	58,806	-	95,729	975,812	1,130,147	-	154
Human Resources & Admn	311,071,117	15,783,260	-	794,807	5,245,021	332,894,205	-	570
Other WWOG	-	284,183	-	-	-	284,183	-	-
Corporate Mktg. & Advertising	-	12,000	-	6,600	97,452	116,052	-	12
Subtotal WOG	313,416,892	57,895,399	12,253,786	66,289,138	11,862,212	461,517,427	1,239,921	1,548
Law & Corporate Affairs	-	118,668	-	76,500	532,628	727,797	-	82
Executive Staff	-	-	-	-	30,500	30,500	-	5
Total	335,745,450	92,479,783	12,929,204	150,067,121	94,605,651	686,831,255	70,849,921	15,201

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FINISHED GOODS REVENUE SUMMARY (PAGE 1 OF 2)

DESCRIPTION	CURRENT		BUDGET		VARIANCE		PERCENTAGE	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
Other (Full Pkg Product)	522,788	541,158	6,372	2%	119,087	11%	333	(19%)
Other (Full Pkg Product)	80,906	22,906	57,999	2%	101,905	11%	333	(19%)
Other (Full Pkg Product)	572,894	132,227	440,667	12%	193,792	21%	218	(13%)
Other (Full Pkg Product)	21,548	4,571	16,977	0%	4,401	0%	192	(11%)
Other (Full Pkg Product)	21,548	20,861	687	3%	4,401	5%	31	(1%)
Other (Full Pkg Product)	507,346	1,001,708	494,612	49%	510,482	51%	43	(1%)
Other (Full Pkg Product)	507,346	345,726	161,620	16%	161,620	16%	212	(13%)
Other (Full Pkg Product)	78,378	86,895	8,517	1%	10,862	1%	31	(3%)
Other (Full Pkg Product)	78,378	108,887	30,509	4%	30,509	3%	53	(3%)
Other (Full Pkg Product)	218,400	232,200	13,800	6%	13,800	6%	234	(11%)
Other (Full Pkg Product)	48,000	59,815	11,815	3%	11,815	3%	135	(6%)
Other (Full Pkg Product)	518,222	40,125	1,844	5%	1,844	5%	10	(1%)
Other (Full Pkg Product)	618,000	609,510	48,540	8%	48,540	8%	318	(5%)
Other (Full Pkg Product)	448,458	157,601	290,857	18%	290,857	18%	148	(7%)
Other (Full Pkg Product)	215,728	212,000	3,728	2%	3,728	2%	78	(4%)
Other (Full Pkg Product)	80,906	215,984	135,078	17%	135,078	17%	188	(14%)
Other (Full Pkg Product)	156,962	204,068	47,106	3%	47,106	3%	203	(13%)
Other (Full Pkg Product)	41,555	47,325	5,770	1%	5,770	1%	43	(3%)
Other (Full Pkg Product)	3,245	30,977	27,732	9%	27,732	9%	55	(4%)
Other (Full Pkg Product)	2,120	2,416	304	1%	304	1%	32	(3%)
Other (Full Pkg Product)	2,621,218	2,258,608	362,610	16%	362,610	16%	318	(14%)
Other (Full Pkg Product)	811,831	254,485	557,346	22%	557,346	22%	221	(13%)
Other (Full Pkg Product)	15,935	10,795	5,140	5%	5,140	5%	203	(13%)
Other (Full Pkg Product)	80,299	10,328	69,971	7%	69,971	7%	288	(18%)
Other (Full Pkg Product)	108,710	110,548	1,838	2%	1,838	2%	148	(9%)
Other (Full Pkg Product)	71	42,116	42,045	0%	42,045	0%	28	(2%)
Other (Full Pkg Product)	644,222	528,420	115,802	22%	115,802	22%	301	(19%)
Other (Full Pkg Product)	308,429	261,000	47,429	18%	47,429	18%	209	(13%)
Other (Full Pkg Product)	15,928	23,070	7,142	3%	7,142	3%	274	(24%)
Other (Full Pkg Product)	34,729	50,185	15,456	4%	15,456	4%	288	(24%)
Other (Full Pkg Product)	21,458	81,251	59,793	7%	59,793	7%	132	(8%)
Other (Full Pkg Product)	45,005	641,022	596,017	9%	596,017	9%	169	(4%)
Other (Full Pkg Product)	81,925	95,476	13,551	1%	13,551	1%	97	(12%)
Other (Full Pkg Product)	29,820	31,810	1,990	6%	1,990	6%	102	(34%)
Other (Full Pkg Product)	12,828	24,055	11,227	5%	11,227	5%	117	(14%)
Other (Full Pkg Product)	716	3,221	2,505	8%	2,505	8%	32	(4%)
Other (Full Pkg Product)	1,031,415	1,218,135	186,720	15%	186,720	15%	188	(16%)
Other (Full Pkg Product)	2,918,931	4,301,641	1,382,710	32%	1,382,710	32%	118	(1%)
Other (Full Pkg Product)	32,243	81,246	49,003	6%	49,003	6%	28	(7%)
Other (Full Pkg Product)	80,906	119,640	38,734	3%	38,734	3%	33	(6%)
Other (Full Pkg Product)	18,000	15,706	2,294	1%	2,294	1%	25	(1%)
Other (Full Pkg Product)	22,008	26,688	4,680	2%	4,680	2%	40	(18%)
Other (Full Pkg Product)	41,019	61,488	20,469	4%	20,469	4%	40	(19%)
Other (Full Pkg Product)	3,215	21,708	18,493	8%	18,493	8%	23	(4%)
Other (Full Pkg Product)	18,222	44,571	26,349	6%	26,349	6%	40	(18%)
Other (Full Pkg Product)	42,900	109,787	66,887	6%	66,887	6%	38	(9%)
Other (Full Pkg Product)	51,416	68,288	16,872	2%	16,872	2%	44	(13%)
Other (Full Pkg Product)	221,272	281,870	60,598	2%	60,598	2%	63	(3%)
Other (Full Pkg Product)	4,418,831	4,418,831	0	0%	0	0%	122	(3%)
Other (Full Pkg Product)	4,418,831	4,418,831	0	0%	0	0%	122	(3%)

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Q96-4 REVENUE SUMMARY RECONCILIATION

(\$ in millions)	Revenue Summary			WW Total	Reconciling Items		Gross Revenue	Revenue Adj's	Net Revenue
	FG	OEM	Other		Unbundle	Other			
Desktop Applications (New User)	\$704.1	\$60.8	\$0.0	\$764.9	(\$16.2)				
Desktop Applications (Existing User)	234.5	0.0	0.0	234.5	(5.8)				
Total Desktop Applications	938.6	60.8	0.0	999.4	(22.1)	(\$55.0)	922.4	126.2	1,050.6
Business Systems (New User)	219.6	28.5	0.0	248.1	29.0				
Business Systems (Existing User)	59.4	0.0	0.0	59.4	7.3				
Business Systems (Other)	25.6	0.0	0.0	25.6	0.0				
Total Business Systems	304.5	28.5	0.0	333.0	36.3	(26.4)	342.9	(8.9)	334.0
Consumer	97.6	77.1	0.0	174.7	1.7	4.2	180.6	8.6	189.3
Personal Finance	1.2	1.2	0.0	2.4	0.2	(0.0)	2.6	0.1	2.6
Microsoft On-line	0.0	0.0	12.7	12.8	0.0	0.0	12.8	8.1	20.9
Personal Systems	118.6	562.6	0.0	681.2	(16.4)	(23.1)	641.8	152.6	794.4
Developer	83.9	0.1	0.1	84.1	0.1	1.8	86.0	(6.1)	89.9
Consumer Systems	0.1	0.0	8.5	8.6	0.0	0.2	8.8	0.1	8.9
Press	0.0	0.0	12.7	12.7	0.0	(0.2)	12.5	1.2	13.7
Other	(100.3)	10.6	0.2	(89.4)	0.2	97.0	7.8	75.2	7.6
Product Divisions	\$1,464.2	\$741.0	\$34.2	\$2,229.4	(\$0.0)	(\$1.3)	\$2,228.1	\$283.8	\$2,511.9

- The revenue summary is management's standard view of gross revenue, licenses, and revenue per license which allows both a channel and product division perspective of sales in a single report. Revenue summary reports product revenue on an "as shipped" basis, that is, how a customer buys product from MS. For example, Excel is sold both as a stand-alone product and bundled as part of Office.
- In the Revenue Summary Report, Excel sold as part of Office is reported as Office sales, but Excel sold as a stand-alone product is reported separately. Conversely, for purposes of measuring product divisions, revenue is "unbundled." For example, Mail is a component of Office, but development occurs in the Business Systems Division, thus associated revenue for Mail is attributed to BSD rather than Desktop Applications.
- Additionally, the revenue summary segregates new users from existing users for Desktop Application products. Segregating users allows channel and product division management to track sales of new licenses versus upgrades.
- The table above reconciles the revenue summary shown in the Microsoft Results section with the product division P&Ls shown in the Product Division section. The primary reconciling item between Desktop Applications and BSD represents the unbundling of Mail from Office. Other reconciling items above include manuals, promotional copies of software, raw materials, and recurring maintenance which are shown as "other" in the revenue summary but included as specific product division revenue in product P&Ls. These items are reclassified in the revenue summary in order to report meaningful revenue per license information.

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Q96-4 MICROSOFT WORLDWIDE REVENUE SUMMARY
 (\$ In thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY98 USFO YTD (USD)		
	Actual	Unaudit	Variance	Actual	Unaudit	Variance	Actual	Unaudit	Variance	Licenses	Revenue	
Office Professional	295,078	283,800	12,478	4%	1,291,359	1,327,843	63,816	6%	213	214	1,899,884	207
Office Professional	795,338	188,106	107,233	87%	1,597,587	823,338	972,701	159%	185	302	1,834,068	167
Excel	78,844	45,038	16,394	(36%)	269,416	269,416	48,211	17%	81	168	284,899	203
Word	88,225	55,025	13,200	24%	927,251	369,592	438,069	119%	92	142	486,811	132
Powerpoint	4,884	7,106	(2,241)	(31%)	37,634	45,273	(7,719)	(17%)	100	158	97,620	160
Access	23,868	28,200	(2,635)	(10%)	204,852	172,944	31,908	18%	115	182	330,279	147
Project	41,074	39,617	1,263	3%	148,738	124,595	25,143	20%	274	320	263,791	286
Other Desktop Apps	7,244	1,483	5,761	318%	83,488	26,397	97,071	218%	87	56	110,197	103
Desktop Apps New Users	784,008	646,338	118,570	18%	4,603,448	2,977,889	1,625,559	53%	166	217	6,307,299	195
Office	117,503	87,245	60,288	75%	940,982	438,037	604,945	83%	140	154	1,612,690	142
Office Professional	96,154	68,307	30,849	71%	529,485	274,819	245,872	90%	185	205	887,365	174
Excel	3,644	12,954	(9,310)	(72%)	53,709	160,810	(107,310)	(87%)	68	81	233,118	74
Word	7,042	18,874	(10,531)	(68%)	113,919	208,287	(94,418)	(45%)	62	90	328,868	76
Powerpoint	811	1,580	(770)	(49%)	12,406	22,894	(10,398)	(45%)	65	89	48,579	70
Access	4,182	8,871	(2,879)	(39%)	84,738	95,152	(10,414)	(11%)	49	72	147,184	38
Project	5,142	5,057	84	2%	48,160	53,820	(4,360)	(8%)	105	94	115,318	104
Other Desktop Apps	3	16	(14)	(84%)	82	255	(183)	(78%)	43	64	214	55
Desktop Apps Existing Users	234,483	168,800	87,888	41%	1,874,951	1,251,257	423,684	34%	140	133	3,353,312	132
Desktop Apps - Total	998,491	812,943	186,457	23%	6,281,397	4,229,143	2,052,254	49%	159	192	8,660,611	171
Kids	8,064	18,462	(8,398)	(51%)	84,471	717,700	126,711	18%	10	23	683,424	25
Entertainment	13,204	22,250	(9,145)	(41%)	1,852,828	1,124,208	728,318	68%	7	20	1,541,828	25
Personal Interest	4,108	9,838	(5,730)	(59%)	854,078	872,877	81,198	14%	6	17	918,012	25
GeoTravel	5,432	6,188	(768)	(12%)	185,945	159,700	26,242	18%	29	39	313,847	38
Reference	15,558	20,538	(4,983)	(24%)	1,698,981	1,384,510	314,151	23%	9	15	739,724	38
Rob	39	3,419	(3,380)	(99%)	169,787	110,824	48,873	44%	0	31	(107,163)	45
Imaging	510	481	29	11%	378,678	71,724	307,953	429%	1	6	18,508	9
New Database	48,913	79,264	(32,352)	(41%)	5,775,254	4,141,748	1,633,506	39%	8	19	3,507,378	28
Publisher	10,810	7,881	2,738	35%	485,822	188,159	277,663	148%	23	42	416,525	52
Web	28,944	24,187	4,768	20%	824,793	1,768,887	(944,192)	(53%)	35	14	820,782	34
Freelance/Inhouse	30,862	32,098	(746)	(2%)	1,290,817	1,957,143	(666,326)	(34%)	31	18	1,786,307	40
Keynotes	11,803	30,334	(18,371)	(61%)	230,808	657,872	(427,064)	(64%)	49	40	577,065	74
Mouse/Keyboard	84,950	50,040	14,910	30%	4,387,718	3,622,418	745,300	21%	15	14	2,084,594	41
Gaming Devices	11,414	4,455	6,959	156%	243,930	125,474	119,456	94%	47	38	658,823	43
Hardware	88,228	84,230	3,408	4%	4,851,512	4,405,762	445,750	10%	18	18	3,060,482	46
Consumer	174,702	188,092	(21,360)	(11%)	11,917,383	10,504,851	1,412,732	13%	15	19	7,684,106	37
Financial/Finance	2,305	1,818	770	48%	904,820	119,438	785,182	687%	3	14	185,315	19
MSN - Health	8,462	24,844	(16,246)	(65%)	978,853	3,222,082	(2,245,229)	(70%)	9	8	1,141,141	11
MSN - Connectivity	3,444	6,406	(2,962)	(46%)	1,141,141	1,141,141	0	0%	1	1	1,141,141	1
MSN - Extended	712	14,787	(14,055)	(95%)	1,141,141	1,141,141	0	0%	1	1	1,141,141	1
MSN - Internet	12,708	48,070	(33,263)	(72%)	978,853	3,222,082	(2,245,229)	(70%)	13	14	1,141,141	1
Microsoft Networks (MSN)	1,180,285	1,066,642	113,643	13%	20,080,253	19,975,314	2,004,839	11%	58	58	18,890,091	100
Total/Aggregated												

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Q96-4 MICROSOFT WORLDWIDE REVENUE SUMMARY (continued)

(\$ In thousands, except Revenue/License)

Product/Service	Revenue			Licenses			Revenue/License			FY96 USFO YTD (USD)				
	Actual	Unaudit	Variance	Actual	Unaudit	Variance	Actual	Unaudit	Variance	Licenses	Flow/Up			
			Var. %			Var. %								
MRS DOS	72,081	71,032	1,049	4,007,692	3,485,795	501,897	5%	16	10	(6)	(9%)	640,888	35	
Windows, WinW	151,842	83,153	68,709	4,906,786	3,542,818	1,363,971	38%	31	23	8	32%	3,182,001	48	
Windows OS	437,092	448,115	(11,023)	8,002,747	8,203,148	(200,401)	8%	22	28	(6)	(44%)	4,004,723	83	
MRS Front (Training)	8,344	7,149	1,195	377,064	190,994	186,070	108%	8	6	2	(8)	160,872	11	
Other PSD (At Work, Telephony)	9,090	1,184	7,906	1,271,801	72,632	1,199,169	1651%	35	36	(1)	(2%)	9,197,059	60	
Personal Systems Division	681,239	608,513	72,726	19,556,113	15,005,367	3,650,746	23%	149	189	(40)	(21%)	398,836	178	
Windows NT Workstation	59,550	21,582	37,968	599,492	114,008	285,484	250%	474	487	(13)	(3%)	127,177	512	
Windows NT Server - Servers	59,203	43,627	15,576	122,832	89,559	33,273	37%	17	20	(3)	(18%)	1,834,859	15	
Windows NT Server - Users	24,018	13,308	10,710	1,475,422	650,084	825,338	127%	888	632	256	34%	22,676	737	
SQL Server - Servers	12,488	12,148	339	14,001	18,380	(4,379)	(23%)	85	94	(9)	(9%)	178,567	83	
SQL Server - Users	7,651	17,743	(10,092)	89,904	186,958	(97,054)	(52%)	919	1,223	(304)	(28%)	13,045	1,076	
Technica - Servers	13,702	3,885	9,816	14,008	2,937	11,071	377%	89	141	(52)	(37%)	375,800	86	
Technica - Users	30,132	4,972	25,200	339,894	34,562	304,302	880%	256	319	(63)	(20%)	47,657	255	
Mail - Servers	6,289	4,901	1,388	24,531	15,381	9,150	60%	14	32	(18)	(19%)	388,343	18	
Mail - Users	4,745	1,303	3,442	345,653	40,255	305,398	759%	59	88	(29)	(33%)	345,716	69	
Mail - Admins, Upgrades	9,565	6,287	3,278	161,863	71,332	90,531	127%	1,572	667	905	136%	6,386	1,560	
Exchange - Servers	14,047	6,187	7,860	8,936	7,719	1,217	15%	40	61	(21)	(34%)	90,987	30	
Exchange - Users	5,230	4,245	985	130,813	69,515	61,298	88%	213	451	(238)	(46%)	8,592	383	
SMS Server - Servers	2,297	2,848	(651)	9,882	6,321	3,561	56%	92	295	(203)	(89%)	871,609	20	
SMS Server - Users	11,043	4,922	6,121	551,178	152,543	398,635	281%	32	44	(12)	(27%)	23,408	84	
SNA Server - Servers	1,481	1,893	(412)	9,346	75,478	(66,132)	(71%)	32	44	(12)	(27%)	159,918	20	
SNA Server - Users	3,008	3,323	(315)	181,847	151,940	29,907	16%	231	70	161	839%	11,597	3,999	
Other Business Systems	33,562	12,709	20,853	45,901	181,847	(135,946)	(75%)	77	66	(11)	(16%)	4,903,991	75	
Business Systems New Users	287,691	16,872	270,819	3,443,006	1,725,347	2,117,660	123%	87	35	52	143%	405,548	76	
Windows NT Workstation	25,815	900	24,915	297,132	25,345	271,787	1072%	113	95	18	19%	55,242	79	
Windows NT Server - Servers	3,246	1,151	2,094	28,758	12,168	16,591	126%	226	326	(100)	(33%)	13,152	216	
Windows NT Server - Users	2,084	1,180	904	70,181	21,923	48,258	220%	39	45	(6)	(13%)	113,194	35	
RLX Server - Users	2,711	892	1,819	972	9,516	(8,544)	(90%)	238	348	(110)	(32%)	727	250	
Language - Servers	842	3,316	(2,474)	48,851	70,680	(21,829)	(31%)	17	37	(20)	(60%)	38,473	10	
Exchange - Users	430	449	(19)	3,187	12,997	(9,810)	(78%)	136	35	101	282%	1,455	51	
Other Business Systems	35,359	10,238	25,121	454,267	156,042	302,225	194%	77	68	9	12	18%	627,721	68
Business Systems Existing Users	333,049	175,109	157,940	4,201,215	1,811,369	2,419,846	129%	204	179	25	14%	8,531,722	71	
Business Systems - Total	361,708	233,712	127,996	150,699	130,300	20,399	16%	103	126	(23)	(21%)	365,288	150	
Visual Basic	4,709	11,900	(7,191)	26,421	97,700	(71,279)	(10%)	328	231	97	42%	228,078	181	
File	24,219	20,418	3,802	45,153	21,573	23,580	109%	53	233	(180)	(77%)	78,382	451	
C++	15,331	12,500	2,832	289,211	83,962	205,249	438%	181	202	(21)	(10%)	111,878	248	
Other Developer Products	84,000	77,132	6,867	884,381	381,632	502,749	53%	2,059	6,300	(4,241)	(67%)	601,909	199	
ACT - Reference	71	11,806	(11,735)	3,189	2,198	991	45%	79	79	0	0%	897	70	
ACT - Other	1,161,928	872,359	289,569	24,445,603	18,170,808	6,274,795	35%	68	48	20	21%	18,831,647	73	
Tool/Products (Other)	2,306,164	1,929,000	377,163	44,524,118	36,245,920	8,278,198	23%	82	53	29	55%	32,321,738	90	
Press	12,728	17,088	(4,360)	457	457	0	0%	27,873	8	19	(76)	(478,260)	(72)	
Other (Man, Mkt, Serv, CR2)	26,118	19,800	6,318	6,097,259	247,801	4,809,458	1041%	8	80	(72)	(94%)	(478,260)	(72)	
Reselling (Mkt, Referrals)	(187,940)	(10,880)	(177,060)	6,097,259	247,801	4,809,458	1041%	8	80	(72)	(94%)	(478,260)	(72)	
Reselling (Mkt, Reselling)	72,321	29,481	42,840	48,583,534	36,403,121	13,000,113	36%	45	54	(9)	(16%)	31,842,478	87	
Other (Reselling)	2,270,412	1,855,658	272,554	48,583,534	36,403,121	13,000,113	36%	45	54	(9)	(16%)	31,842,478	87	

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FY96 MICROSOFT WORLDWIDE REVENUE SUMMARY
 (\$ In thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 US\$ YTD (US\$)		
	Actual	Unaudited	Variance	Actual	Unaudited	Variance	Actual	Unaudited	Variance	License	Revenue	Revenue
Office	1,718,007	1,233,612	(484,395)	8,900,173	8,483,748	(416,425)	214	218	4	1,890,644	207	
Office Professional	1,184,829	786,247	(398,582)	2,909,203	3,382,558	473,355	292	302	(10)	1,814,068	207	
Office Home	188,862	197,807	(8,945)	1,021,461	1,010,373	11,088	104	106	(2)	254,890	163	
Word	270,805	240,576	(30,229)	2,975,707	1,258,565	1,717,142	81	140	(59)	406,811	132	
Powerpoint	30,851	32,273	(1,422)	187,630	203,315	(15,685)	164	159	5	87,620	160	
Access	114,067	102,068	11,999	894,060	695,092	198,968	129	150	(21)	320,729	147	
Project	100,618	168,897	(68,279)	527,388	227,700	299,688	292	320	(28)	293,781	268	
Other Desktop Apps	33,241	6,553	26,688	112,880	292,159	(179,279)	82	58	24	110,197	103	
Desktop Apps New Users	3,109,339	2,740,904	368,435	12,609,199	5,953,918	6,655,281	119	217	(98)	5,207,200	185	
Office	608,225	212,813	395,412	3,320,514	2,001,398	1,319,116	153	157	(4)	1,812,800	142	
Office Professional	348,890	225,948	122,942	1,728,747	623,191	1,105,556	108	200	(92)	867,385	174	
Office Home	38,533	68,810	(30,277)	643,462	(281,391)	(924,853)	80	82	(2)	233,116	74	
Word	52,762	87,329	(34,567)	894,328	1,080,960	(186,632)	78	81	(3)	228,868	75	
Powerpoint	5,254	8,911	(3,657)	119,839	(16,468)	(136,307)	72	72	0	48,570	70	
Access	13,941	20,344	(6,403)	233,342	401,474	(168,132)	60	73	(13)	147,164	28	
Project	21,283	22,724	(1,441)	199,070	238,879	(39,809)	107	95	12	115,318	104	
Other Desktop Apps	11	174	(163)	223	2,258	(2,035)	49	77	(28)	214	55	
Desktop Apps Existing Users	686,899	758,553	(71,654)	8,116,311	8,148,478	(32,167)	116	130	(14)	3,253,312	132	
Desktop Apps - Total	4,188,238	3,497,437	690,801	18,225,510	8,205,392	10,020,118	170	190	(20)	8,960,811	171	
Home	45,890	66,782	(20,892)	2,886,992	1,081,999	1,804,993	11	23	(12)	643,424	25	
Entertainment	78,418	102,284	(23,866)	7,788,665	4,789,371	2,999,294	10	21	(11)	1,541,928	25	
Personal Internet	28,329	43,747	(15,418)	2,412,884	2,411,770	1,141	9	18	(9)	316,012	25	
Geo/Travel	22,743	16,774	6,000	645,657	423,487	222,170	35	39	(4)	313,947	38	
Reference	83,185	93,780	(10,595)	3,537,701	8,428,521	(4,890,820)	11	17	(6)	759,784	36	
Books	(2,445)	18,885	(21,330)	558,782	480,015	78,767	(4)	35	(31)	(107,183)	45	
Imaging	2,513	2,158	357	1,783,198	292,735	1,490,463	1	7	(6)	16,508	9	
New Business	40,146	63,668	(23,522)	25,185,878	16,776,891	8,408,987	10	21	(11)	3,501,318	28	
Publicize	144,274	118,208	26,066	11,921,478	6,915,879	5,005,600	25	48	(23)	445,525	62	
Works	193,420	159,534	33,886	13,858,887	7,862,805	6,016,082	12	17	(5)	890,782	34	
Readwrite	18,711	110,142	(91,431)	1,007,700	1,868,333	(860,633)	14	20	(6)	1,281,307	40	
Home/Internet	207,268	225,075	(17,807)	17,050,077	15,954,854	1,095,223	16	15	1	2,054,594	41	
Home/Finance	378,485	301,093	77,392	19,318,273	17,337,887	1,980,386	20	20	0	3,000,482	48	
Home/Software	828,538	865,300	(36,762)	58,283,018	42,380,383	15,902,635	14	20	(6)	7,884,165	37	
Consumer	13,740	9,484	4,256	3,184,912	727,028	2,457,884	4	13	(9)	165,315	19	
Personal Finance	32,411	51,081	(18,670)	3,031,930	6,871,182	(3,839,252)	8	8	0	1,000,000	10	
MSN - Basic	10,900	13,848	(2,948)	3,931,920	6,971,182	(3,039,262)	11	13	(2)	18,900,001	108	
MSN - Community	954	24,000	(23,046)	90,008,862	81,504,103	8,504,759	56	85	(29)	1,000,000	108	
MSN - Extended												
Microsoft Network (MSN)	43,944	92,609	(48,665)									
Total Apps/Content	8,072,807	4,484,828	3,587,979									

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FY96 MICROSOFT WORLDWIDE REVENUE SUMMARY (continued)
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 U.S. ONLY (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
MS-DOS	603,077	483,904	119,173	27,500,880	27,500,880	0	7%	17	18	(1)	446,668	3%
Windows, WWW	842,394	863,004	(20,610)	27,002,178	27,002,178	0	22%	26	22	4	3,194,401	48
Windows 95	1,706,324	1,950,154	(243,830)	23,746,877	23,746,877	0	6%	64	64	0	4,004,723	83
MS FrontPage (Freeing)	80,424	46,071	34,353	1,107,242	1,107,242	0	114%	35	30	5	1,182,275	38
Other FSD (AI Work, Infoquery)	27,013	5,374	21,639	334,659	334,659	0	144%	9	17	(8)	166,072	11
Personal Systems Division	3,243,082	2,778,503	464,579	81,333,237	81,333,237	0	17%	33	37	(4)	3,187,859	60
Windows NT Workstation	178,109	71,105	107,004	367,085	367,085	0	184%	184	188	(4)	398,838	179
Windows NT Server - Servers	195,750	143,949	51,801	219,814	219,814	0	37%	494	497	(3)	127,127	512
Windows NT Server - Users	74,605	43,228	31,377	2,081,771	2,081,771	0	105%	17	21	(4)	1,836,660	15
MS Exchange - Servers	45,008	40,445	4,563	60,487	60,487	0	4%	778	669	109	22,878	727
MS Exchange - Users	35,293	30,890	4,403	528,227	528,227	0	25%	89	96	(7)	178,587	83
Microsoft Office - Servers	41,067	12,157	28,910	8,036	8,036	0	320%	1,080	1,345	(265)	13,085	1,078
Microsoft Office - Users	64,890	14,568	50,322	101,720	101,720	0	621%	89	143	(55)	375,800	86
Mail - Servers	20,487	24,377	(3,890)	74,760	74,760	0	33%	297	326	(29)	47,697	255
Mail - Users	43,750	8,415	35,335	244,008	244,008	0	191%	19	34	(15)	388,383	16
Mail - Add'l Chgs, Upgrades	17,181	7,857	9,324	11,891	11,891	0	104%	1,001	644	357	345,716	89
Exchange - Servers	5,688	6,346	(658)	10,660	10,660	0	49%	372	454	(82)	8,592	363
Exchange - Users	12,093	9,074	3,019	32,548	32,548	0	27%	22	32	(10)	871,809	80
SMS Server - Servers	38,158	17,877	20,281	1,092,331	1,092,331	0	198%	121	294	(173)	23,008	84
SMS Server - Users	5,377	7,103	(1,726)	24,156	24,156	0	84%	31	44	(13)	159,818	29
SNA Server - Servers	10,135	10,387	(252)	235,822	235,822	0	37%	520	87	433	11,593	3,999
SNA Server - Users	100,302	38,407	61,895	297,871	297,871	0	52%	84	69	15	4,803,991	73
Other Business Systems	800,784	524,826	275,958	5,421,081	5,421,081	0	97%	73	30	43	405,548	78
Business Systems New Users	49,469	4,587	44,882	151,700	151,700	0	344%	94	81	13	95,242	79
Windows NT Workstation	11,370	6,280	5,090	78,588	78,588	0	51%	267	340	(73)	13,152	216
Windows NT Server - Servers	7,028	7,825	(797)	21,872	21,872	0	26%	41	41	0	113,184	35
Windows NT Server - Users	8,334	6,340	1,994	153,828	153,828	0	33%	218	352	(134)	727	250
MS Exchange - Servers	239	5,025	(4,786)	14,800	14,800	0	93%	17	33	(16)	36,413	16
MS Exchange - Users	920	3,498	(2,578)	107,423	107,423	0	69%	118	41	77	1,455	51
Other Business Systems	499	1,376	(877)	33,428	33,428	0	87%	72	82	(10)	827,721	89
Business Systems Existing Users	77,819	34,810	43,009	841,113	841,113	0	93%	63	95	(32)	6,531,722	74
Business Systems - Total	966,853	890,718	76,135	11,493,009	11,493,009	0	95%	1,011	1,176	(165)	365,768	150
Visual Basic	180,841	106,783	74,058	608,843	608,843	0	30%	181	142	39	118,997	169
For	38,422	55,335	(16,913)	309,477	309,477	0	46%	218	244	(26)	298,678	181
C++	90,528	103,521	(12,993)	457,129	457,129	0	6%	474	414	60	79,382	451
MS-DOS	83,942	40,082	43,860	96,733	96,733	0	30%	66	270	(204)	111,028	248
Other Developer Products	66,243	89,834	(23,591)	270,308	270,308	0	217%	165	204	(39)	901,200	199
Developer	412,865	385,255	27,610	1,787,053	1,787,053	0	60%	3,037	8,479	(5,442)	607	79
ACT - Exchange	28,823	40,856	(12,033)	7,488	7,488	0	26%	79	79	0	18,831,947	73
ACT - Other	4,071,294	3,754,179	317,115	22,394,720	22,394,720	0	25%	42	42	0	32,321,738	90
Total Platforms	9,743,801	8,718,855	1,024,946	157,015,655	157,015,655	0	28%	48	52	(4)	77	77
Total Product Group	81,524	81,342	182	3,600	3,600	0	100%	21,292	21,292	0	(470,700)	(7)
Other (MS, MSR, Venti, POS)	143,028	104,844	38,184	1,307,074	1,307,074	0	741%	13	79	(66)	607	79
Flourishing (MS, MSR, Venti, POS)	(600,291)	(182,976)	(417,315)	(347,308)	(347,308)	0	227%	45	52	(7)	31,842,478	87
Flourishing (MS, MSR, Venti, POS)	217,461	107,243	110,218	1,102,370	1,102,370	0	103%	45	52	(7)	31,842,478	87
Flourishing (MS, MSR, Venti, POS)	9,060,031	8,342,406	717,625	1,341,063	1,341,063	0	16%	45	52	(7)	31,842,478	87

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096-4

Q96-4 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Returns/License			FY95 USFCG		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Other	85,471	111,843	(26,372)	12,002	11,103	899	292	230	62	1,094,284	1,094,284	0
Office Professional	100,871	68,484	32,387	472,042	483,901	(11,859)	197	270	(73)	1,834,068	1,834,068	0
Fiscal	5,640	13,253	(7,613)	36,351	90,751	(54,400)	155	146	9	254,009	254,009	0
Word	12,204	20,038	(7,834)	22,999	58,226	(35,227)	124	128	(4)	488,811	488,811	0
Powerpoint	2,992	3,950	(958)	22,999	28,787	(5,788)	100	140	(40)	97,820	97,820	0
Access	10,767	8,893	1,874	73,344	68,321	5,023	147	142	5	330,229	330,229	0
Project	22,777	21,568	1,209	87,049	68,058	18,991	282	317	(35)	293,791	293,791	0
Other Desktop Apps	680	692	(12)	6,328	13,091	(6,763)	107	50	57	110,187	110,187	0
Desktop Apps New Users	237,461	239,207	(1,746)	1,208,229	1,164,053	44,176	192	212	(20)	8,292,289	8,292,289	0
Office	82,555	28,056	54,499	374,004	208,089	165,915	132	134	(2)	1,812,090	1,812,090	0
Office Professional	53,472	12,442	41,030	305,415	62,825	242,590	125	134	(9)	667,385	667,385	0
Fiscal	708	3,339	(2,631)	12,818	92,009	(79,191)	61	63	(2)	233,118	233,118	0
Word	2,654	4,824	(2,170)	36,830	97,088	(60,258)	72	87	(15)	378,048	378,048	0
Powerpoint	515	811	(296)	2,000	12,541	(10,541)	71	54	17	48,378	48,378	0
Access	2,428	1,194	1,234	70,089	33,240	36,849	34	35	(1)	147,164	147,164	0
Project	3,329	2,769	560	31,007	34,356	(3,349)	107	81	27	115,216	115,216	0
Other Desktop Apps	2	15	(13)	43	213	(170)	53	71	(18)	214	214	0
Desktop Apps Existing Users	125,723	53,020	72,703	838,225	502,559	335,666	134	105	29	3,353,212	3,353,212	0
Desktop Apps - Total	383,184	292,227	90,957	2,272,887	1,828,108	444,779	188	179	9	8,880,811	8,880,811	0
MS	2,669	8,748	(6,079)	103,948	211,548	(107,600)	35	27	8	683,826	683,826	0
Entertainment	1,003	10,910	(9,907)	231,989	235,440	(3,451)	81	30	51	1,541,928	1,541,928	0
Personal Interests	1,999	3,235	(1,236)	42,924	121,462	(78,538)	23	27	(4)	319,012	319,012	0
Geo/Time	4,142	8,237	(4,095)	63,515	130,977	(67,462)	31	37	(6)	313,817	313,817	0
Reference	(146)	2,894	(3,040)	120,983	281,552	(160,569)	34	37	(3)	739,224	739,224	0
Rob	17	127	(110)	(50,182)	41,232	(91,414)	14	19	(5)	(107,162)	(107,162)	0
Shipping	14,002	37,525	(23,523)	1,193	7,400	(6,207)	26	34	(8)	18,508	18,508	0
New Business	3,667	3,734	(67)	540,278	1,108,608	(568,330)	10	67	(57)	3,607,325	3,607,325	0
Publisher	4,317	8,220	(3,903)	73,314	86,112	(12,798)	10	17	(7)	445,525	445,525	0
Works	2,984	9,454	(6,470)	140,384	127,178	13,206	29	45	(16)	820,782	820,782	0
Finished Business	3,524	11,981	(8,457)	219,898	183,290	36,608	38	52	(14)	1,286,307	1,286,307	0
Keyboard	20,700	18,116	2,584	48,091	183,800	(135,709)	73	78	(5)	2,054,894	2,054,894	0
Mouse/Utility	8,264	2,849	5,415	101,283	67,385	33,898	41	40	1	556,872	556,872	0
Cleaning Devices	31,915	28,328	3,587	731,955	601,202	130,753	44	49	(5)	3,000,482	3,000,482	0
Hardware	53,140	76,207	(23,067)	1,497,829	1,894,100	(396,271)	38	40	(2)	2,884,185	2,884,185	0
Consumer	5	800	(795)	4,793	90,192	(85,399)	1	9	(8)	183,315	183,315	0
Parental/Invoice												
MSN - Basic												
MSN - Connectivity												
MSN - Firewall												
MSN - Internet												
Microsoft Network (MSN)												
Total Apps/Component	437,093	389,343	47,750	3,781,688	3,412,460	369,228	118	102	16	18,800,081	18,800,081	0

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Q96-4 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			License			Revenue/License			FY95UDG/ACTY		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
MS HR	3,871	1,300	2,571	106,492	58,374	47,908	34	38	-4	34	38	-4
Windows NT	42,612	4,714	37,898	8,540,319	100,932	8,439,387	88	47	41	88	47	41
Windows 95	23,072	67,210	(44,138)	345,983	792,467	(446,484)	67	85	(18)	67	85	(18)
MS Mail (Freeing)	3,208	3,040	168	105,344	79,992	25,352	30	30	0	30	30	0
MS FRD (AI Work, Telephony)	1,813	14	1,799	133,040	284	132,756	12	53	(41)	12	53	(41)
Personal Systems Division	75,174	78,408	(3,234)	1,824,748	1,011,929	812,819	169	212	(43)	169	212	(43)
Windows NT Workstations	24,257	15,638	8,619	14,703	40,823	(26,120)	493	610	(117)	493	610	(117)
Windows NT Server - Servers	50,235	14,204	36,031	41,142	28,045	13,097	15	19	(4)	15	19	(4)
Windows NT Server - Users	10,678	6,963	3,715	720,122	208,842	511,280	1,087	646	441	1,087	646	441
SOL Server - Servers	6,768	4,487	2,281	8,342	6,348	1,994	82	85	(3)	82	85	(3)
SOL Server - Users	4,081	8,210	(4,129)	49,334	85,335	(36,001)	1,096	1,223	(127)	1,096	1,223	(127)
Technical - Servers	8,202	847	7,355	6,645	774	5,871	86	131	(45)	86	131	(45)
Technical - Users	18,041	1,515	16,526	179,282	11,635	167,647	222	305	(83)	222	305	(83)
Mail - Servers	3,102	2,483	619	13,049	8,074	5,075	13	20	(7)	13	20	(7)
Mail - Users	2,428	4,407	(1,979)	194,773	15,471	179,302	65	83	(18)	65	83	(18)
Mail - AddOns, Upgrades	5,029	4,440	589	78,812	63,740	15,072	145	701	(556)	145	701	(556)
Exchange - Servers	6,148	1,814	4,334	4,220	2,730	1,490	35	54	(19)	35	54	(19)
Exchange - Users	3,026	883	2,143	87,688	16,350	71,338	298	480	(182)	298	480	(182)
SMS Server - Servers	758	885	(127)	2,540	2,141	399	16	20	(4)	16	20	(4)
SMS Server - Users	6,448	1,889	4,559	299,174	67,911	231,263	61	295	(234)	61	295	(234)
SNA Server - Servers	460	1,018	(558)	7,509	3,379	4,130	33	43	(10)	33	43	(10)
SNA Server - Users	1,345	1,856	(511)	41,003	42,990	(1,987)	5,070	59	5,020	5,070	59	5,020
Other Business Systems	133,801	83,824	49,977	3,500	137,048	(133,548)	71	80	(9)	71	80	(9)
Business Systems New Users	17,974	353	17,621	1,878,689	319,258	1,559,431	91	99	(8)	91	99	(8)
Windows NT Workstation	1,600	307	1,293	13,852	2,140	11,712	115	172	(57)	115	172	(57)
Windows NT Server - Servers	978	295	683	5,023	884	4,139	195	299	(104)	195	299	(104)
SOL Server - Servers	1,256	107	1,149	38,633	3,947	34,686	246	251	(5)	246	251	(5)
Exchange - Servers	184	2,800	(2,616)	744	7,408	(6,664)	16	27	(11)	16	27	(11)
Exchange - Users	656	1,200	(544)	28,991	44,430	(15,439)	21	21	0	21	21	0
Other Business Systems	17	17	0	800	800	0	77	78	(1)	77	78	(1)
Business Systems Existing Users	22,814	4,820	17,993	295,083	64,922	230,161	72	89	(17)	72	89	(17)
Business Systems - Total	154,815	88,735	66,080	7,171,931	774,978	6,396,953	2,171,931	2,572,722	(400,791)	2,171,931	2,572,722	(400,791)
Visual Basic	11,076	2,275	8,801	87,078	45,885	41,193	153	158	(5)	153	158	(5)
Fort	2,130	5,433	(3,303)	15,247	46,870	(31,623)	155	119	36	155	119	36
C++	10,260	7,897	2,363	18,082	43,838	(25,757)	567	182	385	567	182	385
MSDN	11,982	4,978	7,003	29,315	12,048	17,267	243	238	5	243	238	5
Other Developer Products	7,087	6,414	672	29,135	28,981	154	222	182	40	222	182	40
Developer	42,768	31,747	11,021	157,378	174,381	(17,003)	157	152	5	157	152	5
AI - Building	71	71	0	807	807	0	78	79	(1)	78	79	(1)
AI - Mail	2,144	1,807	337	1,808,018	1,803,848	4,170	71	90	(19)	71	90	(19)
Total Products	711,817	646,314	66,503	7,836,853	8,574,278	(737,425)	83	84	(1)	83	84	(1)
Other (MS, MER, Xerox, ORS)	6,178	11,822	(5,644)	(125,452)	3,150	(128,602)	(56)	3,874	(3,930)	(56)	3,874	(3,930)
Hardware (Hardware)	48,948	18,540	30,408	31,848	31,848	0	85	100	(15)	85	100	(15)
Hardware (Peripherals)	8,732	85,633	(76,901)	8,732	85,633	(76,901)	85	100	(15)	85	100	(15)
Other Revenue												
Total Revenue	1,141,817	1,141,817	0	1,141,817	1,141,817	0	1,141,817	1,141,817	0	1,141,817	1,141,817	0

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MSC 00569048

TXAG 0014575 CONFIDENTIAL

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AUTHOR: ARVIND BHAT (ARVINDB)

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Q90-4

FY96 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			Extra USFC YTD(USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue	
Office	433,862	498,502	(62,640)	2,066,198	2,164,760	(78,572)	208	229	(21)	1,809,344	207	
Office Professional	406,924	218,001	131,822	1,985,198	1,033,384	951,812	206	269	(63)	1,831,048	207	
Exec	43,341	60,846	(17,805)	292,223	418,339	(126,115)	148	145	3	254,899	153	
Word	70,812	92,329	(21,817)	643,546	179,150	(464,396)	130	128	2	488,911	132	
Powerpoint	17,042	18,038	(1,004)	108,802	122,374	(13,572)	160	147	12	97,870	160	
Access	52,343	43,166	9,175	354,601	306,065	50,536	147	141	6	330,229	147	
Project	90,184	97,864	(7,680)	315,638	309,278	6,360	268	316	(51)	293,791	266	
Other Desktop Apps	12,406	3,165	9,241	179,408	82,899	97,509	104	80	24	110,197	103	
Desktop Apps New Users	1,129,702	1,039,992	39,709	5,808,408	5,139,803	668,605	195	212	(16)	5,307,298	195	
Office	244,461	135,243	108,218	1,730,387	992,483	738,094	171	136	35	1,812,690	142	
Office Professional	157,278	60,800	96,299	907,644	449,375	458,269	173	136	38	667,365	174	
Exec	18,019	24,800	(6,897)	248,130	355,078	(106,898)	73	70	3	233,116	74	
Word	25,357	34,797	(9,440)	339,903	474,803	(134,900)	75	73	2	328,668	75	
Powerpoint	3,407	4,816	(1,511)	49,403	76,887	(27,484)	70	63	7	48,579	70	
Access	6,829	6,498	331	148,555	155,930	(8,375)	39	38	1	147,164	39	
Project	12,791	12,659	132	122,777	157,434	(34,657)	104	80	24	115,318	104	
Other Desktop Apps	12	72	(60)	229	1,008	(777)	64	72	(7)	214	65	
Desktop Apps Existing Users	407,185	279,359	127,826	3,548,228	2,682,838	865,292	132	105	27	3,353,312	132	
Desktop Apps - Total	1,596,867	1,369,352	227,515	9,542,638	7,822,759	1,549,897	271	215	55	8,660,611	171	
Kids	18,837	32,297	(13,461)	748,217	1,173,063	(424,846)	25	28	(3)	643,224	25	
Entertainment	40,876	57,959	(17,083)	1,613,102	1,822,428	(209,326)	25	32	(7)	1,541,928	25	
Personal Interest	8,797	19,075	(10,278)	356,331	721,043	(364,712)	25	26	(1)	318,012	25	
Geo/Travel	11,774	10,864	911	328,133	394,132	(66,001)	38	36	2	313,647	36	
Reference	30,030	48,387	(18,357)	798,897	1,302,750	(503,853)	38	37	1	739,724	38	
Rob	(5,836)	14,781	(20,617)	(123,439)	214,970	(338,409)	47	69	(22)	(107,463)	45	
Imaging	155	897	(742)	17,093	37,688	(20,595)	9	19	(9)	16,508	9	
New Products	104,832	183,800	(78,968)	3,238,324	6,676,050	(3,437,726)	28	33	(5)	3,607,376	28	
Multiuser	74,715	25,047	49,668	411,150	375,914	35,236	52	67	(14)	445,925	52	
Works	29,653	33,250	(3,597)	869,487	739,474	129,993	34	45	(11)	870,782	34	
Established Business	54,368	58,309	(3,941)	1,341,217	1,115,068	226,149	41	52	(12)	1,268,392	40	
Keyboards	29,785	59,341	(29,556)	403,250	791,348	(388,098)	74	75	(1)	377,065	74	
Mainframe/Point	80,910	78,068	2,842	2,178,486	1,854,180	222,306	41	40	1	2,054,594	41	
Custom/Workres	31,616	17,314	14,302	722,728	457,895	264,901	44	38	6	658,823	43	
Consumer	151,211	164,124	(12,913)	3,302,462	3,203,351	99,111	48	48	0	3,090,482	48	
Personal/Finance	310,211	307,019	3,192	8,300,003	8,894,369	(594,366)	37	40	(3)	7,864,165	37	
MRN - Basic	3,301	6,247	(2,946)	171,217	584,162	(412,945)	19	8	10	165,316	19	
MRN - Connectivity												
MRN - F-Worded												
MRN - Intercol												
Microsoft Network (MSN)												
Total Apps/Content	1,919,378	1,771,817	138,761	17,903,859	18,281,270	(377,414)	107	97	10	16,890,091	108	

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FY96 NORTH AMERICA FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Revenue			License			Revenue/License			FY96 USG YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Revenue	License	Revenue
MS-DOS	23,581	7,074	16,507	472,701	195,103	277,598	478,688	195,103	283,585	480,888	195,103	676,000
Windows, WWW	103,346	21,002	82,344	3,444,075	451,059	2,993,016	3,496,091	451,059	2,993,016	3,947,150	451,059	4,398,209
Windows 95	306,273	581,309	(275,036)	6,809,887	6,210,171	599,716	6,809,887	6,210,171	599,716	1,163,275	36	1,199,551
MS Third (Printing)	45,161	25,023	20,138	1,257,479	658,314	599,165	1,257,479	658,314	599,165	1,856,944	11	1,867,985
Other (Print) (A) Work, Telephony)	1,640	67	1,573	170,231	1,258	168,973	170,231	1,258	168,973	170,231	11	171,489
Personal Systems Division	600,350	614,834	(14,484)	9,844,353	2,814,802	7,029,551	9,844,353	2,814,802	7,029,551	10,659,184	88	10,747,168
Windows NT Workstation	76,032	27,072	48,960	422,025	127,192	294,833	422,025	127,192	294,833	422,025	179	422,204
Windows NT Server - Servers	70,812	45,211	25,600	159,268	88,510	70,758	159,268	88,510	70,758	159,268	15	159,283
Windows NT Server - Users	30,588	11,272	19,316	2,010,750	631,790	1,378,960	2,010,750	631,790	1,378,960	2,010,750	737	2,010,750
SCL Server - Servers	16,191	15,038	1,153	24,260	22,994	1,266	24,260	22,994	1,266	24,260	83	24,260
SCL Server - Users	15,799	16,882	(1,083)	106,766	106,010	756	106,766	106,010	756	106,766	83	106,766
Exchange - Servers	15,302	3,039	12,263	14,086	2,475	11,611	14,086	2,475	11,611	14,086	86	14,086
Exchange - Users	33,751	4,521	29,230	390,757	33,958	356,801	390,757	33,958	356,801	390,757	255	390,757
Mail - Servers	13,344	10,774	2,570	437,486	115,871	321,615	437,486	115,871	321,615	437,486	16	437,486
Mail - Users	25,854	17,860	7,994	368,519	198,515	170,004	368,519	198,515	170,004	368,519	89	368,519
Exchange - Servers	6,046	3,190	2,856	8,855	4,549	4,306	8,855	4,549	4,306	8,855	36	8,855
Exchange - Users	3,439	1,471	1,968	96,303	27,248	69,055	96,303	27,248	69,055	96,303	363	96,303
SMS Server - Servers	3,441	3,953	(512)	8,834	8,592	242	8,834	8,592	242	8,834	20	8,834
SMS Server - Users	16,872	7,964	8,908	97,378	27,569	69,809	97,378	27,569	69,809	97,378	84	97,378
SNA Server - Servers	2,968	4,057	(1,089)	23,735	14,327	9,408	23,735	14,327	9,408	23,735	20	23,735
SNA Server - Users	51,282	19,284	31,998	182,350	128,490	53,860	182,350	128,490	53,860	182,350	20	182,350
Other Business Systems	308,754	202,198	106,556	12,274	216,242	104,000	12,274	216,242	104,000	12,274	75	12,274
Business Systems New Users	32,217	2,848	29,369	428,254	84,317	343,937	428,254	84,317	343,937	428,254	76	428,254
Windows NT Workstation	6,033	3,165	2,868	81,515	36,821	44,694	81,515	36,821	44,694	81,515	79	81,515
Windows NT Server - Servers	3,074	4,343	(1,269)	13,899	12,522	1,377	13,899	12,522	1,377	13,899	218	13,899
SCL Server - Servers	4,173	3,149	1,024	120,238	88,316	31,922	120,238	88,316	31,922	120,238	35	120,238
Exchange - Servers	658	1,714	(1,056)	39,991	43,471	(3,480)	39,991	43,471	(3,480)	39,991	250	39,991
Exchange - Users	74	74	0	1,468	1,468	0	1,468	1,468	0	1,468	61	1,468
Other Business Systems	45,410	18,733	26,677	664,107	207,827	456,280	664,107	207,827	456,280	664,107	81	664,107
Business Systems Existing Users	445,055	270,931	174,124	8,953,588	2,423,295	6,530,293	8,953,588	2,423,295	6,530,293	8,953,588	74	8,953,588
Business Systems - Total	50,409	42,814	7,595	397,161	270,654	126,507	397,161	270,654	126,507	397,161	160	397,161
Visual Link	20,071	28,482	(8,411)	125,004	212,200	(87,196)	125,004	212,200	(87,196)	125,004	169	125,004
Fit	43,813	41,060	2,753	241,104	215,153	25,951	241,104	215,153	25,951	241,104	181	241,104
C++	37,818	23,148	14,670	42,420	59,153	(16,733)	42,420	59,153	(16,733)	42,420	451	42,420
MSDN	29,555	34,103	(4,548)	118,567	159,704	(41,137)	118,567	159,704	(41,137)	118,567	248	118,567
Other Developer Products	191,305	189,388	1,917	695,256	817,884	(122,628)	695,256	817,884	(122,628)	695,256	169	695,256
Developer	71	71	0	907	907	0	907	907	0	907	79	907
ACT - Rollings	1,230,951	1,004,832	226,119	16,000,084	11,255,881	4,744,203	16,000,084	11,255,881	4,744,203	16,000,084	73	16,000,084
Total/Products Group	3,147,330	2,778,468	370,862	34,808,840	28,537,131	6,271,709	34,808,840	28,537,131	6,271,709	34,808,840	60	34,808,840
Prints	36,936	48,691	(11,755)	(170,322)	13,126	(183,448)	(170,322)	13,126	(183,448)	(170,322)	(72)	(170,322)
Other (Main, MCR, Xerox, etc)	(390,170)	(78,130)	(312,040)									
Incurring Mail (Materials)	135,779	82,873	52,906									
Incurring Mail (recognition)	2,000,890	2,807,602	(806,712)									
Gross Revenue				34,319,618	28,550,257	5,769,361	34,319,618	28,550,257	5,769,361	34,319,618	87	34,319,618

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Q96-4

Q96-4 EUROPE FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			License			Revenue/License			FY95 USFO YTD(USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Office	107,122	16,893	16%	389,878	303,849	63,727	200	287	(87)	1,494,844	1,494,844	207
Office Professional	71,146	11,116	30%	148,808	66,856	45%	330	344	(14)	1,824,088	1,824,088	207
Excel	7,343	16,492	(65%)	47,819	81,039	(47%)	151	181	(28)	254,899	254,899	153
Word	15,715	71,634	(78%)	91,295	133,164	(41%)	172	177	(5)	486,911	486,911	132
Powerpoint	935	1,829	(49%)	5,718	9,151	(37%)	105	109	(4)	97,820	97,820	100
Access	5,079	6,292	(21%)	37,102	34,822	2,480	137	122	15	330,220	330,220	147
Project	12,183	9,295	29%	37,486	28,138	33%	325	324	1	293,781	293,781	280
Other Desktop Apps	2,487	641	1,626	20,324	11,910	155%	61	54	7	110,187	110,187	103
Desktop Apps New Users	222,010	200,338	11%	835,046	782,221	72,325	280	283	3	3,307,289	3,307,289	195
Office	42,129	30,844	37%	277,872	187,328	110,347	152	184	(32)	1,812,890	1,812,890	142
Office Professional	24,985	25,237	(7%)	112,870	100,948	11,924	210	250	(40)	837,365	837,365	174
Excel	2,010	8,027	(75%)	28,177	83,349	(68%)	71	96	(25)	333,118	333,118	74
Word	3,320	10,292	(68%)	60,154	113,492	(47%)	55	81	(26)	326,888	326,888	75
Powerpoint	86	685	(87%)	2,159	6,183	(65%)	40	68	(28)	48,578	48,578	38
Access	1,312	3,435	(62%)	10,144	34,883	(71%)	149	98	51	147,164	147,164	38
Project	907	1,838	(51%)	9,331	14,009	(33%)	67	131	(64)	115,318	115,318	104
Other Desktop Apps	0	1	(1)	18	42	(20)	22	30	(8)	214	214	53
Desktop Apps Existing Users	74,830	90,340	(17%)	500,523	520,028	(20,008)	149	154	(5)	3,250,312	3,250,312	132
Desktop Apps - Total	296,840	290,678	2%	1,335,569	1,282,150	53,019	222	218	4	8,880,811	8,880,811	171
Kids	1,374	2,948	(53%)	90,859	61,501	29,358	27	38	(11)	643,424	643,424	23
Entertainment	2,074	4,821	(57%)	66,812	143,822	(78%)	31	33	(2)	1,541,928	1,541,928	23
Personal Interests	815	2,070	(60%)	21,731	69,499	(69%)	28	35	(7)	910,012	910,012	28
GeoTravel	2,858	1,027	1,828	67,842	21,718	46,124	42	47	(5)	312,947	312,947	38
Reference	2,101	2,001	100%	43,779	33,221	20,558	48	66	(18)	739,724	739,724	45
Rob	(0)	16	(100%)	(4)	225	(229)	(1)	15	(14)	16,500	16,500	9
Imagto	(0)	124	(100%)	33	8,247	(8,214)	(1)	15	(14)	16,500	16,500	9
New Business	6,019	13,053	(54%)	250,852	338,327	(87,475)	96	38	58	3,501,378	3,501,378	28
Publisher	2,058	2,420	(16%)	20,743	43,301	(22,558)	67	53	14	443,825	443,825	52
Works	1,978	6,127	(68%)	45,100	103,759	(58,659)	35	59	(24)	820,782	820,782	34
Enterprise Business	3,813	6,547	(42%)	78,853	140,000	(61,147)	48	57	(9)	1,296,307	1,296,307	60
Keynotes	681	2,894	(77%)	16,814	40,164	(23,350)	53	72	(19)	377,093	377,093	74
Manufacturing	8,363	6,187	35%	181,044	173,875	7,169	33	35	(2)	2,054,984	2,054,984	41
Marketing/Service	498	997	(50%)	15,078	31,486	(16,408)	36	32	4	658,823	658,823	43
Hardware	6,842	10,058	(32%)	167,233	247,287	(80,054)	38	41	(3)	3,090,482	3,090,482	48
Consumer	18,494	31,611	(41%)	519,338	734,874	(215,536)	38	43	(5)	7,864,183	7,864,183	37
Personal Finance	1,048	134	312%	27,550	25,509	2,041	38	29	9	183,315	183,315	19
MSN - Data												
MSN - Connectivity												
MSN - Enterprise												
MSN - Internet												
Microsoft Network (MSN)												
Total Apps/Client	317,160	313,923	4,187	1,882,837	2,043,833	(161,176)	166	153	13	18,880,081	18,880,081	108

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TXAG 0014578 CONFIDENTIAL

MS6 600754 CONFIDENTIAL

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MS-PCA1192615

Q96

Q96-4 EUROPE FINISHED GOODS REVENUE SUMMARY (continued)
 (\$ in thousands, except Revenue/License)

	Revenue			License			Revenue/License			FY03 USD (M USD)				
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	License	Rev/Lic	Rev/Lic		
MSI (2x1)	1,066	609	1,463	289%	59,818	14,733	44,885	305%	31	34	(1)	840,803	35	
Windows NTW	11,282	2,150	9,132	425%	238,081	30,342	197,718	615%	48	56	(9)	3,198,401	48	
Windows OS	(4,221)	97,415	(71,636)	(108%)	4,592	777,808	(772,216)	(90%)	(19)	87	(106)	4,038,723	86	
MSI Prod (featuring)	60	2,869	(2,809)	(98%)	6,921	64,447	(57,526)	(89%)	6	41	(35)	1,162,375	33	
Other Prod (AI Work, Telephony)	50	2,869	(2,819)	(98%)	31,171	133	31,038	2333%	18	69	(51)	169,672	11	
Personal Systems Division	6,586	22,748	(16,162)	(75%)	311,333	955,483	(644,150)	(82%)	28	81	(53)	6,197,059	60	
Windows NT Workstation	12,886	6,603	6,283	95%	54,122	20,208	28,914	97%	230	228	2	284,638	178	
Windows NT Server - Servers	13,971	12,918	1,053	8%	27,916	23,761	4,055	17%	502	544	(42)	127,177	512	
Windows NT Server - Users	6,582	5,804	778	10%	327,965	239,800	88,185	37%	20	23	(3)	1,838,959	15	
SOL Server - Servers	729	3,740	(3,020)	(81%)	8,866	31,001	(22,135)	(69%)	832	742	90	22,878	737	
Exchange - Servers	4,229	1,951	2,278	117%	3,974	1,418	2,456	173%	1,082	1,378	(294)	178,587	83	
Exchange - Users	1,894	2,165	(271)	(12%)	93,820	16,547	78,073	544%	92	149	(57)	13,085	1,078	
Mail - Servers	3,090	1,128	1,962	175%	53,272	11,181	42,092	378%	334	354	(20)	375,200	86	
Mail - Users	5,491	1,407	4,084	290%	3,001	2,703	298	11%	58	101	(43)	47,857	255	
Exchange - Servers	1,344	1,764	(420)	(24%)	22,248	32,530	(10,281)	(32%)	60	54	6	348,243	16	
Exchange - Users	299	852	(553)	(65%)	105,478	46,847	58,529	125%	174	488	(315)	90,987	36	
SMS Server - Servers	470	501	(31)	(6%)	2,350	1,874	476	40%	200	299	(99)	871,809	20	
SMS Server - Users	784	821	(37)	(5%)	20,756	18,177	2,579	14%	38	45	(7)	23,406	84	
Other Business Systems	5,915	2,808	3,107	127%	3,987	25,099	(21,112)	(85%)	1,522	101	1,420	11,593	3,099	
Business Systems New Users	71,481	47,889	23,592	49%	752,832	496,417	256,215	57%	93	88	5	4,903,991	75	
Windows NT Workstation	6,203	238	5,965	2530%	74,543	10,184	64,379	633%	83	23	60	405,548	76	
Windows NT Server - Servers	717	501	216	43%	6,077	6,530	(453)	(7%)	118	77	41	98,242	79	
Windows NT Server - Users	933	332	601	181%	2,751	828	1,928	233%	230	403	(173)	13,152	216	
SOL Server - Servers	704	491	213	43%	15,044	9,987	5,077	51%	47	48	(1)	113,164	35	
SOL Server - Users	18	644	(626)	(97%)	85	1,730	(1,645)	(95%)	211	372	(161)	727	350	
Exchange - Servers	41	801	(760)	(95%)	2,030	16,585	(14,555)	(88%)	20	41	(21)	38,413	16	
Exchange - Users	10	135	(125)	(92%)	17	2,132	(2,115)	(99%)	599	84	515	1,435	51	
Other Business Systems	6,376	3,140	3,236	103%	100,847	90,898	9,949	9%	83	82	1	827,731	88	
Business Systems Existing Users	72,807	51,929	20,878	40%	853,178	547,315	305,864	56%	94	93	1	5,531,722	74	
Visual Basic	6,206	6,033	173	3%	25,458	35,985	(10,507)	(29%)	244	189	76	365,304	156	
Fort	782	3,093	(2,300)	(74%)	2,905	16,365	(13,460)	(84%)	273	168	104	116,997	106	
C++	3,725	4,598	(863)	(19%)	15,878	21,499	(5,620)	(26%)	235	213	21	228,878	181	
MSDN	5,134	2,419	2,715	112%	11,927	6,774	5,153	33%	671	410	262	78,342	451	
Other Developer Products	4,404	4,700	(296)	(6%)	93,872	101,073	(7,201)	(8%)	369	241	128	111,629	248	
Developer	20,290	20,832	(542)	(3%)	3,172,922	3,567,704	(414,782)	(12%)	317	206	111	901,969	199	
ACT - Features														
ACT - Other	100,653	144,810	(44,157)	(31%)	1,258,384	1,543,871	(285,487)	(18%)	97	94	3	15,631,847	73	
Total/Revenue	426,833	457,832	(30,999)	(7%)	3,141,941	3,997,704	(846,063)	(12%)	136	128	8	32,321,738	90	
Total Product Group	78				31,881		31,881		133			(19,260)	(7)	
Other (MSI, MSN, Xena, (117))														
Accounting and Materials														
Remaining MSN (except for)														
License Revenue	407,157	458,127	(50,970)	(11%)	3,172,922	3,567,704	(414,782)	(12%)	128	128	0	31,847,478	87	

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Q86-4

FY96 EUROPE FINISHED GOODS REVENUE SUMMARY
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY95 USFO YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue	Rev/Lic
Office	400,885	403,734	77,181	1,543,086	1,353,999	189,087	14%	312	298	15	5%	1,899,584
Office Professional	312,400	239,982	72,418	891,029	895,943	195,086	28%	351	345	6	2%	1,834,080
Excel	62,033	72,448	(10,215)	528,938	408,938	74,007	(18%)	188	174	14	8%	254,899
Word	96,958	105,864	(8,706)	607,157	61,071	(8,914)	(13%)	184	174	10	6%	486,911
Powerpoint	9,355	8,268	1,089	44,448	41,358	3,088	7%	210	200	10	5%	97,820
Access	31,125	28,085	2,140	161,374	161,945	(571)	(0%)	193	179	14	8%	330,229
Project	50,051	42,200	7,781	147,278	124,782	22,497	18%	348	339	9	3%	283,791
Other Desktop Apps	9,115	2,495	6,621	48,659	20,804	27,855	132%	78	53	24	45%	110,197
Desktop Apps New Users	1,052,823	904,282	148,541	3,783,693	3,439,780	324,913	9%	280	263	17	6%	3,307,269
Office	198,898	124,373	62,425	418,324	718,072	402,712	56%	178	188	(10)	(5%)	1,612,860
Excel	18,658	106,589	12,137	183,844	414,974	58,389	14%	251	257	(6)	(2%)	887,305
Word	23,420	34,932	(18,275)	291,488	358,482	(174,639)	(49%)	91	97	(7)	(7%)	233,116
Powerpoint	1,180	2,886	(1,686)	15,271	28,849	(19,578)	(67%)	77	99	(22)	(22%)	328,868
Access	6,275	16,120	(9,845)	63,073	158,931	(95,558)	(60%)	99	102	(3)	(3%)	48,579
Project	6,098	9,445	(3,249)	51,282	81,513	(19,231)	(17%)	118	137	(19)	(13%)	147,164
Other Desktop Apps	11	6	7	6	200	(193)	(95%)	168	30	138	81%	115,318
Desktop Apps Existing Users	389,254	348,459	20,895	2,197,041	2,229,955	(32,921)	(1%)	239	221	18	8%	3,353,312
Desktop Apps - Total	1,431,977	1,252,721	189,156	5,960,734	5,668,745	291,989	5%	239	221	18	8%	8,680,811
Kids	10,737	14,433	(3,696)	251,181	404,950	(53,769)	(13%)	31	38	(7)	(18%)	683,424
Entertainment	7,055	9,429	(2,375)	48,017	528,415	(24,398)	(7%)	30	32	(2)	(6%)	1,541,028
Personal Interests	9,558	5,284	4,274	241,310	270,551	(29,241)	(11%)	29	35	(6)	(16%)	318,012
Reference	15,302	11,880	3,422	308,334	137,902	170,432	124%	50	86	(37)	(42%)	739,724
Imaging	93	678	(685)	63	1,105	(1,042)	(94%)	70	71	(1)	(2%)	(107,169)
Publishing	31,456	58,702	(1,236)	1,603,869	1,494,812	107,027	7%	38	30	8	23%	16,506
Books	11,160	11,337	(147)	170,198	214,250	(44,052)	(21%)	46	53	(7)	(13%)	3,507,378
Toys	29,887	29,887	0	485,231	812,951	(47,709)	(6%)	66	58	8	10%	445,625
Workbooks	41,077	41,274	(147)	639,459	727,201	(81,152)	(13%)	85	87	(2)	(2%)	829,282
Keyboards	7,857	14,268	(6,429)	117,464	198,694	(81,200)	(41%)	17	12	5	35%	1,286,307
Mouse/Trackball	27,307	30,208	(2,901)	748,693	857,359	(110,666)	(13%)	37	35	2	6%	377,083
Scanners	47,384	49,388	(2,003)	218,897	154,598	124,269	80%	44	32	12	36%	2,054,594
Modems	145,978	149,314	(3,386)	1,143,074	1,210,651	(67,577)	(6%)	41	41	0	0%	853,823
Consumer	8,881	3,927	4,954	255,337	127,971	127,366	100%	23	31	(8)	(23%)	3,060,482
Personal Finance												
MSN - Base												
MSN - Connectivity												
MSN - Extended												
MSN - Internet												
Microsoft Network (MCM)												
Internet												
Total	1,873,618	1,405,087	167,794	9,006,483	9,229,410	(307,053)	(4%)	184	152	32	21%	18,890,091

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FY96 EUROPE FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/License)

	Hardware			Licenses			Revenue/License			FY96 USFO YTD (USD)	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Revenue	Revenue
MG EXB	11,980	2,802	9,178	32,893	73,492	(40,599)	34	35	(1)	646,888	38
Windows, WW	60,166	11,045	49,121	1,201,893	1,001,808	1,999,985	60	55	5	3,194,401	48
Windows 95	221,028	362,889	(141,861)	2,241,073	4,233,351	(1,992,278)	86	88	(2)	4,033,723	36
Win Print (AI Printing)	18,435	14,263	4,172	448,168	354,739	93,429	41	40	1	1,162,275	11
Other Print (AI Work, Telephony)	1,174	41	1,133	63,823	61	63,762	22	64	(42)	160,822	80
Personal Systems Division	313,374	380,821	(67,447)	4,290,219	4,853,918	(563,699)	73	81	(8)	9,197,059	176
Windows NT Workstation	48,389	23,070	25,319	222,878	192,198	30,680	217	278	(61)	398,838	612
Windows NT Server - Servers	58,005	44,451	13,554	106,547	81,007	25,540	544	549	(5)	127,177	15
Windows NT Server - Users	21,418	18,095	2,423	1,019,479	797,629	221,850	21	24	(3)	1,836,659	15
SQL Server - Servers	6,143	9,423	(3,280)	11,578	12,672	(1,094)	760	744	16	22,876	737
SQL Server - Users	6,616	12,950	(7,033)	53,758	118,870	(65,112)	110	111	(1)	178,587	83
Exchange - Servers	14,949	6,242	8,707	12,690	4,444	8,246	1,186	1,404	(218)	13,085	1,078
Exchange - Users	10,378	8,824	1,554	193,692	44,008	151,684	94	151	(57)	375,290	86
Mail - Servers	9,374	6,557	2,817	25,080	19,030	6,050	374	345	29	47,637	255
Mail - Users	2,606	1,372	1,234	72,708	30,888	41,818	38	44	(6)	388,343	18
Mail - AddOn, Upgrades	12,230	8,885	3,345	193,148	72,778	120,370	63	94	(31)	345,716	60
Exchange - Servers	5,888	2,484	3,404	4,613	11,499	(6,886)	1,828	534	1,292	5,398	1,560
Exchange - Users	1,349	2,858	(1,470)	22,334	92,808	(70,474)	60	54	6	90,987	38
SQL Server - Servers	9,945	5,371	4,574	8,321	6,160	2,161	359	400	(101)	8,392	383
SQL Server - Users	2,048	1,787	261	334,416	155,909	178,507	27	34	(7)	871,809	20
SNA Server - Servers	3,261	2,815	446	8,045	6,918	1,127	255	302	(47)	23,008	84
SNA Server - Users	16,213	18,259	(2,046)	45,855	43,431	2,424	38	45	(7)	159,918	29
Other Business Systems	241,232	185,259	55,973	14,839	101,499	(86,660)	1,108	102	1,006	11,393	3,099
Business Systems New Users	12,547	848	11,701	155,741	34,757	120,984	81	24	57	405,548	78
Windows NT Workstation	3,454	2,068	1,387	30,025	25,718	4,307	115	80	35	85,242	79
Windows NT Server - Servers	1,958	1,288	670	6,351	3,278	3,073	293	393	(101)	13,152	218
SQL Server - Servers	2,174	1,748	426	41,879	35,988	5,891	52	49	3	113,104	35
Exchange - Servers	18	1,204	(1,186)	85	3,109	(3,024)	211	387	(176)	727	250
Exchange - Users	41	1,428	(1,387)	2,030	34,811	(32,781)	20	41	(21)	38,415	18
Other Business Systems	16	542	(526)	178	8,107	(7,929)	81	87	(6)	1,455	51
Business Systems Existing Users	29,105	9,172	19,933	238,288	145,564	92,724	85	63	22	627,231	86
Business Systems - Total	261,340	174,382	86,958	2,828,489	1,817,621	1,010,868	100	96	4	6,531,722	74
Visual Basic	30,154	28,508	1,646	148,593	167,711	(19,118)	243	188	55	365,266	150
Fort	9,090	14,230	(5,140)	38,189	84,374	(46,205)	238	169	70	118,997	188
C++	18,105	19,034	(929)	71,182	88,853	(17,671)	254	214	40	228,876	181
MRDN	16,697	10,247	6,450	28,201	24,419	3,782	592	420	172	79,382	451
Other Developer Products	17,290	19,802	(2,512)	50,501	81,538	(31,037)	342	243	100	111,828	248
Per Year	97,245	89,818	7,428	338,828	438,895	(100,067)	289	208	81	901,809	199
ACT - Rollimage	872,000	655,021	216,979	7,259,851	7,109,434	150,417	83	82	1	15,631,847	73
ACT - Other	2,245,974	2,060,893	185,081	16,858,314	16,337,644	520,670	133	128	5	32,321,738	90
Total Products	76	76	0	111,318	111,318	0	277	277	0	(478,260)	(77)
Other (Main, MFR, Xerox, OS2)	(113,034)	(113,034)	0	(45,989)	(45,989)	0	131	126	5	31,842,478	87
Reselling Mfr (Microsoft)	52,800	56,443	(3,643)	18,418	18,418	0	4	4	0	0	0
Reselling Mfr (Recognized)	2,216,451	2,066,000	150,451	18,987,632	18,337,844	649,788	131	126	5	31,842,478	87
Other Revenue											

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APPENDIX

Q96-4 ICON FINISHED GOODS REVENUE SUMMARY
(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USD (M USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	
Office	46,003	33,004	14,971	187,000	108,318	60%	184	216	(32)	1,809,584	207	207	
Office Professional	26,271	33,125	(4,854)	125,438	110,639	15%	225	299	(74)	1,834,068	153	153	
Excel	2,193	3,586	(1,393)	17,637	25,122	(29%)	123	142	(19)	254,809	132	132	
Word	4,137	6,081	(3,943)	59,824	25,348	(42%)	180	135	(45)	488,911	180	180	
Powerpoint	520	737	(211)	6,000	(99)	(2%)	107	147	(40)	97,670	147	147	
Access	1,203	2,007	(1,713)	9,801	19,089	(49%)	131	157	(26)	330,229	208	208	
Project	4,271	3,770	492	16,100	13,867	19%	264	279	(15)	293,791	103	103	
Other Desktop Apps	508	508	0	2,390	92	7933%	69	69	0	110,107	195	195	
Desktop Apps New Users	50,043	88,171	(38,128)	380,389	91,003	23%	149	133	16	1,812,600	142	142	
Office	10,709	6,711	3,998	50,454	21,326	42%	190	175	15	867,265	174	174	
Office Professional	13,045	6,205	6,790	36,059	32,535	90%	73	60	13	233,116	74	74	
Excel	698	1,101	(405)	18,285	(8,727)	(48%)	71	61	10	328,666	75	75	
Word	1,292	1,273	19	18,294	(2,145)	(13%)	69	61	8	48,579	70	70	
Powerpoint	182	157	24	2,563	63	2%	66	62	(4)	107,164	58	58	
Access	189	786	(617)	2,471	9,538	(74%)	102	86	16	115,318	104	104	
Project	841	414	427	8,228	4,734	74%	18	18	0	214	55	55	
Other Desktop Apps	20,834	16,728	10,186	181,484	142,672	3876%	148	117	31	3,253,312	132	132	
Desktop Apps Existing Users	119,077	102,809	14,088	653,037	533,241	12876%	176	193	(17)	8,690,811	171	171	
Desktop Apps - Total	1,095	2,351	(1,255)	71,751	66,629	(9078)	15	29	(14)	663,424	25	25	
Kids	1,151	1,906	(844)	57,530	66,849	(3,319)	20	33	(13)	1,541,926	25	25	
Entertainment	502	1,273	(771)	38,760	41,307	(4,547)	14	31	(17)	318,012	38	38	
Personal Interests	280	308	(45)	13,185	6,859	628	20	44	(24)	313,917	38	38	
Geo/Travel	1,357	1,658	(199)	52,415	35,208	17,204	28	44	(16)	799,724	45	45	
Hobbies	1	12	(11)	20	220	(191)	27	53	(27)	(107,163)	8	8	
Inviting	4,295	7,548	(3,151)	2,553	3,516	(853)	19	33	(14)	3,507,319	28	28	
New Business	2,551	765	1,786	50,603	18,230	32,433	50	43	7	445,525	52	52	
Publisher	4,114	2,271	1,744	58,609	48,208	10,401	38	37	1	820,282	34	34	
Wholes	1,040	1,950	(910)	107,662	54,528	43,034	43	66	(24)	1,206,307	40	40	
Established Business	2,560	2,604	(44)	100,662	88,224	14,438	25	29	(4)	377,065	74	74	
Keyboards	743	621	123	17,414	18,081	(1,267)	43	33	9	658,823	43	43	
Mouse/Keyboard	4,943	5,074	(130)	156,282	134,232	22,050	32	38	(6)	3,090,482	46	46	
Scanning Devices	13,453	14,991	(1,538)	490,075	427,619	70,456	10	19	(9)	7,884,165	37	37	
Peripherals	123	70	53	12,109	3,812	8,497	235%	10	19	(9)	185,315	10	10
Financial Services	MSN - Email	MSN - Connectivity	MSN - Extended	MSN - Internet	Microsoft Minisk (MSM)	Total App+Content	111	122	(11)	18,090,091	108	108	

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Q96-4 ICON FINISHED GOODS REVENUE SUMMARY (continued)
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY06 USFG (M USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue	
MS DOR	1,300	414	886	12,494	42,859	30,365	28	53	(25)	840,890	35	
Windows, WinV	11,040	1,227	9,813	200,859	176,890	23,969	59	89	(30)	3,106,401	48	
Windows OS	(500)	23,008	(23,508)	51,271	305,845	(254,574)	(6)	78	(84)	4,006,723	63	
MSI Prod (Topline)	592	784	(192)	25,618	22,061	3,557	23	34	(11)	1,182,275	30	
Other (MSD, AI Work, Telephony)	91	7	84	10,728	19,608	(8,880)	6	62	(56)	180,632	11	
Personal Systems Division	13,858	28,432	(14,574)	343,289	116,590	226,699	40	73	(33)	8,197,059	60	
Windows NT Workstation	3,731	1,059	2,672	8,250	17,715	(9,465)	162	202	(39)	396,836	178	
Windows NT Server - Servers	4,027	4,478	(451)	11,000	(350)	11,350	461	408	53	127,177	512	
Windows NT Server - Users	2,094	1,478	616	78,409	111,187	(32,778)	14	19	(4)	1,830,959	15	
SQL Server - Servers	682	1,081	(399)	1,305	(1,211)	94	678	430	248	27,678	737	
SQL Server - Users	784	1,468	(684)	8,799	(5,899)	14,698	80	94	(13)	178,587	83	
Technologies - Servers	2,036	801	1,235	3,123	834	2,289	652	1,263	(611)	13,085	1,078	
Technologies - Users	4,587	982	3,605	58,584	7,271	51,313	78	133	(55)	375,200	86	
Mail - Servers	768	819	(51)	3,182	2,807	375	241	314	(73)	47,857	255	
Mail - Users	1,407	200	1,207	127,904	8,951	118,953	11	30	(19)	306,343	16	
Mail - Admin, Upgrades	600	610	(10)	6,297	5,813	484	137	88	49	345,718	68	
Exchange - Servers	2,195	241	1,954	1,585	848	737	1,265	372	1,013	5,398	1,560	
Exchange - Users	642	670	(28)	20,288	9,343	10,945	42	61	(19)	90,987	38	
SMS Server - Servers	263	364	(101)	3,142	870	2,272	84	416	(334)	8,592	363	
SMS Server - Users	1,509	504	1,005	65,742	17,994	47,748	18	31	(13)	871,609	20	
SNA Server - Servers	332	144	188	5,300	643	4,657	82	266	(204)	23,408	84	
SNA Server - Users	361	287	74	18,819	7,228	11,591	21	40	(19)	158,918	29	
Other Business Systems	732	224	508	865	5,795	(4,930)	846	27	828	11,593	3,929	
Business Systems New Users	29,031	15,432	13,599	568,235	193,273	374,962	57	81	(24)	4,805,931	72	
Windows NT Workstation	1,282	63	1,219	18,935	1,741	15,194	76	38	40	405,548	76	
Windows NT Server - Servers	503	154	349	4,165	1,582	2,583	121	88	33	55,242	78	
Windows NT Server - Users	212	147	65	733	416	317	290	355	(65)	13,182	218	
SQL Server - Servers	297	127	170	9,582	3,199	6,383	31	40	(9)	113,194	35	
SQL Server - Users	29	70	(41)	142	378	(236)	201	165	16	727	250	
Exchange - Servers	143	252	(109)	6,600	694	5,906	22	38	(17)	38,413	16	
Exchange - Users	308	105	203	2,124	1,871	253	182	58	128	1,455	51	
Other Business Systems	3,031	919	2,112	40,311	15,781	24,530	71	98	(27)	627,231	69	
Business Systems Training Users	31,092	18,331	12,761	609,608	199,954	409,654	82	82	(0)	5,631,272	74	
Business Systems - Total	2,069	1,790	279	15,248	10,944	4,298	175	183	(8)	363,298	180	
Visual Basic	949	2,007	(1,058)	5,533	16,941	(11,408)	171	138	33	118,997	168	
For	903	916	(13)	5,098	4,710	388	189	195	(6)	228,678	181	
C++	640	328	312	3,138	934	2,204	288	348	(60)	79,382	451	
MSDN	1,033	1,059	(26)	4,685	5,378	(693)	211	190	22	111,628	248	
Other Developer Products	9,455	8,158	1,297	33,894	37,118	(3,224)	190	169	21	901,809	198	
Developer												
ACT - Software												
ACT - Other	61,032	46,629	14,403	683,089	588,141	94,948	83	82	(1)	18,831,611	73	
Total/Products	162,405	108,609	53,796	2,159,120	1,898,643	260,477	85	107	(22)	32,321,736	90	
Other	308	1,859	(1,551)	125,771		125,771	3		3	(479,200)	(172)	
Other (Man, MGR, Xent, OS?)	(19,709)	(1,830)	(17,879)									
Franchising Int'l (Internat)	10,127	2,003	8,124									
Franchising Int'l (Incorp)	173,240	168,702	4,538	2,218,891	1,569,643	649,248	76	108	(32)	31,842,478	87	
Other Revenue												

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APPENDIX

FY96 ICON FINISHED GOODS REVENUE SUMMARY
(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			EXHAUSTED YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue	Rev/ltc
Office	147,502	128,914	20,448	183,639	183,639	20%	199	217	(17)	1,896,844	207	
Office Professional	100,642	113,560	(3,097)	436,848	394,826	14%	249	295	(46)	1,834,068	207	
Excel	8,609	13,154	(4,545)	65,266	92,417	(27,151)	132	142	(10)	254,899	153	
Word	16,000	26,450	(10,380)	133,480	192,018	(58,538)	120	139	(19)	486,911	132	
Powerpoint	1,901	2,858	(897)	16,688	19,787	(3,099)	117	145	(27)	97,820	100	
Access	4,849	8,877	(4,028)	35,822	56,404	(20,582)	136	157	(21)	330,229	147	
Project	13,787	12,977	790	52,824	47,113	5,711	282	275	(7)	283,791	286	
Other Desktop Apps	721		721	11,578	351	11,227	62	221	(159)	5,207,299	195	
Desktop Apps New Users	303,011	304,809	(1,798)	1,494,084	1,377,958	116,088	203	221	(18)	1,812,690	142	
Office	41,094	24,800	16,294	320,209	194,299	125,910	128	128	0	887,385	174	
Office Professional	30,273	20,853	9,820	174,549	127,447	47,102	173	162	11	233,116	74	
Excel	1,768	4,387	(2,601)	26,747	76,850	(48,902)	66	58	8	328,866	75	
Word	3,430	4,771	(1,341)	53,828	78,208	(24,380)	64	61	3	48,579	70	
Powerpoint	324	628	(302)	5,191	10,283	(5,092)	62	61	1	147,164	38	
Access	603	2,178	(1,572)	9,530	27,333	(17,803)	63	80	(16)	118,318	104	
Project	2,238	1,509	728	23,146	18,517	4,629	97	81	15	214	55	
Other Desktop Apps	(1)		(1)	(17)		(17)	83		83	3,353,312	132	
Desktop Apps Existing Users	79,725	58,901	20,824	613,188	531,737	81,451	130	111	19	8,662,811	171	
Desktop Apps - Total	382,736	363,710	19,026	2,107,272	1,909,233	197,539	182	180	(2)	883,424	28	
Kids	5,380	6,855	(1,475)	278,344	238,874	37,870	19	20	(9)	1,841,928	25	
Entertainment	4,484	5,982	(1,488)	187,020	165,842	21,178	24	32	(8)	319,012	25	
Personal Interest	2,478	3,882	(1,405)	127,199	124,857	2,342	19	31	(12)	313,947	36	
Geo/Travel	697	678	19	26,208	15,478	10,728	27	44	(17)	759,724	36	
Reference	3,235	8,997	(2,062)	122,315	133,821	(11,506)	28	44	(16)	(107,163)	45	
Books	21	49	(28)	563	913	(350)	38	54	(16)	18,506	8	
Imaging	96	207	(111)	6,251	13,460	(5,209)	12	15	(3)	3,507,270	29	
New Business	19,402	23,531	(2,119)	747,808	712,745	35,153	67	42	25	445,525	52	
Publishing	5,509	3,413	2,166	119,502	40,889	78,613	28	33	(5)	820,782	34	
Walls	4,800	6,523	(1,824)	173,103	195,251	(22,058)	28	33	(5)	1,260,307	40	
Fieldshipped Business	10,498	9,038	1,460	292,625	278,140	16,355	36	38	(2)	377,095	74	
Reference	6,087	6,974	(1,887)	104,260	104,007	253	48	67	(19)	2,054,594	41	
Microsoft Business	9,003	9,408	(405)	382,726	328,278	54,448	28	29	(1)	689,223	43	
Microsoft Point	3,255	1,874	1,381	78,207	58,128	20,079	42	32	10	3,090,482	46	
Microsoft Devices	19,245	18,317	928	685,103	401,011	284,092	32	37	(5)	7,864,165	37	
Microsoft Hardware	43,145	81,603	(38,458)	1,405,286	1,479,898	(74,612)	28	35	(7)	185,213	18	
Microsoft Consumer	540	282	258	42,680	14,447	28,233	13	19	(6)			
Microsoft Personal Finance												
Microsoft MSN - Health												
Microsoft MSN - Connectivity												
Microsoft MSN - Entertainment												
Microsoft MSN - Internet												
Microsoft Network (MSN)												
Microsoft Internet/Connect												
Total	428,422	418,193	10,229	3,765,718	3,404,078	351,642	114	122	(8)	16,000,091	108	

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FY96 ICON FINISHED GOODS REVENUE SUMMARY (continued)
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY00 USFG YTD (US\$)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue	
MS DOS	4,763	2,042	2,721	190,833	66,109	124,724	21	32	(11)	35	640,048	
Windows, NTW	31,461	6,442	25,019	641,838	105,747	536,091	48	48	(0)	48	3,196,401	
Windows 95	72,894	65,248	7,646	929,266	1,190,298	(270,032)	79	79	(0)	83	4,030,723	
MS Flight (Fishing)	4,186	2,898	1,288	164,156	83,972	80,184	28	35	(7)	36	1,162,275	
Other MSD (AI Work, Telephony)	91	25	67	12,011	400	11,611	8	62	(54)	11	160,872	
Personal Systems Division	113,410	105,895	7,515	1,931,904	1,454,428	477,476	59	73	(14)	80	9,197,059	
Windows NT Workstation	7,479	3,384	4,095	49,602	16,913	32,689	177%	200	200	178	398,639	
Windows NT Server - Servers	14,774	14,781	(7)	35,181	35,501	(320)	459	418	41	512	1,271,177	
Windows NT Server - Users	7,106	4,840	2,266	497,459	258,785	238,674	14	19	(5)	15	1,836,959	
SOL Server - Servers	3,580	3,717	(137)	5,586	8,244	(2,658)	640	451	189	737	22,876	
SOL Server - Users	2,887	5,082	(2,195)	37,183	54,310	(17,127)	80	94	(14)	83	178,587	
Technical - Servers	7,225	2,172	5,053	9,217	1,708	7,509	878	1,271	(393)	1,076	13,085	
Technical - Users	9,220	2,607	6,613	107,972	18,669	89,303	85	133	(47)	88	379,290	
Mail - Servers	3,374	3,095	279	11,924	9,919	2,005	283	312	(29)	255	47,637	
Mail - Users	3,213	1,175	2,038	175,136	38,121	137,015	15	31	(16)	16	388,343	
Exchange - Servers	2,207	362	1,845	1,830	993	837	1,372	365	1,008	1,500	5,391	
Exchange - Users	882	1,075	(193)	21,151	14,192	7,959	42	59	(17)	36	60,987	
SMS Server - Servers	774	1,202	(427)	4,455	2,910	1,545	174	413	(239)	363	8,592	
SMS Server - Users	3,355	1,870	1,485	174,272	58,779	115,493	19	32	(13)	20	871,809	
SNA Server - Servers	670	907	(237)	10,728	1,847	8,881	82	275	(212)	84	23,408	
SNA Server - Users	1,002	974	28	40,978	23,768	17,210	24	41	(17)	29	158,818	
Other Business Systems	2,323	880	1,442	2,988	22,877	(19,889)	783	38	744	3,099	11,393	
Business Systems New Users	72,858	48,662	24,196	1,235,584	84,838	1,150,746	59	82	(23)	75	4,900,991	
Windows NT Workstation	2,463	271	2,192	34,877	1,624	33,253	71	31	40	76	406,548	
Windows NT Server - Servers	1,171	658	513	11,892	7,814	4,078	88	66	22	79	55,242	
Windows NT Server - Users	600	674	(74)	2,885	1,914	971	248	352	(104)	216	13,152	
SOL Server - Servers	738	582	156	23,017	13,822	9,195	32	41	(9)	35	113,184	
SOL Server - Users	38	108	(70)	182	601	(419)	200	180	20	250	727	
Exchange - Servers	221	356	(135)	12,800	9,341	3,459	17	38	(21)	16	38,413	
Exchange - Users	309	415	(25)	2,332	7,319	(4,987)	167	57	111	51	1,455	
Other Business Systems	9,879	3,042	6,837	81,416	48,235	33,181	65	82	(17)	68	827,731	
Business Systems Existing Users	76,548	82,704	(6,156)	1,312,089	641,171	670,918	80	82	(2)	74	9,531,722	
Virtual Data	9,192	6,798	2,394	90,959	41,487	49,472	180	164	16	150	365,288	
For	5,356	7,981	(2,625)	20,570	89,363	(68,793)	181	134	47	168	118,997	
C++	2,992	3,385	(393)	15,583	17,115	(1,532)	182	193	(11)	181	228,876	
MSDN	1,871	1,089	782	7,480	3,250	4,230	251	335	(84)	451	79,382	
Other Developer Products	2,897	4,213	(1,316)	11,457	22,134	(10,677)	253	190	63	248	111,629	
Developer	72,307	23,480	48,827	115,029	143,729	(28,700)	194	163	31	190	801,009	
ACT - Hardware												
ACT - Other											897	
Total Products	211,294	182,885	28,409	3,305,913	2,242,329	1,063,584	64	82	(18)	73	15,831,847	
Total Product Group	612,716	598,059	14,657	7,121,631	5,948,402	1,173,229	80	106	(26)	80	32,351,738	
Press												
Other (Man, M R, Xerox, DTP)	7,914	6,178	1,736	383,044		383,044	91		91	(179)	(479,260)	
Including Mkt (Materials)	(46,290)	(7,709)	(38,581)									
Including Mkt (recognized)	24,848	9,059	15,789									
Press Revenue	879,242	605,097	274,145	7,504,875	6,616,402	888,473	83	107	(24)	(75)	31,842,478	

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APPENDIX

Q96-4 FAR EAST FINISHED GOODS REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY95 USD YTD (USD)				
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Revenue			
Office Professional	3,700	28,191	3,898	13%	180,060	171,297	89,063	48%	728	231	85	24%	1,899,584	207
Excel	64,529	45,400	9,128	20%	260,798	147,368	113,210	77%	709	308	(99)	(37%)	1,834,068	207
Word	8,597	11,655	(3,058)	(26%)	70,235	61,164	9,071	15%	122	191	(84)	(38%)	254,899	153
Powerpoint	28,486	2,804	25,683	915%	304,354	23,933	280,421	1172%	84	117	(24)	(20%)	488,911	132
Access	398	648	(248)	(38%)	3,414	4,265	(851)	(20%)	116	151	(35)	(23%)	97,420	160
Project	5,291	7,000	(1,809)	(26%)	46,157	41,212	4,945	12%	117	169	(52)	(31%)	330,229	147
Other Desktop Apps	1,840	6,075	(4,235)	(69%)	9,011	14,834	(5,823)	(39%)	205	342	(137)	(40%)	263,781	286
Desktop Apps New Users	3,581	150	3,431	2287%	45,157	504	44,653	8802%	79	298	(218)	(73%)	110,197	103
Office	124,600	100,021	33,678	33%	920,985	415,487	505,498	121%	148	243	(95)	(39%)	5,307,299	182
Excel	2,111	1,634	477	29%	17,878	9,569	8,307	84%	120	171	(51)	(30%)	1,612,690	142
Word	4,975	12,303	(7,328)	(60%)	33,606	44,983	(11,377)	(25%)	148	274	(126)	(46%)	867,365	174
Powerpoint	176	487	(311)	(65%)	2,856	5,976	(3,120)	(52%)	88	82	(6)	(7%)	233,116	74
Access	(223)	485	(708)	(145%)	(1,459)	8,250	(7,799)	(235%)	153	78	75	97%	328,866	76
Project	28	77	(49)	(61%)	442	1,007	(565)	(56%)	83	78	(5)	(6%)	48,579	36
Other Desktop Apps	83	1,456	(1,373)	(94%)	1,104	18,891	(15,787)	(83%)	73	86	(13)	(15%)	147,164	38
Desktop Apps Existing Users	84	35	49	83%	534	421	113	27%	120	83	37	44%	116,310	104
Desktop Apps - Total	7,207	16,508	(9,301)	(56%)	54,689	85,997	(30,408)	(35%)	132	164	(32)	(20%)	3,353,312	132
Entertainment	141,807	117,229	24,578	21%	974,775	500,594	474,181	95%	145	235	(89)	(38%)	6,890,811	171
Kids	756	3,895	(3,140)	(81%)	21,616	103,713	(81,097)	(78%)	35	38	(3)	(8%)	853,424	25
Personal Interests	113	917	(805)	(89%)	74,347	52,271	21,976	42%	37	44	(7)	(16%)	1,541,926	25
Geo/Travel	10	2	8	395%	3,414	24,729	(21,315)	(86%)	33	37	(4)	(11%)	319,012	25
Reference	85	95	(10)	(11%)	2,308	2,263	45	2%	38	43	(5)	(12%)	313,947	36
Rob	27	28	(1)	(3%)	929	1,110	(181)	(16%)	37	42	(5)	(12%)	739,774	38
New Business	3,705	7,243	(3,538)	(49%)	103,108	164,888	(61,780)	(44%)	38	59	(21)	(35%)	3,507,378	28
Publisher	6	8	(2)	(26%)	105	101	4	4%	83	75	(8)	(9%)	445,525	82
Works	705	393	312	79%	14,477	6,833	7,644	112%	83	57	(26)	(32%)	820,762	34
Established Business	512	328	183	56%	8,457	5,179	3,278	64%	84	64	(20)	(24%)	1,266,207	40
Mouse/Keyboard	3,771	1,145	2,626	229%	126,165	31,489	94,676	301%	29	38	(9)	(23%)	2,054,594	41
Printing Devices	8,170	1,782	6,388	358%	182,823	44,328	138,495	311%	76	38	38	100%	859,823	43
Peripherals	10,655	9,408	1,247	13%	280,511	236,148	44,363	19%	38	40	(2)	(5%)	3,090,482	46
Personal Finance	0	2	(2)	(100%)	11	125	(114)	(91%)	27	19	8	41%	7,884,165	37
MISN - Basic													195,316	19
MISN - Connectivity														
MISN - Extended														
MISN - Internet														
Microsoft Network (MSN)														
Total Applications	162,463	126,839	35,624	28%	1,255,297	736,887	518,410	70%	121	122	(1)	(1%)	16,899,091	199

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Q96-4 FAR EAST FINISHED GOODS REVENUE SUMMARY (continued)
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 USD YTD (USD)	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lc
MS-DOS	250	66	184	6,418	1,874	4,544	39	42	(3)	646,988	35
Windows, WHW	1,811	212	1,599	28,172	7,880	20,292	64	28	36	3,106,401	46
Windows 95	13,657	13,873	(216)	155,703	152,424	3,279	88	90	(2)	4,036,723	83
MSI Final (Frosting)	3,976	657	3,319	109,752	15,974	94,078	36	46	(10)	1,162,275	36
Other (FRI) (AI Wick, Telephony)	650	1	649	47,023	15	47,008	12	53	(41)	160,622	11
Personal Systems Division	20,244	14,000	6,655	317,068	175,287	141,801	58	83	(25)	8,197,059	80
Windows NT Workstation	6,092	3,860	2,232	43,081	21,815	21,266	141	179	(37)	306,836	178
Windows NT Server - Servers	6,098	6,745	(647)	18,244	15,034	3,210	84	81	3	12,177	51
Windows NT Server - Users	4,715	2,578	2,137	236,709	124,313	112,396	20	21	(1)	1,626,939	15
SQL Server - Servers	2,478	3,888	(1,410)	3,578	8,200	(4,622)	693	748	(55)	22,878	737
SQL Server - Users	2,078	6,315	(4,237)	23,905	73,922	(50,017)	87	85	2	178,587	83
Thackolico - Servers	639	167	472	698	111	587	1,403	1,482	(79)	13,085	1,078
Thackolico - Users	870	210	660	7,398	1,109	6,289	118	100	18	375,290	66
Mail - Servers	517	308	209	1,877	1,144	733	308	323	(15)	47,657	255
Mail - Users	230	338	(108)	7,247	9,946	(2,699)	32	34	(2)	388,343	18
Mail - Addtms, Upgrades	604	212	392	2,412	1,898	514	209	255	(46)	345,718	69
Exchange - Servers	212	1,828	(1,616)	150	1,898	(1,748)	1,832	857	1,025	90,887	36
Exchange - Users	18	928	(910)	400	6,712	(6,312)	45	96	(51)	8,592	363
RMS Server - Servers	734	647	87	1,694	1,586	108	434	413	21	871,609	20
RMS Server - Users	1,558	259	1,299	60,786	19,811	40,975	26	38	(12)	23,408	64
SNA Server - Servers	153	228	(76)	503	628	(125)	304	265	39	159,818	28
SNA Server - Users	618	356	262	15,368	7,081	8,287	34	50	(17)	11,592	3,009
Other Business Systems	3,391	269	3,122	5,441	2,548	2,893	623	82	541	4,603,891	25
Business Systems New Users	34,872	28,437	6,435	428,171	284,056	144,115	81	109	(28)	4,053,348	76
Windows NT Workstation	386	248	138	6,635	7,427	(792)	41	33	8	55,242	79
Windows NT Server - Servers	428	128	299	4,665	1,916	2,749	91	67	24	13,152	216
SQL Server - Servers	280	405	(125)	688	1,289	(601)	373	314	58	113,104	35
SQL Server - Users	455	267	188	6,002	4,810	1,192	68	58	10	727	250
Exchange - Servers	0	0	0	1	1	0	203	203	0	36,413	16
Exchange - Users	3	0	3	200	0	200	17	17	0	1,455	51
Other Business Systems	16	908	(892)	226	8,999	(8,773)	78	23	55	827,321	68
Business Systems Existing Users	1,558	1,359	199	27,327	24,441	2,886	70	51	19	5,531,722	74
VisualInfo	39,130	20,718	18,412	451,408	319,407	132,001	81	96	(15)	365,266	180
For	428	1,207	(779)	4,238	8,724	(4,486)	239	222	17	118,997	169
GIS	8,230	6,915	1,315	31,798	18,432	13,366	290	375	(85)	228,076	181
MSDN	1,732	1,619	113	4,888	2,819	2,069	354	874	(220)	79,382	451
Other Developer Products	2,782	327	2,455	7,829	1,569	6,260	305	208	97	111,828	248
Developer	24,634	18,294	6,041	91,511	69,080	22,431	287	286	1	801,969	190
ACT - Rollings	0	0	0	0	0	0	0	0	0	897	78
ACT - Other	0	0	0	0	0	0	0	0	0	15,531,647	23
Total/Products	61,108	63,718	(2,610)	800,077	662,824	137,253	81	113	(22)	32,371,738	80
Total/Products (Ship)	23,370	190,537	(167,167)	3,145,374	1,209,891	1,935,483	109	147	(38)	(478,260)	(17)
Yess	3,918	17	3,901	18,790	0	18,790	206	0	206	0	0
Other (Mail, MFR, Xerox, OS2)	(1,221)	0	(1,221)	0	0	0	0	0	0	0	0
Incoming Mail (deferrals)	512	71	441	0	0	0	0	0	0	0	0
Incoming Mail (recognize)	236,781	190,645	46,136	2,164,154	1,209,891	864,483	109	147	(37)	31,842,478	87
Gross Revenue											

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APPENDIX

FY96 FAR EAST FINISHED GOODS REVENUE SUMMARY
 (\$ in thousands, except Revenue/License)

	Revenue			License			Revenue/License			FY96 USED YTD (USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	
Office Professional	170,709	174,389	5,320	4%	815,719	485,872	190,147	21%	211	258	(47)	1,899,164	207
Excel	217,027	178,594	80,432	71%	877,645	482,495	402,495	122%	247	320	(73)	1,834,068	207
Word	80,783	48,844	1,908	4%	402,551	254,938	254,938	95%	105	107	(2)	254,899	153
Powerpoint	2,340	3,113	(773)	(25%)	746,597	204,261	642,346	618%	81	117	(36)	488,911	132
Access	21,323	20,814	409	2%	15,776	19,968	(4,090)	(21%)	149	157	(8)	97,620	100
Project	6,850	15,767	(8,116)	(58%)	153,005	121,478	31,527	26%	139	172	(33)	330,228	147
Other Desktop Apps	10,839	875	9,964	1138%	34,576	48,145	(11,567)	(25%)	102	342	(240)	283,791	208
Desktop Apps New Users	409,077	332,685	146,412	42%	1,050,029	2,272	134,157	4840%	163	248	(85)	1,101,107	103
Office Professional	25,670	18,908	6,881	35%	3,052,800	1,222,817	1,829,853	115%	170	193	(23)	1,812,890	142
Excel	40,665	37,737	2,928	8%	196,340	-136,951	59,389	43%	207	278	(69)	887,345	174
Word	657	2,838	(2,270)	(80%)	9,176	35,981	(28,805)	(74%)	61	79	(18)	328,868	75
Powerpoint	281	208	80	(28%)	3,528	3,860	(332)	(9%)	80	77	3	48,379	70
Access	1,234	6,152	(5,918)	(76%)	11,184	88,580	(48,396)	(81%)	110	88	24	147,164	38
Project	158	111	48	43%	1,867	1,385	502	37%	65	81	(16)	115,218	104
Other Desktop Apps	86	(89)	1,050	(100%)	1,867	1,385	502	37%	65	81	(16)	115,218	104
Desktop Apps Existing Users	70,886	69,833	833	1%	398,488	391,673	6,813	2%	177	178	(1)	3,353,312	132
Desktop Apps - Total	569,743	422,499	147,244	35%	3,481,288	1,814,520	1,666,768	81%	165	233	(68)	8,869,811	171
Kids	2,289	6,110	(6,820)	(75%)	64,884	236,345	(171,461)	(73%)	35	39	(4)	883,424	25
Entertainment	6,810	11,970	(2,160)	(18%)	13,816	54,865	(41,049)	(75%)	45	57	(12)	1,541,828	25
Personal Interests	519	2,027	(1,508)	(74%)	787	194	593	295%	38	37	1	319,012	25
Geo/Travel	372	6	366	6000%	10,117	6,757	3,360	18%	37	42	(5)	315,947	36
Reference	5	89	(84)	(94%)	102	1,498	(1,396)	(93%)	53	89	(36)	739,724	38
Web	242	208	35	17%	9,350	7,537	1,813	11%	29	28	1	167,508	9
New Products	13,204	23,782	(10,577)	(44%)	314,343	518,204	(203,861)	(39%)	42	48	(6)	3,507,218	28
Publisher	4,178	4,100	78	2%	1,143	385	758	197%	46	74	(28)	445,625	62
Works	4,232	4,299	(67)	(2%)	76,051	69,755	6,296	23%	55	69	(14)	820,782	34
Finalized Business	1,250	1,263	(13)	(1%)	21,817	19,745	2,072	11%	67	64	3	1,268,307	40
Keynotes	11,289	7,651	3,638	48%	349,669	187,333	162,336	66%	32	41	(9)	2,054,994	41
Marketing/Events	4,604	925	3,679	316%	70,258	26,125	44,133	203%	56	35	21	658,823	43
Training/Devices	18,942	9,838	9,104	72%	459,842	233,403	226,439	93%	38	42	(4)	3,080,482	48
Hardware	34,038	37,828	(3,790)	(9%)	842,319	812,747	29,572	4%	41	47	(6)	7,084,185	37
Consumer	65	6	59	900%	4,782	468	4,314	924%	14	18	(4)	185,315	19
Personal Finance													
MSN - Books													
MSN - Connectivity													
MSN - Extended													
MSN - Internet													
Microsoft Network (MSN)													
Initial App/Content													
TOTAL	404,246	400,338	3,908	1%	3,308,457	2,827,235	4,810,222	61%	140	175	(35)	18,000,001	100

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FY96 FAR EAST FINISHED GOODS REVENUE SUMMARY (continued)

(\$ in thousands, except Revenue/Licenses)

	Revenue			Licenses			Revenue/License			FY96 US\$0 YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
MS (KOR)	1,804	478	1,326	23,242	24,111	(869)	64	40	24	7%	640,048	35
Windows NT	6,953	1,274	5,679	110,096	110,096	0	87	40	47	67%	3,104,401	48
Windows 95	103,755	65,818	37,937	392,951	392,951	0	66	65	1	1%	4,036,723	83
MS (Phil) (Printing)	20,804	4,791	16,013	445,481	445,481	0	38	48	(10)	(20%)	1,182,278	36
MS (Phil) (AI Work, Telephony)	1,358	3	1,355	91,928	91,928	0	20	53	(33)	(62%)	100,872	11
Personal Systems Division	137,378	72,381	65,000	1,042,278	1,042,278	0	73	87	(14)	(16%)	9,187,059	60
Windows NT Workstation	21,841	11,640	10,202	65,051	65,051	0	148	179	(31)	(17%)	306,836	179
Windows NT Server - Servers	29,378	23,352	6,026	44,742	44,742	0	653	622	31	6%	127,177	612
Windows NT Server - Users	15,333	8,118	7,215	30,587	30,587	0	21	21	0	0%	1,836,059	15
SQL Server - Servers	12,133	12,173	(40)	16,175	16,175	0	741	753	(11)	(1%)	22,676	737
SQL Server - Users	10,580	13,900	(3,320)	45,285	45,285	0	92	87	5	6%	178,567	83
Exchange - Servers	2,751	705	2,046	4,099	4,099	0	1,267	1,224	(43)	(3%)	13,085	1,078
Exchange - Users	3,338	3,951	(613)	10,588	10,588	0	353	373	(20)	(5%)	47,857	255
Mail - Servers	878	2,835	(1,957)	9,974	9,974	0	164	377	(213)	(57%)	345,716	69
Mail - AddOns, Upgrades	2,319	1,853	466	1,736	1,736	0	45	86	(41)	(48%)	90,987	38
Exchange - Servers	16	971	(955)	11,250	11,250	0	475	416	59	14%	8,582	383
Exchange - Users	3,905	1,759	2,146	3,991	3,991	0	28	38	(10)	(27%)	971,809	20
SMS Server - Servers	4,985	2,441	2,544	11,524	11,524	0	378	365	13	4%	23,408	84
SMS Server - Users	543	753	(210)	2,064	2,064	0	37	50	(13)	(26%)	188,818	29
SNA Server - Users	994	990	4	19,735	19,735	0	754	82	672	820%	11,593	3,099
Other Business Systems	9,680	808	8,872	8,828	8,828	0	88	102	(14)	(12%)	4,693,991	75
Business Systems New Users	122,489	88,068	34,421	870,900	870,900	0	40	34	6	16%	4,693,991	75
Windows NT Workstation	2,242	820	1,422	24,010	24,010	0	112	73	39	54%	55,242	79
Windows NT Server - Servers	1,713	482	1,231	6,615	6,615	0	428	317	110	35%	13,182	216
Windows NT Server - Users	1,438	1,220	218	4,160	4,160	0	84	56	28	50%	113,194	35
SQL Server - Servers	1,240	882	358	15,700	15,700	0	203	203	0	0%	727	250
SQL Server - Users	0	0	0	0	0	0	17	17	0	0%	39,413	16
Exchange - Servers	3	0	3	200	200	0	73	23	50	214%	1,455	51
Exchange - Users	10	418	(408)	16,002	17,269	(1,267)	70	57	13	22%	627,731	68
Other Business Systems	4,651	3,977	674	68,487	20,701	47,786	88	98	(10)	(11%)	5,531,722	74
Business Systems Existing Users	129,147	92,418	36,729	828,222	828,222	0	240	225	15	6%	365,268	150
Business Systems - Total	45,887	30,885	15,002	137,151	137,151	0	155	143	12	8%	110,997	109
Visual Basic	2,910	4,662	(1,752)	32,540	32,540	0	312	398	(86)	(22%)	228,878	181
Fox	34,655	39,998	(5,343)	100,443	100,443	0	477	665	(188)	(28%)	76,392	451
C++	7,342	5,868	1,474	9,611	9,611	0	384	282	102	36%	111,828	248
MSDN	10,842	1,418	9,424	7,070	7,070	0	277	268	9	3%	801,969	189
Other Developer Products	101,335	82,840	18,495	287,065	287,065	0	211	211	0	0%	1,479,260	(17)
Developer	ACT - Sellings	ACT - Other	Total Products	Total Products (Temp)	Total Products	Temp	99	120	(21)	(17%)	15,831,647	23
ACT - Sellings	367,854	247,319	120,535	2,081,264	1,859,232	222,032	121	151	(30)	(20%)	32,321,738	90
ACT - Other	972,105	707,855	264,250	4,888,899	3,330,954	1,557,945	256	256	0	0%	479,260	(17)
Total Products	1,339,959	955,174	384,785	6,970,163	5,190,186	1,779,977	122	151	(29)	(19%)	31,842,478	87
Other (Misc, MER, Xerox, CIS)	20,143	67	20,076	79,808	79,808	0	0	0	0	0%	0	0
Licensing (Int'l (licensing))	(1,787)	(1,787)	0	0	0	0	0	0	0	0%	0	0
Licensing (Int'l (recognition))	4,138	189	3,949	3,989	3,989	0	0	0	0	0%	0	0
Other Revenue	989,605	707,885	281,720	4,888,899	3,409,782	1,479,117	122	151	(29)	(19%)	31,842,478	87

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APPENDIX

Q96-4 OEM REVENUE SUMMARY
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			Revenue/License			FY06 USD (MID USD)	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Rev/LC
Office	12,738	14,943	(2,205)	102,830	267,600	(164,770)	80%	124	74	51	66%	1,899,584	207	
Office Professional	34,671	34,671	0	453,681	453,681	0	76	76	0	76	76%	1,834,088	207	
Excel	4,881	69	4,792	142,395	330	142,065	4304%	24	210	(170)	(84%)	254,888	163	
Word	7,004	469	7,135	297,424	15,030	282,394	197%	26	31	(6)	(16%)	486,911	132	
Powerpoint	13	13	0	432	432	0	31	31	0	31	31%	97,820	160	
Access	1,048	221	627	38,446	8,600	29,846	301%	27	23	4	18%	310,229	147	
Project	0	0	0	(5,731)	0	(5,731)		(1)	0	1	100%	293,791	208	
Other Desktop Apps	60,793	19,701	41,092	1,028,049	282,460	745,589	264%	69	70	(1)	(1)%	5,307,299	195	
Desktop Apps - Total	60,793	19,701	41,092	1,028,049	282,460	745,589	264%	69	70	(1)	(1)%	5,307,299	195	
Office														
Office Professional														
Excel														
Word														
Powerpoint														
Access														
Project														
Other Desktop Apps														
Desktop Apps - Total														
Desktop Apps - Total	60,793	19,701	41,092	1,028,049	282,460	745,589	264%	69	70	(1)	(1)%	5,307,299	195	
Kids	2,170	1,822	348	594,100	240,112	353,988	147%	4	6	(2)	(42%)	893,428	25	
Entertainment	2,345	2,347	(2)	1,422,238	631,758	800,512	167%	2	4	(2)	(50%)	1,841,826	25	
Personal Interests	1,849	2,341	(492)	643,060	325,886	217,204	67%	3	7	(4)	(57%)	318,012	25	
Use/Travel	306	0	306	41,013	0	41,013		7	7	0	0%	313,847	36	
Reference	7,972	7,160	722	1,479,178	1,042,285	416,913	38%	5	7	(2)	(21%)	739,724	38	
Bob	787	471	316	179,953	88,796	111,157	162%	4	7	(3)	(43%)	(107,163)	45	
Imaging	439	117	322	374,861	51,451	323,410	829%	1	2	(1)	(49%)	18,508	6	
New Business	15,768	13,943	1,825	4,834,633	2,280,238	2,554,395	102%	3	6	(3)	(41%)	3,897,378	28	
Publisher	2,337	634	1,703	310,887	88,412	242,475	335%	9	14	(5)	(44%)	445,625	52	
Works	20,223	10,363	9,860	581,835	1,484,019	(822,984)	(62%)	37	7	30	429%	850,282	34	
Financial Business	6,206	13,401	(7,195)	125,378	427,781	(302,403)	(71%)	42	31	11	35%	1,289,307	40	
Microsoft	33,050	28,108	4,942	3,481,884	2,856,762	625,122	18%	9	9	0	0%	2,054,594	41	
Gaming Devices	12	12	0	457	457	0		27	27	0	0%	65,823	43	
Hardware	38,268	38,607	(339)	3,607,719	3,378,613	229,106	7%	11	11	0	0%	3,090,482	46	
Consumer	77,098	63,748	13,350	9,116,174	7,412,089	1,704,084	24%	8	8	0	0%	7,864,165	37	
Personal Finance	1,220	1,220	0	860,167	860,167	0		1	1	0	0%	185,316	18	
MSRN - Data	11	11	0	457	457	0		24	24	0	0%			
MSRN - Connectivity														
MSRN - Extended														
MSRN - Internal														
Microsoft Network (MSN)	11	11	0	457	457	0		24	24	0	0%			
Total App/License	130,170	83,447	46,723	11,004,837	7,404,610	3,600,227	47%	13	11	2	14%	18,990,091	108	

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Q96-4 OEM REVENUE SUMMARY (continued)
 (\$ in thousands, except Revenue/License)

	Revenue			Licenses			Revenue/License			FY96 US\$ QTD (USD)			
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Licenses	Rev/Lic	Rev/Lic	
MS DOS	65,932	69,666	(3,734)	0%	3,061,241	3,819,460	42,681	1%	17	18	(1)	640,989	35
Windows, WWW	83,768	74,830	8,938	11%	3,425,998	3,395,376	306,623	7%	33	22	11	3,196,401	48
Windows 95	405,760	272,730	132,031	49%	6,336,188	6,174,404	2,161,884	35%	40	44	-4	4,036,723	63
MS Word (Freelook)	620		620		126,249		126,249		4		4	1,162,276	39
Other (MS) (All Work, Telephony)	7,230	1,153	6,077	621%	1,049,839	78,100	977,739	1396%	7	16	9	160,872	11
Personal Systems (World)	697,850	419,266	278,584	66%	10,099,626	13,460,739	3,638,786	26%	33	31	2	9,197,059	60
Windows NT Workstation	12,565	1,442	11,123	773%	133,533	17,340	114,193	670%	94	83	11	127,177	512
Windows NT Server - Servers	9,104	6,182	2,921	76%	24,946	13,646	11,300	83%	365	390	(25)	1,838,959	15
Windows NT Server - Users	207	27	180	674%	249	102	147	144%	830	852	(22)	22,878	737
SQL Server - Servers	396		396		786		786		616		616	13,065	1,078
SQL Server - Users												375,290	86
Backoffice - Servers												47,657	255
Backoffice - Users	9		9		41		41		225		225	388,343	10
Mail - Servers	26		26		271		271		96		96	345,716	60
Mail - Users	82		82		23,069		23,069		4		4	5,298	1,660
Mail - AddOns, Upgrades												90,967	36
Exchange - Servers												8,592	363
Exchange - Users	343		343		786		786		437		437	871,809	20
SMS Server - Servers	46		46		170		170		270		270	23,408	84
SMS Server - Users												159,818	29
SNA Server - Servers												1,455	61
SNA Server - Users												827,731	89
Other Business Systems	6,709	1,608	5,101	255%	32,208	10,757	21,451	199%	177	149	28	1,593	3,959
Business Systems - Total	28,508	6,259	22,249	245%	219,041	41,845	174,196	416%	132	107	25	4,003,991	75
Windows NT Workstation												65,242	79
Windows NT Server - Servers												13,152	216
SQL Server - Servers												113,194	35
SQL Server - Users												727	260
Exchange - Servers												38,413	18
Exchange - Users												1,455	61
Other Business Systems												827,731	89
Business Systems - Total	29,508	6,259	23,249	245%	219,041	41,845	174,196	416%	132	107	25	4,003,991	75
Visual Basic	(0)		(0)						33		33	5,531,722	74
For	41		41		3,032		3,032		13		13	116,997	100
MSDN	28		28		234,635		234,635		0		0	228,876	181
Other Developer Products	68		68		237,660		237,660		0		0	111,628	248
Developer												801,868	190
ACT - Bookings												897	78
ACT - Other	691,272	476,637	214,635	30%	17,453,226	13,607,664	3,845,562	28%	31	32	(1)	16,631,647	73
Total Products	739,343	609,974	129,369	43%	29,458,083	26,997,124	2,460,959	36%	26	24	2	32,231,738	90
Press	10,610	(1,337)	11,947	(896%)	6,008,446	244,951	4,763,495	1906%	2	(6)	8	(479,280)	(77)
Other (Man, Mktg, Serv, (172)													
Remaining Mkt (deferrals)													
Remaining Mkt (recognised)													
Crse Revenue	740,982	608,641	132,341	48%	33,461,609	21,241,716	12,222,734	58%	22	24	(2)	31,842,478	87

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APPENDIX

FY96 OEM REVENUE SUMMARY

(\$ in thousands, except Revenue/License)

	Revenue				Licenses				Revenue/License				FY96 US\$ (MID USD)			
	Actual	Budget	Variance	Variance %	Actual	Budget	Variance	Variance %	Actual	Budget	Variance	Variance %	Licenses	Revenue		
Office Professional	28,188	82,073	(53,885)	(65%)	212,485	1,070,723	(858,238)	(80%)	123	77	47	61%	1,899,844	207		
Office Professional	121,797	135,797	(13,999)	(10%)	1,078,143	1,078,143	0	0%	81	81	0	0%	1,874,098	207		
Excel	21,847	2,117	19,730	918%	679,508	28,870	650,638	2247%	34	76	(42)	(55%)	254,609	183		
Word	26,818	3,983	22,835	573%	1,023,080	83,070	940,010	1003%	28	43	(15)	(35%)	488,811	132		
Powerpoint	133	153	(20)	(13%)	4,108	4,108	0	0%	37	37	0	0%	87,070	180		
Access	4,447	1,020	3,427	336%	179,484	39,200	140,284	358%	25	26	(1)	(4%)	370,229	147		
Project	70	70	0	0%	(49)	(49)	0	0%	292	292	0	0%	283,781	288		
Other Desktop Apps	215,028	89,178	125,850	141%	3,748,130	1,228,273	2,519,857	205%	37	73	(36)	(49%)	8,507,299	185		
Desktop Apps New Users	(8)	(8)	0	0%	(36)	(36)	0	0%	229	229	0	0%	1,612,090	142		
Office Professional	(1)	(1)	0	0%	(28)	(28)	0	0%	42	42	0	0%	847,243	174		
Excel	(9)	(9)	0	0%	(21)	(21)	0	0%	5	5	0	0%	233,116	74		
Word	(2)	(2)	0	0%	(89)	(89)	0	0%	25	25	0	0%	328,868	75		
Powerpoint	(0)	(0)	0	0%	(0)	(0)	0	0%	(0)	(0)	0	0%	48,579	70		
Access	(0)	(0)	0	0%	(2)	(2)	0	0%	5	5	0	0%	147,164	38		
Project	(0)	(0)	0	0%	(2)	(2)	0	0%	5	5	0	0%	119,318	104		
Other Desktop Apps	(13)	(13)	0	0%	(158)	(158)	0	0%	72	72	0	0%	3,253,312	132		
Desktop Apps Existing Users	219,015	89,178	129,837	141%	3,727,874	1,228,273	2,519,601	205%	37	73	(36)	(49%)	8,488,811	171		
Desktop Apps - Total	6,846	6,087	859	14%	2,988,846	812,860	2,175,986	268%	3	7	(4)	(57%)	643,424	25		
Kids	6,518	6,334	184	3%	5,277,839	2,023,880	3,253,959	161%	2	6	(4)	(67%)	1,541,978	25		
Personal Interest	7,432	6,334	1,098	17%	2,094,301	1,240,454	853,847	69%	4	6	(2)	(33%)	310,012	25		
Geo/Travel	887	687	200	29%	90,231	90,231	0	0%	8	8	0	0%	312,847	38		
Reference	3,248	27,285	(24,037)	(88%)	6,300,038	3,842,291	2,457,747	64%	5	7	(2)	(29%)	730,724	38		
Hub	1,927	1,978	(51)	(3%)	681,493	281,620	410,884	146%	5	7	(2)	(29%)	107,182	45		
Imaging	64,818	54,315	10,503	19%	1,742,870	193,838	1,549,032	790%	1	2	(1)	(50%)	18,908	9		
New Business	7,889	3,842	4,047	105%	1,874,517	8,478,150	(6,603,633)	(78%)	3	9	(6)	(67%)	3,607,278	28		
Publisher	78,933	42,418	36,515	86%	1,894,798	275,438	1,619,360	587%	6	14	(8)	(57%)	443,823	62		
Works	63,245	46,269	16,976	37%	10,319,816	5,602,308	4,717,508	91%	7	8	(1)	(13%)	820,782	34		
Established Business	18,781	28,297	(9,516)	(34%)	17,334,312	3,693,038	13,641,274	369%	7	8	(1)	(13%)	1,288,207	40		
Keyboard	176,838	100,330	76,508	76%	338,889	871,843	(532,954)	(60%)	44	32	12	38%	317,045	74		
Networking	82	92	(10)	(11%)	13,394,503	11,727,508	1,666,995	14%	10	9	1	12%	2,094,394	41		
Consumer	144,702	128,827	15,875	12%	3,310	3,310	0	0%	28	28	0	0%	659,823	43		
Personal Finance	292,784	229,431	63,353	28%	13,754,762	12,599,471	1,155,291	9%	11	10	1	10%	3,000,482	48		
MSN - Base	4,022	4,022	0	0%	4,000,008	2,800,008	1,200,000	30%	1	9	(8)	(89%)	7,844,183	37		
MSN - Connectivity	83	83	0	0%	3,500	3,500	0	0%	24	24	0	0%	183,319	19		
MSN - Extended	83	83	0	0%	3,500	3,500	0	0%	24	24	0	0%	183,319	19		
MSN - Instant	83	83	0	0%	3,500	3,500	0	0%	24	24	0	0%	183,319	19		
Microsoft Network (MSN)	811,805	318,006	493,799	155%	80,308,011	27,868,430	52,439,581	87%	18	11	7	63%	18,000,091	108		
Total Applicant																

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FY96 OEM REVENUE SUMMARY (continued)
 (\$ in thousands, except Revenue/License)

	Revenue			License			Revenue/License			FY96 USD YTD (USD)		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	License	Revenue	Rev/Lic
MS PLUS	461,188	471,780	(10,592)	27,976,875	26,977,802	999,073	3%	17	17	(1)	840,888	35
Windows NT	977,445	843,983	133,462	27,498,889	24,244,054	3,254,835	6%	21	21	0	3,196,401	48
Windows 95	1,018,313	872,908	145,405	21,188,366	13,922,078	7,266,288	43%	48	44	4	4,038,723	83
MS Plus (Printing)	804	604	200	142,077	142,077	0	0%	4	4	0	1,162,276	36
Other (MS, MSN, Xerox, OS/2)	23,041	5,439	17,602	2,639,089	332,304	2,306,785	79%	16	16	0	160,872	11
Other (IBM, AT Work, Telephony)	2,078,592	1,984,082	94,510	70,241,818	64,935,880	5,305,938	19%	28	28	0	8,197,059	80
Personal Systems (Printer)	24,367	8,948	15,419	244,164	70,731	173,433	249%	100	84	16	264,838	179
Windows NT Workstation	23,701	18,174	5,527	48,863	40,034	8,829	87%	335	404	(69)	127,177	812
Windows NT Server - Servers	1,671	84	1,587	3,685	361	3,324	907%	433	248	185	1,938,059	18
Windows NT Server - Users	860	860	0	1,888	1,888	0	0%	510	510	0	22,876	737
Windows NT Server - Users	59	59	0	302	302	0	0%	165	165	0	178,957	83
Windows NT Server - Users	71	71	0	1,448	1,448	0	0%	49	49	0	13,085	1,078
Windows NT Server - Users	129	129	0	23,632	23,632	0	0%	360	360	0	378,290	89
Exchange - Servers	853	853	0	1,721	1,721	0	0%	300	300	0	47,837	253
Exchange - Users	48	48	0	177	177	0	0%	270	270	0	288,343	18
Exchange - Users	20,804	2,072	18,732	148,138	47,453	100,685	302%	142	149	(7)	343,718	89
Exchange - Users	72,454	20,800	51,654	489,934	189,591	300,343	209%	148	183	(35)	5,398	1,580
Other Business Systems											90,987	38
Business Systems (Printer)											8,592	383
Business Systems (Fax)											871,809	20
Business Systems (New Users)											23,408	84
Business Systems (Workstation)											159,818	20
Business Systems (Server - Servers)											11,953	3,099
Business Systems (Server - Users)											463,548	78
Business Systems (Server - Users)											55,242	79
Business Systems (Server - Users)											13,152	216
Business Systems (Server - Users)											113,194	35
Business Systems (Server - Users)											727	250
Business Systems (Server - Users)											38,413	16
Business Systems (Server - Users)											1,455	51
Business Systems (Server - Users)											627,231	86
Business Systems (Total)											4,803,961	75
Business Systems (Total)											385,268	150
Business Systems (Total)											116,997	168
Business Systems (Total)											278,876	181
Business Systems (Total)											78,382	451
Business Systems (Total)											111,678	249
Business Systems (Total)											901,969	199
Business Systems (Total)											897	79
Business Systems (Total)											15,811,647	73
Business Systems (Total)											32,321,738	90
Business Systems (Total)											(418,260)	(72)
Business Systems (Total)											31,903,478	87

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Q96-4 CHANNEL P&L
(\$ in thousands)

	North America	Europe	Japan	Asia	Latin America	Other	Total WWFSG	%	WWFSG	Profit	Collin	Advanced Technology	Total
Revenue													
Net Revenue	626,180	404,266	172,953	236,491	1,456,119	84.1%	740,982	12,659	12,771	8,790	1,865	2,228,311	
Revenue Adjustments	152,350	68,608	23,891	51,491	274,189	19.9%	511,129	9,055	8,885	121	121	287,028	
Net Revenue	778,530	472,874	196,844	287,982	1,730,308	100.0%	1,252,111	18,737	21,657	6,778	2,086	2,515,339	
Cost of Revenue													
Standard Product Costs	40,469	18,464	15,289	21,415	95,668	5.5%	161,845	(2,756)	0	543	0	109,670	
Non-product Costs of Revenue	46,029	40,068	9,831	9,355	108,283	6.2%	165,566	10,818	78,002	1,865	0	196,851	
Cost of Revenue	86,498	58,532	25,120	30,770	203,951	11.7%	327,411	8,062	79,807	2,428	0	306,521	
Gross Margin	692,032	414,342	171,724	257,212	1,526,357	88.3%	924,699	10,675	(60,150)	4,350	2,086	2,208,818	
% of Net Revenue	88.7%	87.6%	87.2%	89.3%	89.3%			86.6%	9	(260.9%)	72.2%		
Contributable Expenses													
Direct Expenses:													
People	49,774	45,218	18,150	14,620	127,982	7.4%	91,792	2,532	2,048	5,392	0	147,110	
Infrastructure	15,073	8,807	5,194	3,910	32,024	1.9%	1,792	385	248	920	0	36,275	
Other Misc Expenses	4,825	2,458	4,450	4,244	15,764	0.9%	19,812	416	3,238	184	0	36,344	
Direct Expenses	69,672	56,483	27,794	22,774	175,760	10.2%	113,396	3,364	5,630	6,503	0	222,730	
Marketing	155,638	66,169	18,058	37,722	279,545	18.2%	11,041	3,074	8,954	4,452	(92)	307,708	
Manufacturing	(6,081)	(6,307)	(2,775)	(6,326)	(24,549)	(1.6%)	(84)	0	(4)	(92)	0	(25,100)	
Brand Reach	0	0	0	0	0	0.0%	0	0	0	0	0	0	
Marketing	149,557	61,782	15,283	31,396	255,026	14.8%	10,447	3,074	8,951	4,370	0	282,518	
Distributions:													
MCS Costs	31,708	12,475	3,144	903	48,218	2.9%	0	0	0	43	0	49,361	
MCS Revenue	(32,347)	(11,611)	(2,438)	(470)	(48,175)	(2.8%)	0	0	0	0	0	(48,175)	
R&D Costs	640	11,157	2,565	2,365	18,727	1.0%	731	76	82	511	0	19,146	
R&D Revenue	75,499	32,282	6,300	13,584	127,724	7.5%	2,813	0	7,866	522	0	138,778	
R&D Costs	(14,817)	(8,257)	(1,871)	(1,287)	(26,232)	(1.4%)	0	0	(5)	(5)	0	(26,232)	
R&D Revenue	60,682	24,025	4,429	12,297	101,492	7.0%	3,241	78	7,861	1,009	0	132,632	
Investment	278,719	150,009	49,787	69,330	547,845	32.2%	41,814	2,113	22,330	(8,849)	0	639,060	
Total Contributable Expenses	498,372	298,322	121,826	107,801	971,302	64.3%	91,716	3,901	(78,977)	(64,175)	0	1,985,819	
Responsibility Margin	280,158	176,552	69,918	180,181	1,280,809	78.9%	1,160,395	14,776	19,577	6,173	2,086	2,222,299	
% of Net Revenue	36.1%	37.3%	35.1%	62.8%	74.6%			94.7%	90.3%	28.2%	72.2%		
Shared Resources:													
Shared Resources in Shared Resources	36,101	26,582	12,688	6,783	82,224	4.9%	4,395	0	6,102	0	0	95,720	
Shared Resources in Shared Resources	0	(7,749)	(9,935)	(9,151)	(18,069)	(1.0%)	(4,161)	0	0	0	0	(22,155)	
Shared Resources	36,101	18,833	2,753	6,667	64,128	3.9%	231	0	6,102	0	0	74,481	
Corporate Allocations	143,850	111,863	31,805	49,071	338,029	19.0%	110,984	4,425	45,866	15,335	0	534,220	
Contribution Margin	272,872	173,142	67,088	141,042	978,775	33.3%	1,149,319	(872)	(130,843)	(50,869)	2,086	919,649	
% of Net Revenue	35.1%	36.6%	34.2%	48.8%	55.0%			92.1%	(6.7%)	(60.3%)	(238.6%)		
Shared Resources in Shared Resources:													
Shared Resources in Shared Resources	734	2,100	320	640	3,794	0.2%	0	0	6,102	0	0	11,959	
Shared Resources in Shared Resources	7,568	2,813	768	695	11,844	0.7%	3,291	0	0	0	0	16,171	
Shared Resources in Shared Resources	0	0	0	0	0	0.0%	0	0	0	0	0	0	
Shared Resources in Shared Resources	1,608	599	400	915	1,802	1.1%	1,114	0	0	0	0	19,734	
Shared Resources in Shared Resources	28,171	13,481	1,287	4,278	47,199	2.7%	0	0	0	0	0	47,199	
Shared Resources in Shared Resources	36,181	28,842	12,868	6,283	84,224	4.7%	6,995	0	6,102	0	0	95,720	

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FY96 CHANNEL P&L
(\$ in thousands)

	Finished Goods						Total WVGR	%	WVGR/1	Gross	Online	Advanced Technology	Total
	North America	Europe	ICCN	Japan/East	WVGR/1	WVGR/1							
Net Sales Revenue	2,216,481	694,542	986,605	4,041,187	100.0%	2,702,610	81.4%	43,810	81,445	153,387	3,682	6,699,001	
License Adjustments	(250,489)	(83,743)	(21,853)	(1,166,175)	(10.3%)	(1,482,260)	(44.1%)	2,848	(3,990)	(1,142)	(1,489)	(171,942)	
Net Revenue	2,726,491	2,132,818	964,752	2,875,012	100.0%	2,220,350	78.1%	81,897	77,455	(102,810)	21,033	2,428,461	
Cost of Revenue:													
Standard Product Costs	200,077	90,904	53,741	433,433	6.8%	66,481	2.5%	0	13,200	153,387	3,682	781,217	
Net in Product Costs of Revenue	261,456	123,884	56,715	472,055	8.3%	47,819	1.8%	0	22,339	153,387	3,682	718,052	
Cost of Revenue	461,533	214,788	110,456	905,488	15.1%	114,299	4.3%	0	35,539	306,726	7,364	1,506,269	
Gross Margin	2,264,958	1,918,030	854,296	1,969,524	84.9%	2,106,051	76.7%	81,897	41,916	(102,810)	18,669	2,922,202	
% of Net Revenue	83.0%	87.2%	81.4%	82.5%									
Controllable Expenses													
Direct Expenses:													
Payroll	173,664	164,193	80,219	60,917	4.0%	450,974	16.3%	30,457	6,418	5,348	19,024	815,061	
Infrastructure	64,108	44,014	10,292	16,474	1.0%	135,888	4.9%	4,914	1,364	781	3,629	149,291	
Other Misc Expenses	28,139	19,382	17,335	9,389	0.6%	74,227	2.6%	2,787	3,392	1,554	5,554	115,097	
Direct Expenses	265,911	227,589	107,846	86,780	5.6%	351,091	12.5%	38,158	11,142	7,683	26,207	1,079,442	
Marketing:													
Marketing	450,641	255,101	59,942	97,047	6.4%	862,730	30.1%	20,048	9,570	16,578	12,071	921,961	
Marketing Recovery	(17,195)	(29,703)	(6,865)	(10,783)	(0.4%)	(64,546)	(2.3%)	(765)	(314)	(13)	(657)	(104,507)	
Good Reach	403,446	225,398	53,077	78,264	5.7%	769,184	27.0%	19,283	8,256	16,565	11,414	817,454	
Distributors:													
MCS Costs	99,708	30,204	11,148	3,958	0.7%	145,018	5.2%	0	0	0	244	184,061	
GAA Costs	(111,098)	(38,534)	(9,700)	(1,439)	(0.5%)	(160,771)	(5.7%)	0	0	0	(216)	(161,877)	
GAA Revenue	2,064	43,061	9,760	8,844	0.3%	64,529	2.3%	2,882	325	284	1,262	66,251	
PSS Costs	318,653	135,438	21,920	51,866	1.8%	527,877	18.7%	12,053	0	21,888	2,241	562,957	
PSS Revenue	(59,275)	(31,375)	(6,900)	(5,757)	(0.2%)	(103,307)	(3.7%)	(730)	0	(3)	(10)	(102,250)	
Distributions	249,991	145,122	28,000	57,109	1.9%	480,222	17.1%	13,029	323	22,139	3,811	522,532	
Total Controllable Expenses	811,557	497,100	177,920	212,204	10.7%	1,698,781	60.3%	2,348,944	20,888	(102,810)	(40,429)	2,157,588	
Responsibility Margin	1,453,401	1,641,718	676,826	817,802	60.2%	5,521,569	195.1%	2,106,051	20,048	(102,810)	(40,429)	9,270,873	
% of Net Revenue	49.6%	88.1%	81.8%	81.1%									
Shared Resources:													
Shared Resources In	171,190	69,475	34,055	25,778	1.8%	299,498	10.7%	10,955	0	14,973	0	311,473	
Shared Resources Out	0	(24,818)	(3,595)	(3,595)	(0.1%)	(32,016)	(1.1%)	(10,427)	0	0	0	(64,008)	
Shared Resources	171,190	44,657	30,460	22,183	1.7%	267,482	9.6%	9,528	0	14,973	0	247,465	
Corporate Allocations	879,251	307,068	104,297	134,317	10.1%	1,425,933	50.9%	458,024	12,507	111,223	(43,012)	1,701,569	
Contribution Margin	776,016	819,282	192,451	450,022	34.4%	1,879,022	66.1%	9,919	26,266	(71,837)	(57,451)	2,479,969	
% of Net Revenue	27.7%	36.4%	22.8%	46.8%									
Shared Resources In	2,928	6,826	1,147	2,175	0.1%	12,874	0.2%	0	0	14,973	0	27,848	
Shared Resources Out	20,907	6,550	2,600	2,633	0.2%	32,690	0.5%	9,250	0	0	0	43,787	
Shared Resources	17,979	2,276	(1,453)	(458)	0.1%	(20,816)	(0.7%)	(9,075)	0	14,973	0	(15,939)	
Shared Resources In (MS)	4,327	1,021	202	202	0.1%	7,167	0.1%	0	0	0	0	7,167	
Shared Resources Out (MS)	99,023	35,168	4,455	16,875	1.2%	155,521	5.6%	0	0	0	0	171,691	
Shared Resources (MS)	121,188	36,455	25,778	25,778	1.9%	187,322	6.7%	0	0	14,973	0	211,423	

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Q96-4 RESULTS BY SALES LOCATION

(\$ in millions)

	Net Revenue		Gross Margin		Operating Expenses		Responsibility Margin		Contribution Margin	
	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan	Actual	% of Plan
	Actual		Actual		Actual		Actual		Actual	
North America										
US (Redmond)	\$711.1	145.8%	\$630.9	157.3%	\$265.4	140.2%	\$365.6	172.5%	\$196.8	224.3%
Canada	\$57.5	184.7%	\$51.2	221.6%	\$11.3	114.2%	\$36.8	302.8%	\$26.7	968.1%
	\$768.6	148.3%	\$682.1	160.8%	\$276.7	138.9%	\$402.4	180.1%	\$223.5	247.0%
Europe										
Austria	\$8.1	95.4%	\$7.0	100.4%	\$4.5	149.7%	\$2.6	63.9%	\$3.0	1.3%
Belgium	\$13.3	97.5%	\$11.4	94.8%	\$4.4	84.8%	\$7.0	102.4%	\$3.2	87.5%
Czechoslovakia	\$3.7	95.3%	\$3.4	100.0%	\$1.7	156.8%	\$1.7	72.6%	\$0.4	39.0%
Denmark	\$14.6	141.6%	\$13.1	148.5%	\$2.8	168.0%	\$10.3	144.0%	\$7.1	158.1%
Eastern Europe	\$1.4	130.9%	\$1.2	140.4%	\$0.8	181.4%	\$0.4	111.1%	\$1.8	256.9%
England	\$116.3	128.3%	\$102.9	132.3%	\$25.8	91.2%	\$77.1	155.8%	\$46.6	178.6%
Finland	\$7.6	101.8%	\$6.8	108.5%	\$1.9	165.4%	\$4.9	95.8%	\$3.0	84.8%
France	\$83.8	110.4%	\$72.6	113.4%	\$21.7	88.0%	\$59.9	121.8%	\$26.8	112.4%
Germany	\$85.8	81.2%	\$72.6	79.6%	\$31.3	100.3%	\$41.4	68.9%	\$5.2	15.3%
Hungary	\$1.3	27.6%	\$1.1	28.7%	\$1.3	86.9%	\$(0.2)	-6.6%	\$(1.1)	-62.3%
Italy	\$30.1	131.4%	\$25.9	132.5%	\$10.9	168.0%	\$15.1	115.0%	\$7.8	147.3%
Netherlands	\$22.3	128.1%	\$18.9	122.9%	\$6.2	114.3%	\$12.7	127.6%	\$8.1	132.7%
Norway	\$12.9	106.3%	\$10.8	109.8%	\$1.7	110.6%	\$9.1	108.5%	\$6.0	105.1%
Poland	\$5.2	148.0%	\$4.5	152.7%	\$1.8	138.5%	\$2.7	163.5%	\$1.8	235.3%
Portugal	\$5.7	96.3%	\$5.0	96.5%	\$1.6	110.2%	\$3.0	81.0%	\$2.0	78.2%
Russia	\$0.9	27.0%	\$0.6	23.3%	\$2.2	148.1%	\$1.3	-134.2%	\$(2.4)	-530.7%
Slovakia	\$2.6	307.4%	\$2.4	322.5%	\$0.5	160.7%	\$2.0	426.4%	\$1.7	795.3%
Slovenia	\$0.8	99.0%	\$0.8	100.7%	\$0.6	154.0%	\$0.2	48.4%	\$2.0	6.6%
Spain	\$14.9	134.0%	\$13.3	141.5%	\$5.0	146.5%	\$8.3	134.7%	\$5.3	152.9%
Sweden	\$22.7	108.3%	\$20.0	113.4%	\$11.0	111.1%	\$9.0	116.3%	\$2.2	108.1%
Switzerland	\$20.7	81.4%	\$18.0	81.6%	\$8.8	127.6%	\$9.2	57.3%	\$1.2	14.4%
Europe Headquarters	\$0.0	nm	\$0.0	nm	\$8.7	123.6%	\$(8.7)	123.6%	\$(5.4)	nm
	\$470.9	106.3%	\$412.3	108.1%	\$156.0	110.6%	\$316.3	110.6%	\$125.4	92.0%
ICDN										
Argentina	\$7.3	151.8%	\$6.3	160.7%	\$1.8	131.3%	\$4.4	178.0%	\$3.0	213.5%
Australia	\$88.2	153.6%	\$60.6	172.7%	\$8.0	95.1%	\$52.7	187.1%	\$38.1	232.5%
Brazil	\$29.8	106.4%	\$27.2	113.7%	\$5.5	76.0%	\$21.7	130.1%	\$14.1	130.3%
Caribbean	\$5.3	189.8%	\$4.9	187.2%	\$1.0	129.7%	\$3.8	212.0%	\$2.9	263.5%
Chile	\$4.3	127.7%	\$3.6	131.5%	\$0.6	66.0%	\$3.1	181.7%	\$2.1	182.6%
Colombia	\$5.9	118.5%	\$5.1	128.3%	\$1.7	119.6%	\$3.4	133.2%	\$1.6	136.9%
Costa Rica	\$0.0	nm	\$0.0	nm	\$0.1	111.5%	\$(0.1)	111.5%	\$(0.1)	111.5%
East Africa	\$0.3	nm	\$0.3	nm	\$0.0	nm	\$0.3	nm	\$0.3	nm
Ecuador	\$0.9	132.2%	\$0.8	150.6%	\$0.4	128.5%	\$0.5	172.5%	\$0.3	221.9%
Egypt	\$2.6	nm	\$2.5	nm	\$0.3	nm	\$2.2	nm	\$2.2	nm
Guatemala	\$0.0	nm	\$0.0	nm	\$0.0	63.9%	\$(0.0)	63.9%	\$(0.0)	63.9%
Greece	\$1.5	88.8%	\$1.2	90.0%	\$0.7	142.1%	\$3.5	58.8%	\$1.1	12.7%
Gulf	\$(2.1)	-30.4%	\$(2.6)	-47.1%	\$0.9	63.5%	\$(3.5)	-85.6%	\$(3.0)	-170.6%
India	\$2.3	116.4%	\$2.0	142.2%	\$0.7	92.0%	\$1.3	187.8%	\$0.3	-195.5%
Indian Ocean	\$0.0	nm	\$0.0	nm	\$0.0	nm	\$0.0	nm	\$0.0	nm
Indonesia	\$0.9	127.6%	\$0.9	151.3%	\$0.4	121.1%	\$0.4	202.6%	\$0.1	nm
Israel	\$3.6	74.3%	\$2.9	71.2%	\$1.6	155.1%	\$1.3	43.3%	\$0.3	12.2%
Malaysia	\$4.0	84.5%	\$3.7	93.3%	\$1.0	105.0%	\$2.6	89.4%	\$1.5	72.1%
Mexico	\$11.8	100.8%	\$10.2	99.6%	\$2.7	88.4%	\$7.5	104.3%	\$4.9	94.2%
Middle East	\$0.0	nm	\$0.0	nm	\$0.0	nm	\$0.0	nm	\$0.0	nm
Morocco	\$0.7	55.8%	\$0.5	52.7%	\$0.3	94.0%	\$0.2	32.3%	\$(0.0)	-7.4%
New Zealand	\$11.7	134.5%	\$10.5	155.6%	\$1.9	126.6%	\$8.6	172.7%	\$6.4	196.4%
Panama	\$0.0	nm	\$0.0	nm	\$0.0	92.9%	\$(0.0)	92.9%	\$(0.0)	92.9%
Peru	\$2.3	172.1%	\$2.0	191.8%	\$0.7	150.5%	\$1.3	224.9%	\$0.9	360.6%
Philippines	\$1.4	239.3%	\$1.2	281.8%	\$0.4	146.2%	\$0.8	536.8%	\$0.5	nm
Saudi Arabia	\$4.5	nm	\$4.4	nm	\$0.6	nm	\$3.7	nm	\$3.7	nm
Singapore	\$5.4	108.4%	\$4.2	110.2%	\$1.6	113.6%	\$2.5	107.9%	\$0.8	81.3%
South Africa	\$11.6	103.8%	\$9.5	100.8%	\$3.1	100.8%	\$6.5	100.9%	\$3.2	86.1%
Sub Sahara	\$2.1	nm	\$1.9	nm	\$0.0	nm	\$1.8	nm	\$1.8	nm
Thailand	\$3.7	113.0%	\$3.2	120.8%	\$1.7	241.4%	\$1.5	77.1%	\$0.6	44.9%
Turkey	\$2.0	148.7%	\$1.6	162.1%	\$1.0	224.2%	\$0.8	122.5%	\$(0.2)	124.6%
Uruguay	\$0.9	121.7%	\$0.8	135.5%	\$0.3	133.0%	\$0.5	157.3%	\$0.3	140.2%
Venezuela	\$3.2	100.5%	\$2.9	108.0%	\$0.4	66.6%	\$2.4	121.9%	\$1.7	118.9%
West Africa	\$1.1	nm	\$1.1	nm	\$0.0	nm	\$1.1	nm	\$1.1	nm
ICDN VP	\$0.0	nm	\$0.0	nm	\$1.0	335.5%	\$(1.0)	335.5%	\$0.0	nm
Reg Dir - APAC	\$0.0	nm	\$0.0	nm	\$4.0	172.0%	\$(4.0)	172.0%	\$(0.2)	nm
Reg Dir - AIME	\$0.0	nm	\$0.1	nm	\$1.6	128.6%	\$(1.6)	124.5%	\$(0.1)	nm
Reg Dir - Latin Amer	\$(1.8)	nm	\$(1.8)	nm	\$3.6	164.6%	\$(5.4)	248.6%	\$(1.8)	nm
	\$196.6	123.4%	\$171.4	132.8%	\$49.8	112.9%	\$121.6	143.1%	\$67.1	152.7%
Far East										
China	\$3.8	153.8%	\$2.4	129.3%	\$1.8	110.1%	\$0.6	305.6%	\$0.0	-5.5%
Hong Kong	\$8.2	118.4%	\$6.9	118.5%	\$2.5	147.7%	\$4.4	126.5%	\$2.8	103.5%
Japan	\$254.0	165.2%	\$229.5	181.0%	\$58.5	155.5%	\$171.0	189.8%	\$130.1	225.1%
Korea	\$13.0	126.9%	\$11.0	135.9%	\$3.7	127.3%	\$7.4	140.6%	\$4.6	158.3%
Taiwan	\$9.2	93.0%	\$7.6	95.4%	\$2.1	100.7%	\$5.5	93.5%	\$3.5	63.5%
Far East Headquarters	\$0.0	nm	\$0.0	nm	\$0.9	75.7%	\$(0.9)	75.7%	\$(0.0)	nm
	\$288.2	157.3%	\$257.4	171.0%	\$69.5	150.4%	\$187.6	161.2%	\$140.0	229.5%

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FY96 RESULTS BY SALES LOCATION (\$ in millions)

Table with 11 columns: Region, Net Revenue (Actual, % of Plan), Gross Margin (Actual, % of Plan), Operating Expenses (Actual, % of Plan), Responsibility Margin (Actual, % of Plan), and Contribution Margin (Actual, % of Plan). Rows are categorized by major regions like North America, Europe, CON, and Far East.

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APPENDIX

Q96-4 PRODUCT P&L
(\$ in thousands)

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DANOP Apps	Worldwide Applications/Content				Worldwide Platforms				Total			
	Consumer	Personal Finance	Micro/Do-It-Yourself	App/Content Mgmt/Research	Total	Business Systems	Personal Oper/CSO	Developer		Consumer Sys	Other Op Sys/CSO	Platform Payroll
Gross Revenue	100,026	2,458	12,758	0	1,118,222	342,910	641,829	90,092	8,780	10,648	0	1,100,185
Revenue Adjustments	8,234	87	8,125	0	145,042	(8,871)	152,672	(6,072)	148	0	0	137,810
Net Revenue	108,260	2,545	20,883	0	1,263,264	334,039	794,461	84,020	8,928	10,648	0	1,237,974
Costs of Revenue:												
Standard Product Costs	41,490	0	0	0	82,520	7,509	16,804	5,251	600	1	0	30,010
Other Costs of Revenue	810	621	75,091	0	95,176	1,506	3,190	10,212	412	33	0	21,349
Product Specific Costs	32,089	8,071	814	0	40,974	11,089	20,414	2,413	1,405	725	0	26,075
Costs of Revenue	74,415	11,498	75,905	0	212,578	20,099	40,398	17,876	2,323	739	0	87,464
Gross Margin	133,845	1,047	13,288	0	1,050,686	313,940	754,063	66,144	6,600	3,009	0	1,150,510
% of Net Revenue	87.6%	81.7%	64.6%	0	83.2%	93.7%	94.9%	78.6%	74.6%	28.6%	0	93.9%
Operating Expenses:												
People	37,681	2,000	12,523	0	52,204	37,416	21,312	26,720	15,700	0	10,244	111,480
Infrastructure	9,985	500	5,190	1,355	17,030	11,590	6,345	7,284	6,657	0	3,120	32,785
Compens. Staff	4,100	16,981	287	356	22,666	10,555	5,192	5,284	3,627	0	1,092	25,942
Product Development	9,721	37,421	12,093	643	60,107	6,914	5,133	31,283	6,285	0	1,697	81,293
Marketing	86,027	31,422	1,660	212	119,321	64,290	60,631	27,787	2,009	0	(7)	146,530
Other	900	896	18	95	2,811	1,344	11	11	819	0	379	2,897
Product Support Services	30,988	7,195	15,765	0	53,948	18,202	36,999	18,238	684	10	0	71,714
Tax, Insurance & S&B	3,371	1,245	6,069	(31)	10,754	1,003	10,490	188	85	328	90	12,242
Rtd Debt Expense	7,452	1,301	2,850	0	11,622	2,910	2,101	633	493	106	0	10,784
Goodwill Impairment	5,312	2,107	505	364	8,288	5,433	3,651	(1,411)	3,418	0	(14,957)	(8,933)
Int'l Shared Expenses	196,118	136,127	5,904	4,241	442,390	149,024	146,373	115,079	28,201	465	1,824	450,778
Int'l Payroll	778,004	(16,378)	(24,481)	(4,281)	732,864	148,012	697,417	(69,039)	(91,894)	6,402	(1,924)	666,788
Responsibility Margin	74.1%	(8.4%)	(189.3%)	(916.0%)	46.0%	46.0%	79.6%	(47.7%)	69.7%	69.7%	0	69.6%
Incl USA Allocations	369	170	0	81	620	232	87	116	208	0	320	834
Allocations	121,502	52,983	750	61	184,723	31,128	102,185	23,371	18,243	118	320	173,395
Under/Over Allocated	0	0	0	0	0	0	0	0	0	0	0	0
Contribution Margin	88,441	(3,210)	(1,772)	(2,491)	81,968	118,211	601,292	(66,202)	(12,437)	9,373	(1,881)	812,391

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APPENDIX

	Windows Platforms	Centum/11	Other/Op Systems	Platforms	Total
Developer	31,443	42,484	0	0	4,714,116
221,818	1,458	(238)	0	0	(159,395)
396,926	25,141	42,246	0	0	4,916,716
26,132	3,882	0	0	0	137,703
36,883	708	160	0	0	152,723
3,045	2,050	3,849	0	0	27,802
72,090	8,418	3,800	0	0	368,278
327,937	26,723	26,187	0	0	4,107,408
82.6%	66.6%	61.6%	.	.	67.8%
65,808	60,157	0	40,514	0	408,068
26,202	20,208	0	11,347	0	123,330
14,388	11,071	0	3,875	0	81,048
49,479	11,328	0	5,553	0	109,253
56,629	11,223	(7)	(7)	0	309,337
2,913	1,660	0	1,484	0	8,954
62,352	2,894	(129)	0	0	292,368
718	285	1,409	238	0	46,014
2,743	737	425	0	0	39,325
(1,807)	5,330	0	(58,195)	0	(28,982)
304,270	124,953	1,702	4,807	0	1,466,811
37,888	(98,233)	26,715	(4,887)	0	2,720,180
6.1%	(78.6%)	67.6%	.	.	68.7%
393	298	0	1,118	0	3,543
81,532	87,823	350	1,118	0	821,828
0	0	0	0	0	0
(87,889)	(196,060)	26,105	(8,927)	0	2,919,613

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FY96 HEADCOUNT DETAIL

	Q96-1 *	Q96-2	Q96-3	Q96-4		Growth
	Actual	Actual	Actual	Actual	Plan	
North America FG	2,135	2,204	2,241	2,271	2,495	30
Europe FG	1,678	1,751	1,838	1,897	1,889	59
ICON FG	687	754	826	862	855	36
Far East FG	388	412	449	484	499	35
Total FG	4,888	5,121	5,354	5,514	5,738	160
WW PSS	3,495	3,621	3,629	3,495	4,228	(134)
WW OEM	220	227	233	247	261	14
Press	49	54	57	58	57	1
MS OnLine	21	37	31	36	44	5
AT Sales	135	153	158	149	186	(9)
Sales, Marketing & Support Total	8,808	9,213	9,462	9,499	10,514	37
Platforms Product Group						
Business Systems	1,166	1,241	1,370	1,410	1,394	40
Developer	875	870	992	981	996	(11)
Personal Operating Systems	767	776	821	832	870	11
WW Platform Management	323	359	282	254	631	(28)
Consumer Systems	601	646	597	581	730	(16)
Total Platforms	3,732	3,892	4,062	4,058	4,621	(4)
Applications & Content Group						
Consumer	853	946	1,021	1,056	1,212	35
Desktop Applications	1,234	1,282	1,358	1,491	1,453	133
Desktop Finance	48	60	74	87	107	13
MS OnLine	377	438	411	495	651	84
Apps/Content Research Mgmt	140	155	167	185	200	18
Total Applications & Content	2,652	2,881	3,031	3,314	3,623	283
Research & Development Total #	6,384	6,773	7,093	7,372	8,244	279
Press	58	69	70	77	79	7
General & Administrative						
ITG	628	683	722	757	815	35
Finance	320	296	315	319	345	4
Human Resources	316	321	347	353	350	6
MS Services Group	353	406	418	409	465	(9)
Real Estate & Construction	31	32	38	37	37	(1)
Legal & Corporate Affairs	198	219	233	243	252	10
Executive Staff	6	7	5	8	6	3
General & Administrative Total	1,852	1,964	2,078	2,126	2,270	48
Operations	1,608	1,622	1,505	1,487	1,751	(18)
GRAND TOTAL	18,710	19,641	20,208	20,561	22,858	353

Research & Development headcount by division is depicted based on the division owning the revenue (P&L view) and not according to organizational hierarchy.

* Q96-1 is as reported and does not reflect any restates. The numbers were restated in Dec '95 resulting in net addition of 55 heads for Q96-1

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MICROSOFT'S MANAGEMENT ACCOUNTING POLICIES AND MANAGEMENT REPORTING**MAP**

- Financial statements included herein are prepared in accordance with Microsoft's Management Accounting Policies and are intended for confidential internal use.
- Microsoft's Accounting Policies emphasize worldwide consistency among product, customer, geography, and cost center activities based on standard taxonomies for responsibility accounting for cost centers and marginal costs of incremental unit cost and revenue allocations which may not be relevant for external and regulatory reporting.
- Adjustments required by Generally Accepted Accounting Principles for external reporting may not be reflected in some of the detailed management views included in this report. Adjustments required for other statutory purposes or local purposes may also be omitted.
- If you have any comments, questions, or if you are interested in obtaining a copy of Microsoft's Management Accounting Policies, please email the "MAP" alias.

Management Reporting

- All management reports are available online and are available on the Microsoft Internal web site. The URL for this site is <http://finweb>.
- If you have any questions or suggestions about the online financial management reports or the website, please email the "MGMTMRPT" alias.

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THE MICROSOFT FAMILY OF FUNDS

During Q95-4, Microsoft's cash investment portfolio was migrated into five distinct sub-portfolios - four fixed-income portfolios and one opportunity portfolio. Each portfolio is a separate mutual fund or risk bucket, with unique guidelines and risk/return expectations. Collectively, the portfolios are the Microsoft "Family of Funds".

With this strategy, MS is increasing the sophistication of our portfolio management efforts, focusing on Total Rate-of-Return portfolio management (as opposed to yield-to-maturity) and using duration as a risk management tool (instead of term-to-maturity).

The goals of this strategy are to:

- Segregate the cash portfolio into individual funds of a more manageable size.
- Enhance the total return on Microsoft's Cash assets.
- Establish risk and return expectations for each Fund.
- Provide pro-active risk management of financial assets.
- Benchmark performance relative to market indices.
- Allow allocation of cash among the various risk segments of the short-term fixed-income market.

Following is a high level summary of the general guidelines of each Fund:

- **Level 1: Money Market Fund**—Designed to meet the operating cash requirements of MS Corporation, and other legal entities, MS MBV, MB IBV, and MS Puerto Rico, this fund has a targeted duration of 20-45 days and a maximum maturity of 91 days. Little principal value fluctuation is expected. Benchmark: 30-Day US Treasury Bill.
- **Level 2: Enhanced Money Market Fund**—Designed as a secondary source of liquidity supporting the Money Market Fund, this fund has a maximum maturity of 13 months. The longer targeted duration of 2-6 months, will provide opportunity for increased return with a modest increase in risk. A small amount of principal value fluctuation is expected. Benchmark: 90-Day US Treasury Bill.
- **Level 3: Short-term Fixed Income Fund**—This fund will carry an increased focus on interest rate changes, security sectors and temporary market anomalies to provide the opportunity for returns above money market rates. Duration is further extended to a target of 1.25 to 2.25 years. Some principal value fluctuation is expected, and negative monthly total returns may occur occasionally. Benchmark: Merrill Lynch US Treasury 1 - 2.99 Yr. Index.
- **Level 4: Intermediate Fixed Income Fund**—An actively managed portfolio with a targeted duration of 2.5 to 4.0 years. This "short bond fund" will focus on the optimal security type, sector, and credit risk to achieve superior returns. Principal value fluctuation is expected. Months with negative returns will occur and an occasional negative quarter is possible. Benchmark: Merrill Lynch US Treasury 3-4.99 Yr. Index.
- **Level 5: Opportunity Fund**—This fund will seek investment opportunities that provide yield enhancement, meet tax-planning objectives, and mirror Microsoft's strategic investments and business relationships. This fund requires senior management approval of each transaction, and does not carry specific maturity constraint.

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INVESTMENTS

Wang Laboratories, Inc.

(Financial information shown below is the most recent available.)

	Fiscal Year Ended		Change \$	Change %
	Jun. 30. 1995	Jun. 30. 1996		
Net revenue	\$947	\$1,090	\$143	15%
Operating expenses	1,014	1,067	73	7%
Operating income (loss)	(67)	3	70	NM
Other income (expenses)	6	(4)	(10)	NM
Net income	(\$61)	(\$1)	\$80	NM

- Wang continues to expand as a service provider and a developer of open systems software for NT. A smaller portion of revenues now comes from support for its terminated proprietary products. For the fiscal year ended June 30, 1996, net revenue increased 15% with service revenue increasing 24% and product sales growing 1%. EBITDA increased 65% from \$83 million to \$138 million.
- On July 24, Wang announced it had signed an agreement to acquire I-NET, a provider of outsourced network and desktop management services, for \$167 million. It is hoped that this combination will enable Wang/I-NET to become a premier provider of seamless IT outsourcing services from the desktop through local and wide-area networks to the Internet. I-NET is expected to add over \$300 million in revenue to Wang in fiscal year 1997.
- Last year, MS signed a broad technical, service, marketing, patent, and investment agreement with

Wang. Under the agreement, Wang's desktop imaging and object controls are incorporated in certain MS products. Additionally, the two companies are working together on the definition of work management APIs. Wang's structured workflow technology manages the routing and delivery of this data and documents. MS also designated Wang as its "preferred" vendor of imaging and workflow software and is engaging in co-marketing. The agreement also expands Wang's role in providing outsourced support services for MS products.

- MS also purchased \$90 million face amount of 4.5% convertible preferred stock due in 2003 for \$84 million. The stock is convertible into Wang common at \$23 per share and represents ~10% of Wang's common stock on a fully diluted basis. Wang's common was recently trading at ~\$18 per share, up from \$13 per share at the time the deal was signed, but down from a high of \$24.

Mobile Telecommunications Technologies Corporation (Mtel)

(Financial information shown below is the most recent available.)

	Six Months Ended		Change \$	Change %
	Jun. 30. 1995	Jun. 30. 1996		
Net revenue	\$107	\$169	\$62	58 %
Operating expenses	101	169	68	67
EBITDA	6	(0)	(6)	(104)
Other expenses	(15)	(62)	(48)	323
Net income	(\$9)	(\$63)	\$42	580

- Mtel is the leading provider of nationwide and alpha-numeric paging services under the SkyTel brand. Mtel is also developing SkyTel 2-Way, which has caused a dramatic increase in operating expenses.

- Mtel recorded a year-over-year increase in net pager units in service of 57.5% to 1.29 million units. However, net units increased by only 53 thousand in the 2nd quarter due in part to a strategy of reducing units sold through lower margin and higher churn distribution channels. Quarterly operating cash flow from operations

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- turned positive to \$4.4 million from negative \$8.8 million in the prior quarter in part due to improved cost control.
- Skytel's one-way revenue was \$79.0 million, an increase of \$26.8 million or 51% over the prior year. Quarterly operating cash flow from one-way operations increased to \$28.7 million, an OCF margin of 36.7%.
 - The two-way business achieved several important milestones including a very favorable technical analysis by Lockheed Consulting, but units ended the quarter at only 24 thousand.
 - John T. Stupka, formerly CEO of SBC's wireless business, joined Mtel as President and CEO. John Palmer remains Chairman.
 - During the quarter, Mtel also completed several important financial transactions, including the sale of its stake in Mercury Paging, the sale of additional preferred stock and a consent solicitation to allow additional borrowing capacity under its bond indenture.

Stac, Inc.

(Financial information shown below is the most recent available.)

	Six Months Ended	Six Months Ended	Change \$	Change %
	Mar. 31, 1995	Mar. 31, 1996		
Net revenue	\$23.3	\$23.5	\$0.2	1 %
Cost of revenue	1.3	1.5	0.2	13
Gross profit	20.6	20.5	0.0	(0)
Controllable expenses	23.3	26.6	3.3	14
Net income	(\$2.7)	(\$6.1)	(\$3.3)	NM

- In June 1994, MS and Stac signed cross-license and investment agreements to end their disk compression patent dispute. MS agreed to pay Stac license royalties of \$1 million per month for 43 months. MS also purchased \$40 million of 4.0% convertible preferred stock, which was converted to common equity on November 9, 1995.
- Software accounted for under 40% of total revenue in the current quarter. Stacker, CD QuickShare and Replica are all well below plan. ReachOut hit

MSNBC

(Financial statements not meaningful)

- The MSNBC 24 Hour Cable News joint venture and the interactive online news joint venture were both launched on Monday, July 15. The Cable JV was launched with approximately 21 million subscribers, including recent agreements with Cox, Adelphia, Time Warner's Philadelphia region and other small MSOs to distribute the MSNBC channel.
- The joint ventures call for a Microsoft investment of \$220 million for MSNBC Cable and \$2.5 million for the online services, both paid over five years. All profits or losses from the joint ventures are distributed or funded 50/50 by MS and NBC.
- its budget, while the hardware business continues to exceed plan.
- Controllable expenses in the current six month period include \$12 million of purchased R&D. Before this charge, net income would have been \$6.1 million and EPS would have been \$0.20.
- At a price of \$10.125, MS's 4,458,746 shares of Stac common stock have a market value of \$45 million.
- The joint ventures will pay NBC a licensing fee of approximately \$26 million per year per joint venture for the first 5 years for the use of NBC assets. The licensing fees after 5 years is the greater of \$20 million per year per joint venture or an agreed upon percent of revenues.
- Total funding to date for the Cable JV has been \$41 million and for the Interactive JV has been 9 million. MS share of the operating losses of the Cable JV total \$13.2 and for the Interactive JV total \$8.8 million.

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Santa Cruz Operation, Inc.

(Financial information shown below is the most recent available.)

	Quarter Ended	Quarter Ended	Change \$	Change %
	Mar. 31, 1995	Mar. 31, 1996		
Net revenue	\$53	\$51	(\$2)	(4) %
Cost of revenue	13	12	(1)	(8)
Gross profit	35	39	4	11
Controllable expenses	30	36	6	20
Net income	\$5	\$3	(\$2)	(40)

- Revenues in CY96-1 increased \$3 million compared to the previous quarter, in spite of \$7 million coming from Unixware. Operating expenses also increased by \$3 million, due to the staff coming from Novell (ex-USL). Cash was up \$8 million vs. The previous quarter.
- The HP-SCO relationship seems to strengthen; they plan to deliver a 64-bit Unix on the P7 by mid-1998 and are committing large development teams (200 people from SCO, 350 people from HP).
- At the SCO Enterprise Summit (April 23), SCO, Intel and 7 OEMs (Compaq, DG, ICL, NCR, Olivetti, Siemens Nixdorf and Unisys) announced their intent to position and use SCO Unixware as the volume Unix server of choice.
- SCO also announced a joint development agreement with ICL and DG to incorporate DG NUMA technology into Unixware.
- SCO Doctor and Arc Serve (layered products) were shipped in June 1996.
- SCO won a 5,500 Unixware units deal at Chrysler.
- MS decided late June to keep, for the time being, its SCO shares, not to give up its board seat and not to sell its Unix royalties contract to SCO.

UUNET Technologies, Inc.

(Financial information shown below is the most recent available.)

	Quarter Ended	Quarter Ended	Change \$	Change %
	Mar. 31, 1995	Mar. 31, 1996		
Net revenue	\$ 15.0	\$ 43.0	\$ 28.0	187 %
Cost of revenue	8.0	27.5	19.5	244
Gross profit	7.0	15.5	8.5	121
Controllable expenses	7.3	15.3	8.0	110
Net income	\$ (0.3)	\$ 0.2	\$ 0.5	(167)

- On April 29, UUNET entered into a merger agreement with MFS Communications Company, Inc. ("MFS") pursuant to which UUNET will become a subsidiary of MFS and each UUNET share will be exchanged for 1.777776 shares of MFS. At MFS's closing price prior to announcement, this amounted to \$1.98 billion or a 37% premium over UUNET's then current market value. As of July 15, the value of the transaction is \$1.83 billion. Microsoft will receive 7.4mm shares of MFS with a July 15 value of \$57.88 per UUNET share, or \$237mm. MS will hold 4.1% of the combined companies.
- The merger will be voted upon by the shareholders of UUNET and MFS on August 9th and 10th, respectively. The merger requires an affirmative vote from a simple majority of the shares outstanding of each company. Stockholders representing 59.5% of UUNET's shares and 12.1% of MFS's shares have granted irrevocable proxies in favor of the transaction.
- UUNET, MFS and MS each intend to continue the Network Agreement without modification, except that MS will no longer make advances under the Equipment Loan Agreement for equipment purchased after the effective date of the merger. We have increased the size of the loan under this agreement from \$26mm to \$48.2mm to reflect additional spending prior to the merger.
- Analysts are generally bullish on MFS, projecting 10 year revenue growth rates in the 30% range.
- On July 11th, GTE and UUNET announced that GTE will resell access to the UUNET network via its \$19.95 per month consumer Internet service.

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