Masters

BOARD OF DIRECTORS REPORT
FINANCE & ADMINISTRATION
Q93-4

Microsoft

FINANCE AND ADMINISTRATION REPORT

CONTENTS

FINANCE

FINANCE (CONT.)

ADMINISTRATION

SUPPLEMENTARY INFORMATION

This report was prepared with Word for Windows 2.0. All tables were created in Excel and either embedded in the document or linked to master spreadsheets. Each table is made accurate in its footings by using the "Precision as Displayed" option in Excel. Most schedules are presented in millions with an emphasis on having accurate totals. Therefore, individual numbers may be rounded and may not tie precisely to supporting schedules.

Results of Operations

COMPARISON WITH PLAN (FISCAL YEAR)

Income Statement (in millions)

	Actual FY93		Plan FY93		Variance
Net revenues	$3,753	100.0%	$3,505	100.0%	7%
Cost of revenues	633	16.9	598	17.0	6
Gross profit	3,120	83.1	2,907	83.0	7
Operating expenses:					
Research and development	470	12.5	519	14.8	(9)
Sales and marketing	1,205	32.1	1,222	34.8	(1)
General and administrative	119	3.2	121	3.5	(2)
Total operating expenses	1,794	47.8	1,862	53.1	(4)
Operating income	1,326	35.3	1,045	29.9	27
Interest income - net	82	2.2	84	2.4	(2)
Nonoperating income (expense)	(7)	(0.2)	(15)	(0.5)	(53)
Income before income taxes	1,401	37.3	1,114	31.8	26
Provision for income taxes	448	11.9	356	10.2	26
Net income	$ 953	25.4%	$ 758	21.6%	26
Average shares outstanding	302.9		305.0		
EPS	$ 3.15		$ 2.48		27

OEM ($235 million over plan) accounted for 95% of the net revenue variance. Far East FG ($22 million) and ICON FG ($20 million) were also above plan, while Europe FG fell below plan ($20 million). By business unit, Desktop applications was well above plan ($155 million), as were MS-DOS ($117 million), DDT ($27 million) and Workgroup ($4 million). Win Office ($219 million above plan) generated the Desktop applications variance. The MS-DOS 6 upgrade was above plan by $130 million. In contrast, Windows, Hardware and Consumer each fell below plan ($61 million, $22 million and $18 million, respectively).

Cost of revenues were 0.1 points below plan at 16.9%. Gross product costs of 12.1% were 0.8 points below plan. MS-DOS 6.0 had a favorable impact on product costs. Higher than planned OEM revenues improved product costs relative to plan. Non-product costs were 0.6 points higher than plan.

Operating expenses were $68 million below plan and 5.3% below plan as a percent of net revenue. Research and development costs were $49 million below plan and represented 72% of the total underspending. The largest contributors to the underspending in R&D were; product development ($28 million under plan, with broad distribution of variances among the product units), legal ($17 million under plan) and payroll ($16 million under plan with headcount less than plan by 349). Sales and marketing payroll expense was $24 million or 6% less than plan (41% of the underspending was in International), marketing expense was $33 million or 9% less than plan, while bad debt exceeded plan by $20 million in the OEM channel. General and administrative spending was essentially on plan.

Planned investments in products during the year included Windows NT ($124 million vs. $106 million plan), Workgroup ($22 million vs. $23 million plan), Multimedia Publishing ($9 million vs. $17 million plan), Multimedia Systems ($15 million vs. $7 million plan), and Mobile Windows ($12 million vs. $15 million plan).

Comparison with Plan (Fiscal Year)

Net Revenues (in millions)

	Actual FY93		Plan FY93		Variance
Channel					
Europe FG	$1,259	34%	$1,279	36%	(2)%
ICON FG	349	9	329	10	6
Far East FG	155	4	133	4	16
Total IFG	1,763	47	1,741	50	1
US FG	1,182	31	1,194	34	(1)
OEM	731	19	496	14	47
Other	77	3	74	2	3
	$3,753	100%	$3,505	100%	7
Product Group					
Systems	$1,267	34%	$1,173	33%	8
Applications	2,173	58	2,004	57	8
Hardware	233	6	253	7	(8)
Other	80	2	75	3	7
	$3,753	100%	$3,505	100%	7

Europe FG had below plan results for MS-DOS Standard ($29 million), MS-DOS FoxPro ($20 million), Serial Mouse/Paintbrush ($18 million), Mac Excel ($12 million) and Windows for Workgroups ($10 million). However, there were positive variances for Win Word upgrades ($37 million) and MS-DOS upgrade ($34 million). Win Office exceeded plan by $124 million.

ICON FG had above plan variances in MS-DOS ($24 million), DDT ($12 million) and Windows ($4 million), partially offset by below plan sales in Hardware ($11 million), Desktop Applications ($6 million) and Consumer ($6 million). The MS-DOS 6 upgrade was above plan by $26 million, including Canada ($14 million) and Australia ($6 million). Access, above plan by $9 million, spurred the positive results for DDT, while Windows benefited from strong sales of Windows 3.1 ($10 million above plan). Hardware remained under plan due to Mouse/Paintbrush ($7 million) and Naked Mouse ($4 million).

Far East FG's above plan results were comprised of positive variances within Desktop Applications ($8 million), Windows BU ($6 million), MS-DOS ($5 million) and DDT ($5 million), slightly offset by a negative variance in Consumer ($2 million). The positive Desktop Applications variance was comprised of strong performances for the Excel upgrade ($9 million) and Win Word upgrades ($5 million), partially offset by weakness for standard versions of Win Excel ($4 million) and Win Word ($4 million). Windows 3.1 exceeded plan by $4 million.

US FG finished below plan in FY93 mainly due to below plan revenues in Windows ($120 million under plan). The negative variance consisted of Win 3.x ($55 million), Windows Printing ($37 million), Multimedia Systems ($16 million) and Windows NT ($14 million). Consumer was also below plan by $8 million. In contrast, the MS-DOS 6.0 upgrade generated a $68 million positive variance. In addition, Desktop exceeded plan by $63 million mainly due to Win Office (above plan by $79 million).

OEM sales were well over plan. Europe OEM and US OEM exceeded plan by 69% and 56%, respectively. Windows 3.1 ($82 million), OEM Mice ($31 million), Win Works ($8 million) and Win Word ($8 million) were the largest contributors.

Systems revenues were elevated by positive variances for the MS-DOS 6 upgrade ($130 million) and Windows 3.1 ($104 million, mainly due to strong OEM shipments). Reducing the impact of those variances, were WFW Base ($27 million), Win NT Starter Kit ($17 million), Win NT ($11 million) and WFW 3.0 Upgrade ($9 million).

Applications strength resulted primarily from Desktop ($155 million) and DDT ($27 million). In particular, Win Office exceeded plan by $219 million. On the other hand, MS-DOS and Mac versions of Works were below plan by $12 million and $3 million, respectively, comprising most of the $18 million shortfall in Consumer.

In Hardware, a shift toward lower priced OEM units resulted in revenue shortfalls in all finished goods channels; Europe FG ($33 million), US FG ($13 million) and ROW FG ($7 million), while OEM outperformed plan by $37 million. Sales were under plan for Serial/Bus Mice ($14 million) and Ballpoint ($7 million).

Comparison with Plan (Fiscal Year)

Fifteen Leading Products (units in thousands, revenue in millions)

	FY93			FY93 Plan			Variance				
									Revenues		
Product	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	$/Unit	Volume	Price	Total
Win Word	2,342	$471	$201	1,770	$423	$239	572	($38)	137	($89)	$48
Win Excel	2,237	455	203	1,787	426	238	450	(35)	107	(78)	29
Windows 3.1	15,580	429	28	10,486	350	33	5,094	(5)	157	(78)	79
MS-DOS Std	18,099	323	18	17,703	339	19	396	(1)	2	(18)	(16)
Bus/Ser Mouse	4,873	216	44	3,486	230	66	1,387	(22)	93	(107)	(14)
MS-DOS 6.0 Upg	5,016	216	43	1,541	86	56	3,475	(13)	195	(65)	130
Win Excel Upg	1,110	126	114	728	89	122	382	(8)	46	(9)	37
Win Word Upg	1,054	116	110	839	89	106	215	4	23	4	27
Mac Word	722	88	122	616	99	161	106	(39)	17	(28)	(11)
Win Access	823	85	103	61	27	443	762	(340)	338	(280)	58
Mac Excel	509	81	159	445	102	229	64	(70)	15	(36)	(21)
Win Project	244	81	332	140	58	414	104	(82)	43	(20)	23
Win Powerpoint	1,206	79	66	629	60	95	577	(29)	54	(35)	19
Lan Manager	929	72	78	608	70	115	321	(37)	36	(34)	2
Win Works	1,625	61	38	933	58	62	692	(24)	42	(39)	3
		$2,899			$2,506				$1,305	($912)	$393
Percent net revenues		77%			72%						

Continued strong shipments of the Win Office bundle contributed to the variance for Win Word and Win Excel in FY93. US FG shipped 463,000 Win Office units versus 247,000 plan, while Europe FG shipped 311,000 Win Office units versus 110,000 plan. Strong revenue growth in bundled product has generated strong volume variances and negative price variances. The price variance impact is a result of the sales mix moving from individual products to the less expensive bundle.

Win Word revenues were $471 million, exceeding plan by $48 million. The positive variance resulted from strong sales in US FG ($31 million over plan with 871,000 actual units), Europe FG ($17 million over plan with 883,000 actual units) and US OEM ($7 million over plan with 227,000 actual units). Far East FG and ROW FG were under plan by $4 million and $3 million, respectively.

Win Excel revenues were $29 million over plan. US FG revenues accounted for $21 million of the variance (844,000 actual units versus 613,000 plan). Europe FG exceeded plan by $10 million (831,000 actual units versus 690,000 plan) and ROW FG exceed plan by $2 million. Far East FG revenues fell short of plan by $4 million (71,000 actual units versus 76,000 plan).

Windows 3.1 revenues exceeded plan by $104 million. OEM reported strong revenues as the sales mix continued to shift from finished goods to OEM. The above plan variance included US OEM ($63 million over plan with 8,106,000 actual units versus 3,915,000 plan), Europe OEM ($22 million over plan with 2,456,000 actual units versus 1,613,000 plan), ROW FG ($4 million), and Far East FG ($3 million). Europe FG fell short of plan by $9 million and US FG fell short of plan by $3 million.

MS DOS revenues were $16 million under plan primarily due to Q93-3 release of MS DOS 6.0 upgrade. Strong US OEM ($16 million over plan with 8,836,000 actual units versus 7,417,000 plan), Europe OEM($16 million over plan with 3,460,000 actual units versus 2,636,000 plan) and Far East FG ($2 million over plan) were offset by weak sales, primarily Europe FG ($29 million below plan with 284,000 actual units versus 723,000 plan), Far East OEM ($16 million under plan) and ROW OEM($5 million under plan).

Serial/Bus Mouse revenues were $14 million under plan on year-to-date sales of $216 million. Strong OEM revenues (US $26 million, Europe $3 million and ROW $2 million over plan) were nearly offset by plan shortfalls in Europe FG ($28 million under plan with 1,003,000 actual units versus 1,190,000 plan), ROW FG ($11 million under plan with 443,000 actual units versus 501,000 plan) and US FG ($8 million under plan). The revenue decline was primarily due to a shift to the OEM channel and price competition.

MS DOS 6.0 Upgrade revenues were $216 million versus a plan of $86 million. The year-to-date positive variance of $130 million was primarily due to introductory pricing ($49.95). US FG ($64 million over plan with 2,855,000 actual units), Europe FG ($39 million over plan with 1,213,000 actual units), ROW FG ($25 million) and Far East FG ($2 million) contributed to the positive variance.

Comparison with Plan (Fiscal Year)

Access revenues were $58 million over plan year to date resulting from strong sales in all retail channels. US FG revenues were $34 million over plan (432,000 over plan), Europe FG revenues were $15 million over plan (183,000 units over plan), and ROW FG revenues were $9 million over plan (144,000 units over plan). The price variance was due to an extension of a $99 introductory promotion price, versus a normal SRP of $495.

Bundled Products (units in thousands, revenues in millions)

	FY93 YTD			FY93 YTD Plan			Variance				
									Revenues		
Product	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	$/Unit	Volume	Price	Total
Win Office	922	$422	$458	451	$203	$450	471	$8	$212	$7	$219
Win Office Upg	318	76	239	20	7	350	298	(111)	104	(35)	69
Mac Office	168	65	387	115	46	400	53	(13)	21	(2)	19
DOS/Win	189	20	106	474	54	114	(285)	(8)	(32)	(2)	(34)
Mac Word/Excel	31	6	194	--	--	--	--	--	6	--	6
Win/BallPoint	23	3	130	--	--	--	--	--	3	--	3
		$592			$310				$314	($32)	$282
Percent net revenues		16%			9%						

Win Office revenues exceeded plan by $219 million, or 108%. This reflected strong demand across all retail channels. Year-to-date Europe FG revenues of $199 million exceeded plan by 166% or $129 million and US FG revenues of $171 million exceeded plan by 185% or $79 million.

Cost of Revenues

	Actual FY93			Plan FY93		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Channel						
Europe FG	34.1	11.6%	3.9%	35.9	12.3%	4.4%
ROW FG	13.3	18.1	2.4	13.0	17.9	2.3
US FG	32.9	14.7	4.8	35.2	16.5	5.8
OEM	17.7	4.1	0.7	13.8	1.3	0.2
Other	2.0	9.6	0.3	2.1	7.2	0.2
	100.0%		12.1%	100.0%		12.9%
Effect of revenue adjustments			x 103.2%			x 102.6%
Product cost - net			12.5			13.2
Non-product costs			4.4			3.8
			16 9%			17.0%

	Actual FY93			Plan FY93		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Product Group						
Systems	33.2%	9.2%	3.1%	33.3%	11.3%	3.7%
Applications	58.4	10.9	6.4	57.4	10.7	6.1
Hardware	6.3	40.2	2.5	7.3	39.6	2.9
Other	2.1	7.1	0.1	2.0	7.4	0.2
	100.0%		12.1%	100.0%		12.9%

Cost of revenues were 0.1 points below plan.

Product costs were 0.8 points under plan due to favorable changes in product and channel mix. USFG's product mix was favorable compared to plan as revenues shifted from Windows and Hardware (which are cost-intensive) to Desktop Applications, which has better margins. USFG's Windows product mix was also favorable versus plan, as the mix shifted from updates to standard product. USFG MS-DOS costs were favorable as a result of the DOS 6.0 introduction. Europe FG costs were favorable to plan as a result of lower hardware sales. Channel mix variances were favorable compared to plan, with OEM accounting for 17.7% of gross revenues versus plan of 13.8%. However, OEM costs exceeded plan by an offsetting amount as a result of increased hardware sales.

COMPARISON WITH PLAN (FISCAL YEAR)

On a product group basis, Systems costs were 2.1 points under plan as a result of the MS-DOS 6.0 introduction, a shift of revenue from US and Europe retail to OEM and a shift of Windows sales from updates to standard product. Hardware sales represented 6.3% of revenue versus 7.3% plan, causing margins to improve 0.3 points.

Revenue adjustments approximated plan, while non-product costs were 0.6 points in excess of plan.

Operating Expenses (in millions)

	Actual FY93	Plan FY93	Variance	
Payroll	$ 612	$ 650	$ (38)	(6)%
Marketing	328	331	(3)	(1)
Marketing buffer funds	–	30	(30)	–
Marketing accrual	–	–	–	–
Depreciation	115	114	1	1
Employee fringes	94	90	4	4
Supplies and equipment	75	78	(3)	(3)
Travel and entertainment	76	85	(9)	(10)
Product development	75	103	(28)	(27)
All other	419	381	38	9
	$1,794	$1,862	$ (68)	(4)

Operating expenses were $68 million below plan. The primary factors causing the variance were the headcount shortfall, and below plan marketing and product development spending. Our plan assumed hiring 3,199 people during FY93. Actual net hiring for FY93 was 2,888, or 90% of plan. The variance in product development primarily resulted from underspending in Operating Systems ($16 million), Consumer ($5 million), Desktop Applications ($3 million), and Database and Development Tools ($3 million). The remainder of the variances were broadly distributed.

Interest and Nonoperating Expense (in millions)

	Actual FY93	Plan FY93	Variance
Interest income-net			
Interest income	$ 83	$ 84	$ (1)
Interest expense	(1)	–	(1)
	$ 82	$ 84	$ (2)
Nonoperating expense			
Financial asset allowance	$ (8)	$ (8)	$ –
Foreign currency transactions	9	–	9
All other	(8)	(7)	(1)
	$ (7)	$ (15)	$ 8

Despite falling interest rates, interest income was close to plan levels. Foreign currency gains of $9 million were reported as the volatility in foreign currency markets provided an opportunity for hedging gains.

Tax Rate

The actual tax rate was 32%, consistent with plan.

Net Income

Net income was $953 million, up 26% from plan. As a percentage of net revenue, net income was 25.4% versus plan of 21.6%. The 3.8 point positive variance is attributable to a positive gross margin variance of 0.1 point, a 5.3 point positive variance in operating expenses, a 0.1 point positive variance in interest and nonoperating income, slightly offset by an increase in income taxes of 1.7 points.

Comparison with Plan (Quarter)

Income Statement (in millions)

	Actual Q93-4		Plan Q93-4		Variance
Net revenues	$1,039	100.0%	$ 969	100.0%	7%
Cost of revenues	180	17.3	164	16.9	10
Gross profit	859	82.7	805	83.1	7
Operating expenses:					
Research and development	138	13.3	129	13.3	7
Sales and marketing	313	30.1	299	30.9	5
General and administrative	35	3.4	32	3.3	9
Total operating expenses	486	46.8	460	47.5	6
Operating income	373	35.9	345	35.6	8
Interest income - net	23	2.2	24	2.5	(4)
Nonoperating income (expense)	(6)	(0.6)	(4)	(0.4)	50
Income before income taxes	390	37.5	365	37.7	7
Provision for income taxes	125	12.0	116	12.0	8
Net income	$ 265	25.5%	$ 249	25.7%	6
Average shares outstanding	305.0		307.0		
EPS	$ 0.87		$ 0.81		7

The positive net revenue variance resulted primarily from OEM ($80 million). Far East FG ($22 million), US FG ($9 million) and ICON FG ($1 million) were also above plan. On the other hand, Europe FG was below plan by $46 million. Win Office exceeded plan by $80 million.

Cost of revenues were 0.4 points above plan at 17.3%. Gross product costs were 0.9 points below plan mainly due to favorable variances from the DOS 6.0 introduction and Windows applications. The channel mix was favorable compared to plan, with OEM accounting for 19.3% of revenue versus 13.8% plan. However, hardware sales represented a higher percentage of the OEM product mix than was planned.

Operating expenses were over plan by $26 million or 6%. Although Sales and Marketing was $17 million below plan in net marketing expense, bad debts (OEM $6.4 million) and administrative services ($5 million) were over plan. The research and development variance was mainly due to product development ($5 million or 23% over plan) and administrative services ($2 million or 76% higher than plan). General and administrative expenses approximated plan.

Planned investments in products during the quarter included Windows NT ($28 million vs. $30 million plan), Workgroup ($7 million vs. $4 million plan), Multimedia Publishing ($1 million vs. $4 million plan), Multimedia Systems ($3 million vs. $2 million plan), and Mobile Windows ($3 million vs. $4 million plan).

Comparison with Plan (Quarter)

Net Revenues (in millions)

	Actual Q93-4		Plan Q93-4		Variance
Channel					
Europe FG	$ 296	28%	$ 342	35%	(14)%
ICON FG	99	10	98	10	--
Far East FG	60	6	38	4	59
Total IFG	455	44	478	49	(5)
US FG	341	33	332	34	3
OEM	217	21	137	14	58
Other	26	2	22	3	20
	$1,039	100%	$ 969	100%	7
Product Group					
Systems	$ 412	40%	$ 339	35%	22
Applications	542	52	543	56	--
Hardware	58	5	66	7	(11)
Other	27	3	21	2	24
	$1,039	100%	$ 969	100%	7

In Europe FG, Windows ($19 million), Hardware and Desktop applications ($15 million each), and Consumer ($9 million) were all below plan. However, the MS-DOS business unit was above plan by $31 million due to a $44 million positive variance for the MS-DOS 6 upgrade, which shipped in March, and a shortfall for MS-DOS Standard ($12 million). In Desktop, Win Office revenues were $44 million above plan, but offsetting variances from MS-DOS Word ($12 million), Mac Word ($6 million).

ICON FG showed a positive variance in MS-DOS ($15 million), offset by shortfalls in Hardware ($5 million), Windows ($4 million) and Consumer ($3 million). Specifically, the MS-DOS 6 upgrade was above plan by $23 million.

Far East FG's strong results were attributable to Windows ($11 million), Database and Development Tools ($4 million), MS-DOS ($4 million) and Hardware ($3 million). Windows 3.1, which shipped in Japan, Korea and China during the quarter, accounted for $9 million of the Windows variance. Database and Development Tool's strength came primarily from Visual Basic upgrade ($2 million), MS-DOS FoxPro ($0.6 million) and Pro C ($0.6 million), while the MS-DOS 6 upgrade ($2 million above plan) helped the MS-DOS business unit. Negative variances for Bus Mouse/Paintbrush ($2 million) and OEM Ballpoint Mouse ($1 million) accounted for the Hardware variance.

US FG benefited from initial response to the MS-DOS 6 upgrade ($68 million), and Win Office exceeded plan ($29 million). US FG revenues were below plan for Win 3.x ($20 million), Win NT ($14 million) and Printer Systems ($10 million). Additionally, Consumer was below plan by $8 million due to lower than planned sales of MS-DOS Flight Simulator ($4 million) and MS Profit for Windows ($2 million).

OEM was strong with Windows ($37 million), Desktop Applications ($13 million), Hardware ($11 million), Consumer ($6 million) and MS-DOS ($5 million) all exceeding plan. Windows 3.1 was exceptionally strong, outpacing plan by $37 million. Win Word and Win Excel each exceeded plan by $5 million.

In Systems, the MS-DOS 6 upgrade and Windows 3.1 were above plan by $131 million and $52 million, respectively. The success of the MS-DOS 6 upgrade resulted from its release late in March, while Windows 3.1 benefited from strong OEM shipments.

Applications approximated plan, with Desktop exceeding plan by $18 million, and Consumer and DDT below plan by $15 million and $4 million, respectively. Win Excel and Win Word exceeded plan ($11 million and $8 million, respectively) due to continued strength of Win Office. Consumer's weakness resulted from below plan revenue for MS-DOS Flight Simulator ($5 million), MS-DOS Works ($4 million) and Win Profit ($2 million). Shortfalls by MS-DOS FoxPro ($10 million) and Access ($5 million), partially offset by positive variances for Visual C++ ($5 million) and Visual Basic ($4 million), comprised DDT's below plan results.

Hardware's negative variance occurred due to the shift toward lower priced OEM units and was comprised of Serial Mouse/Paintbrush ($4 million) and Ballpoint ($4 million).

Comparison with Plan (Quarter)

Fifteen Leading Products (units in thousands, revenue in millions)

	Q93-4 Actual			Q93-4 Plan			Variance				
									Revenues		
Product	Units	Revs	$/Units	Units	Revs	$/Units	Units	$/Units	Volume	Price	Total
MS-DOS Upg	3,676	$161	$44	548	$30	55	3,128	($11)	171	($40)	$131
Windows 3.1	4,719	138	29	2,788	92	33	1,931	(4)	65	(19)	46
Win Word	725	124	171	485	115	237	240	(66)	57	(48)	9
Win Excel Std	698	122	175	444	110	248	254	(73)	63	(51)	12
MS-DOS Std	4,860	81	17	4,973	93	19	(113)	(2)	(2)	(10)	(12)
Ser/Bus Mouse	1,361	54	40	892	58	65	469	(25)	30	(34)	(4)
Win Excel Upg	248	27	109	191	23	120	57	(11)	7	(3)	4
Win Word Upg	256	26	102	243	26	107	13	(5)	1	(1)	0
Win Powerpoint	412	25	61	170	17	100	242	(39)	24	(16)	8
Win Project	80	24	300	34	14	412	46	(112)	19	(9)	10
Mac Word	229	21	92	157	26	166	72	(74)	12	(17)	(5)
Mac Excel	141	19	135	120	27	225	21	(90)	5	(13)	(8)
UNIX Lan Manager	259	16	62	163	19	117	96	(55)	11	(14)	(3)
Win Works	519	14	27	233	15	64	286	(37)	18	(19)	(1)
DOS Word	50	11	220	96	25	260	(46)	(40)	(12)	(2)	(14)
		$863			$690				$469	($296)	$173
Percent net revenues		83%			71%						

Continued strong shipments of the Win Office bundle contributed to the positive variances for Win Word and Win Excel. Europe FG shipped 113,000 units versus a plan of 29,000, and US FG shipped 138,000 units versus 67,000 plan. Strong revenue growth in bundled product has generated strong volume variances and negative price variances. The price variance impact is a result of the sales mix moving from individual products to Office.

MS-DOS upgrade revenues were over plan by $131 million on unit sales of 3,676,000. The positive variance reflected strong sales of the DOS 6.0 upgrade released at the end of Q93-3. US FG reported revenues of $81 million ($67 million over plan), Europe FG reported $55 million ($43 million over plan), ROW FG reported $23 million ($18 million over plan) and Far East FG reported $2 million. The $49.95 introductory price, (versus a standard SRP of $129.95) helped generate a strong volume variance and impacted price variance.

Windows 3.1 revenues were $46 million over plan, as sales mix continued to shift from retail to OEM. Positive variances were recorded in US OEM ($31 million over plan with 2,603,000 actual units versus 1,016,000 plan) and Europe OEM ($6 million over plan with 631,000 actual units versus 422,000 plan). Retail channels were above plan over all, due to strong US FG and Far East FG sales. US FG revenues were $10 million over plan (505,000 actual units versus 347,000 plan) and Far East FG revenues were $9 million over plan due to the release of localized versions of Windows 3.1 (187,000 actual units versus 64,000 plan). ROW FG was $2 million over plan while Europe FG revenues were $12 million under plan.

Win Word revenues were $9 million over plan. US FG accounted for $11 million and US OEM accounted for $6 million over plan. Europe FG, Far East FG and ROW FG were under plan by $6 million, $1 million, and $1 million, respectively.

Win Excel revenues exceeded plan by $12 million. A positive variance in US FG of $13 million was partially offset by a shortfall in Europe FG revenues of $6 million. US OEM revenues were $5 million over plan (104,000 actual units versus 10,000 plan).

MS DOS Std revenues were $12 million under plan, primarily a result of the strong upgrade revenue from MS-DOS 6.0. Channels reporting revenues in excess of plan were US OEM ($6 million over plan with 2,629,000 actual units versus 2,011,000 plan), Europe OEM ($2 million over plan), and Far East FG ($1 million over plan). Channels experiencing shortfalls were Europe FG ($12 million under plan with 9,000 actual units versus 191,000 plan), Far East FG ($7 million under plan with 1,078,000 actual units versus 1,742,000 plan) and ROW FG ($2 million under plan).

Serial/Bus Mouse revenues were $4 million under plan primarily due to Europe FG ($13 million under plan with 212,000 actual units versus plan of 314,000) and ROW FG ($4 million under plan with 115,000 actual units versus 145,000 plan) Channels reporting revenues over plan included US OEM ($7 million), Far East FG ($2 million), US FG ($2 million), Europe OEM ($1 million) and ROW OEM ($1 million).

Win Excel Upgrades exceeded plan by $4 million. Europe FG accounted for $3 million, and Far East FG and ROW FG accounted for $2 million and $1 million over plan respectively. US FG revenues were $2 million under plan.

COMPARISON WITH PLAN (QUARTER)

Bundled Products (units in thousands, revenues in millions)

	Q93-4 Actual			Q93-4 Plan			Variance				
									Revenues		
Product	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	$/Unit	Volume	Price	Total
Win Office	299	$134	$448	123	$54	$439	176	$9	77	$3	$80
Win Office Upg	117	28	239	5	2	400	112	(161)	45	(19)	26
Mac Office	52	21	404	32	13	406	20	(2)	8	0	8
DOS/Win	28	2	71	36	4	111	(8)	(40)	(1)	(1)	(2)
Mac Word/Excel	7	1	143	--	--	--	--	--	1	--	1
Mac Office Upg	4	1	250	--	--	--	--	--	1	--	1
		$187			$73				$131	($17)	$114
Percent net revenues		18%			8%						

Win Office revenues exceeded plan by $80 million or 146%. This reflects strong demand across all retail channels primarily Europe FG ($44 million) and US FG ($30 million). Win Office upgrade was introduced in Q93-3, and in Q93-4 exceeded plan by $26 million.

Cost of Revenues

	Actual Q93-4			Plan Q93-4		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Channel						
Europe FG	28.2	12.5%	3.5%	34.8	12.2%	4.2%
ROW FG	15.0	19.0	2.8	13.9	17.9	2.5
US FG	35.2	13.2	4.7	35.4	16.5	5.8
OEM	19.3	3.8	0.7	13.8	1.2	0.2
Other	2.3	11.8	0.3	2.2	6.7	0.2
	100.0%		12.0%	100.0%		12.9%
Effect of revenue adjustments			x 105.8%			x 102.6%
Product cost - net			12.7			13.2
Non-product costs			4.6			3.7
			17.3%			16.9%

	Actual Q93-4			Plan Q93-4		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Product Group						
Systems	40.1%	9.9%	4.0%	34.7%	11.9%	4.1%
Applications	52.0	10.7	5.5	56.3	10.4	5.9
Hardware	5.5	39.6	2.2	6.8	40.0	2.7
Other	2.4	12.1	0.3	2.2	6.8	0.2
	100.0%		12.0%	100.0%		12.9%

Cost of revenues were 0.4 points over plan. Product costs were 0.9 points below plan as a result of USFG Systems cost improvements. USFG DOS costs declined from 18.9% to 14.3% as a result of the DOS 6.0 introduction, while USFG Win 3.1 costs fell from 24.9% to 10.6% due to a favorable shift in mix from upgrades to standard product. OEM accounted for 19.3% of actual sales versus 13.8% plan, but the favorable change in channel mix was offset by an unfavorable product mix within OEM. OEM hardware sales were up five-fold compared to plan.

On a product group basis, Systems costs were 2.0 points below plan due, in large part, to US FG cost improvements. USFG systems costs fell from 21.0% to 13.3% due to the DOS 6.0 introduction and a favorable shift in Windows mix from updates to standard product. Hardware sales have lower margins, and represented 5.5% of revenue versus 6.8% plan, resulting in a gross margin improvement of 0.4 points.

Negative revenue adjustments had a 0.4 point impact on gross margins versus plan.

Non-product costs increased 1.0 points compared to plan.

Comparison with Plan (Quarter)

Operating Expenses (in millions)

	Actual Q93-4	Plan Q93-4	Variance	
Payroll	$ 166	$ 173	$ (7)	(4)%
Marketing	131	68	63	91
Marketing buffer funds	–	8	(8)	(100)
Marketing accrual	(72)	--	(72)	–
Depreciation	31	31	–	--
Employee fringes	27	21	6	31
Supplies and equipment	24	19	5	21
Travel and entertainment	26	21	5	21
Product development	27	22	5	25
All other	126	97	29	31
	$ 486	$ 460	$ 26	6

Operating expenses exceeded plan in Q93-4. Most expense categories were over plan with the exception of payroll, marketing, rent & utilities, taxes, and miscellaneous expenses. The significant variances were from administrative services ($8 million over plan due to temporary expense), bad debt ($8 million over plan), professional fees ($6 million due to consulting services), employee fringes ($6 million over plan due to training and employee insurance), and product development ($5 million over plan due to development in the Far East).

Headcount

Total Headcount

	Actual	Plan	Variance
June 30, 1993	14,430	14,742	312
March 31, 1993	13,802	14,511	709
December 31, 1992	12,888	14,104	1,216
September 30, 1992	12,220	13,493	1,273
June 30, 1992	11,542	11,663	121
March 31, 1992	10,725	11,463	738

Operating Headcount (total above less Manufacturing)

	Channels	Product Groups	G&A	Total	Channels	Product Groups	G&A	Total
Actual								
June 30, 1993	7,465	4,361	1,205	13,031	58%	33%	9%	100%
March 31, 1993	7,122	4,206	1,123	12,451	57	34	9	100
December 31, 1992	6,532	4,067	1,063	11,662	56	35	9	100
September 30, 1992	6,105	3,950	998	11,053	55	36	9	100
June 30, 1992	5,771	3,745	930	10,446	55	36	9	100
March 31, 1992	5,297	3,540	859	9,696	54	37	9	100
Plan								
June 30, 1993	7,531	4,717	1,119	13,367	57%	35%	8%	100%
March 31, 1993	7,400	4,619	1,117	13,136	56	35	9	100
December 31, 1992	7,168	4,502	1,103	12,773	56	35	9	100
September 30, 1992	6,831	4,362	1,056	12,249	55	36	9	100
June 30, 1992	5,744	4,056	828	10,628	54	38	8	100
March 31, 1992	5,619	3,987	826	10,432	54	38	8	100
Variance								
June 30, 1993	66	356	(86)	336				
March 31, 1993	278	413	(6)	685				
December 31, 1992	636	435	40	1,111				
September 30, 1992	726	412	58	1,196				
June 30, 1992	(27)	311	(102)	182				
March 31, 1992	322	447	(33)	736				

Interest and Nonoperating Expense (in millions)

	Actual Q93-4	Plan Q93-4	Variance
Interest income-net			
Interest income	$ 23	$ 24	$ (1)
Interest expense	--	--	--
	$ 23	$ 24	$ (1)
Nonoperating expense			
Financial asset allowance	$ (2)	$ (2)	$ --
Foreign currency transactions	(1)	--	(1)
All other	(3)	(2)	(1)
	$ (6)	$ (4)	$ (2)

Interest income was slightly below plan due to lower interest rates.

Tax Rate

The tax rate for Q93-4 was 32%, consistent with plan.

Net Income

Net income was $265 million, or 6% above plan. As a percentage of net revenue, net income was 25.5% versus plan of 25.7%. The 0.2% negative variance consisted of cost of revenues (0.4%), net interest income (0.3%), nonoperating income (0.2%), partially offset by a positive variance for operating expenses (0.7%).

Sequential Quarters

Net Revenues (in millions)

	Q93-4		Q93-3		Q93-2		Q93-1		Q92-4	
Channel										
Europe FG	$ 296	28%	$ 335	35%	$ 345	37%	$ 283	35%	$ 274	34%
ICON FG	99	10	92	10	80	9	78	10	72	9
Far East FG	60	6	42	4	35	3	18	2	20	2
Total IFG	455	44	469	49	460	49	379	47	366	45
US FG	341	33	268	28	299	32	274	33	311	38
OEM	217	21	203	21	161	17	150	18	125	15
Other	26	2	18	2	18	2	15	2	13	2
	$ 1,039	100%	$ 958	100%	$ 938	100%	$ 818	100%	$ 815	100%
Product Group										
Systems	$ 413	40%	$ 313	33%	$ 283	30%	$ 258	32%	$ 353	43%
Applications	542	52	580	61	573	61	478	58	397	49
Hardware	57	5	45	5	65	7	66	8	65	8
Other	27	3	20	1	17	2	16	2	--	—
	$ 1,039	100%	$ 958	100%	$ 938	100%	$ 818	100%	$ 815	100%

The sequential net revenue growth during Q93-4 resulted from increases in US FG ($73 million), Far East FG ($18 million), OEM ($14 million) and ICON FG ($7 million), partially offset by a decline in Europe FG of $39 million. The MS-DOS upgrade accounted for most of the increase, growing by $106 million over Q93-3. Foreign exchange fluctuations resulted in a $5 million positive impact on revenues mainly due to a weaker US dollar in Japan and the United Kingdom.

Europe FG's decline over Q93-3 occurred in Desktop ($36 million), DDT ($19 million), Windows ($10 million) and Consumer ($8 million). However, MS-DOS exceeded plan by $42 million due to the release of the MS-DOS 6 upgrade.

The Q93-4 growth in ICON FG resulted from increases in MS-DOS ($8 million) and Desktop ($7 million), less a decrease in DDT ($8 million). MS-DOS upgrade revenues grew by $11 million driving the MS-DOS increase. In addition, Win Word ($2 million) and Win Excel ($1 million) grew, while Access declined by $9 million.

Far East FG's growth over Q93-3 included increases in the Windows ($14 million) and MS-DOS ($3 million) business units. Specifically, Windows 3.1 exceeded plan by $13 million, including $11 million in Japan where version 3.1 shipped in May. Additionally, Serial/Bus Mice contributed $3 million and the MS-DOS upgrade grew $2 million due to the March release of version 6.0.

US FG's largest increases in the 4th quarter, were in Desktop Applications ($51 million), MS-DOS ($40 million) and Hardware ($10 million). Win Office grew by $19 million, helping Win Word (up $19 million), Win Excel (up $15 million). Also up were Mac Word ($6 million) and Win Project ($4 million). In addition, the MS-DOS 6 upgrade grew by $44 million, and Hardware's growth was attributable to Naked Mice which increased by $7 million due to the April release of version 2.0. DDT declined by $17 million after introductory pricing for Access (down $23 million) filled the channel during Q93-3.

OEM continued its succession of quarter over quarter revenue increases in Q93-4, with Windows ($9 million) and Desktop Applications ($8 million) leading the way. Key products which grew were Windows 3.1 ($6 million), Win Word ($3 million) and Win Excel ($3 million).

Systems growth in Q93-4, is largely attributable to the release of the MS-DOS 6 upgrade, which generated a $106 million increase. In addition, Windows 3.1 grew by $26 million, while MS-DOS decreased by $4 million.

Q93-4 Applications revenue experienced a sharp decline in Access revenues ($53 million) which peaked during Q93-3 after its November, 1992 launch. Other decreases occurred for Win Excel upgrade ($10 million) and Win Word upgrade ($4 million), while Win Office increased by $25 million.

Hardware revenue grew in the 4th quarter, due to increased sales of Serial/Bus Mice ($12 million) primarily in US FG where sales were up by $9 million. The April release of version 2.0 sparked the growth.

Fifteen Leading Products (units in thousands, revenue in millions)

	Q93-4		Q93-3		Q93-2		Q93-1		Q92-4	
Product	Units	Revs	Units	Revs	Units	Revs	Units	Revs	Units	Revs
MS-DOS Upg	3,676	$161	1,340	$55	--	--	--	--	--	--
Windows 3.1	4,719	138	4,506	112	3,886	109	2,475	71	1,189	88
Win Word	725	124	541	110	605	134	479	105	362	80
Win Excel Std	698	122	564	113	544	126	439	95	412	96
MS-DOS Std	4,860	81	4,849	85	4,769	86	3,629	72	4,251	79
Ser/Bus Mouse	1,361	54	1,132	42	1,217	58	1,162	61	1,128	62
Win Excel Upg	248	27	305	37	249	30	301	31	471	44
Win Word Upg	256	26	268	31	281	31	241	27	261	29
Win Powerpoint	412	25	291	19	373	20	230	15	177	10
Win Project	80	24	58	19	55	19	52	18	40	16
Mac Word	229	21	134	17	180	27	179	23	162	23
Mac Excel	141	19	100	17	134	23	134	22	125	23
UNIX Lan Manager	259	16	227	19	204	17	156	15	156	15
Win Works	519	14	524	17	368	18	215	12	159	9
DOS Word	50	11	49	10	--	--	--	--	62	15
		$863		$703		$698		$567		$589
Percent net revenues		83%		73%		74%		69%		72%

MS DOS Upgrade revenues increased $106 million during Q93-4, due to the launch of DOS 6.0 upgrade at the end of Q93-3. US FG revenues (up $44 million), Europe FG (up $48 million) ROW FG (up $12 million) and Far East (up $2 million). The $49.95 introductory price, (versus a standard SRP of $129.95) helped to generate the strong growth.

Windows 3.1 continued its increase in revenues, with $138 million for the quarter. The $26 million increase over Q93-3 included Far East FG ($13 million), US FG ($12 million) and US OEM ($9 million) Offsetting the sequential quarter increase were, Europe FG (down $5 million) and Europe OEM (down $3 million) primarily due to volume shortfall.

Win Word revenues were $14 million over Q93-3. The increase was comprised of US FG ($19 million), US OEM ($3 million), Far East FG ($3 million) and ROW FG ($2 million). Europe FG reported a $13 million decrease with 226,000 units versus 259,000 in Q93-3.

Win Excel revenues increased $9 million over Q93-3. US FG (up $15 million) US OEM (up $3 million) Far East FG ($2 million) and ROW FG (up $1 million) accounted for the revenue increase. Europe Win Excel revenues declined $12 million from Q93-3.

MS DOS Standard revenues decreased $4 million in Q93-4 due to the launch of MS DOS 6.0 Upgrade. Europe OEM (down $4 million), Europe FG (down $3 million), ROW FG and Far East OEM (down $2 million each) accounted for the decrease. Offsetting the decline, US OEM, ROW OEM, and Far East FG were up $3 million, $1 million, and $1 million, respectively.

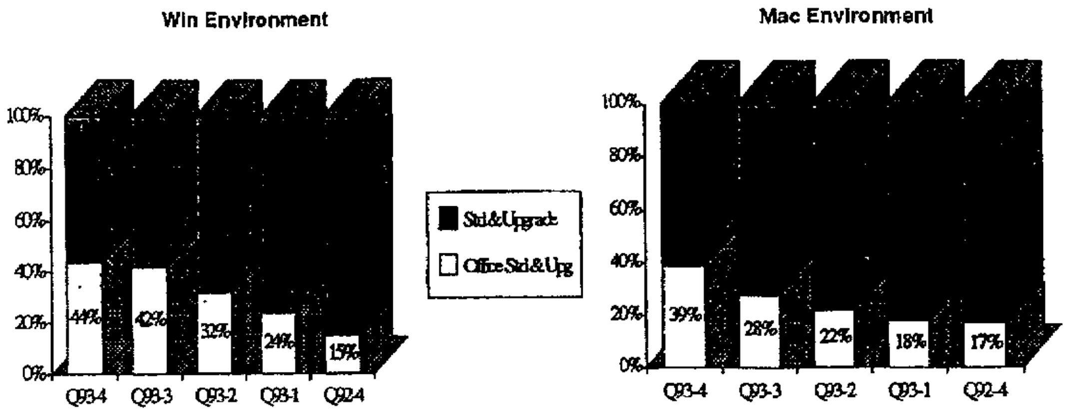
Serial/Bus Mouse revenues increase $12 million over Q93-3, primarily the result of US FG (up $9 million with 337,000 units) and Far East FG (up $3 million with 53,000 units).

Bundled Products (units in thousands, revenues in millions)

	Q93-4		Q93-3		Q93-2		Q93-1		Q92-4	
Product	Units	Revs	Units	Revs	Units	Revs	Units	Revs	Units	Revs
Win Office	299	$134	225	$109	276	$119	187	$74	117	$43
Win Office Upg	117	28	135	34	--	--	--	--	--	--
Mac Office	52	21	37	14	43	17	39	13	36	12
DOS/Win	28	2	35	4	56	6	72	9	55	6
Mac Word/Excel	7	1	6	1	18	4	1	0	1	1
Mac Office Upg	4	1	3	1	1	0	1	0	--	--
		$187		$163		$146		$96		$62
Percent net revenues		18%		17%		16%		12%		8%

SEQUENTIAL QUARTERS

Office Revenues
(Percent of Desktop Applications)



Total Win Office, including the upgrade, grew by $19 million in Q93-4 on total unit sales of 416,000. Win Office revenues increased $25 million quarter over quarter primarily as a result of US FG, which increased $19 million on unit sales of 138,000. Retail channels reporting revenue from sales of the new Win Office upgrade included US FG ($9 million with 27,000 units), Europe FG ($13 million with 61,000 units), and ROW FG ($6 million with 29,000 units). The Win Office upgrade accounted for 17.3% of total Win Office revenues for the quarter but was below prior quarter by $6 million due to unit decline in Europe FG.

Cost of Revenues - Product Costs as a Percent of Gross Revenues

	Q93-4	Q93-3	Q93-2	Q93-1	Q92-4
Consolidated	12.0%	11.4%	12.7%	12.3%	14.4%
Channel					
Europe FG	12.5%	10.8%	11.2%	11.9%	13.2%
ROW FG	19.0	15.6	19.8	18.1	19.0
US FG	13.2	14.7	16.1	15.0	17.6
OEM	3.8	4.7	4.0	4.0	4.4
Product Group					
Systems	9.9%	8.0%	10.6%	7.9%	12.9%
Applications	10.7	11.2	10.7	10.9	11.5
Hardware	39.6	42.6	40.4	38.9	38.8

USFG costs fell 1.5 points during Q93-4 as Access sales (which are cost-intensive) declined 75% quarter to quarter. Europe FG costs increased due to a 300% increase in DOS sales, which have higher than average costs. ROW FG increased due to an unfavorable shift in mix towards Hardware and Windows (introduction of Win 3.1J).

Systems cost increased 1.9 points during Q93-4 as a result of the DOS 6.0 introduction, and the resulting shift of DOS revenues from OEM to the retail channels.

Product costs decreased 1.3 points during Q93-3 as a percentage of gross revenues. Favorable mix changes accounted for 0.4 points of the improvement. US FG and Europe FG revenues declined 15% and 9%, respectively while the OEM channel (which is more cost efficient) increased 32%. Hardware accounted for a lower percentage of US FG and ROW FG revenues during Q93-3, causing costs to decline in those channels. ROW FG costs for Database and Development Tools declined from 22.0% to 18% quarter to quarter, reflecting the growing significance of Access. US FG Windows 3.X costs declined due to a shift from upgrade to standard product (up from 64% of revenue dollars to 94%).

Sequential Quarters

Systems costs fell during Q93-3 as a result of the favorable shift in mix from retail to OEM, US FG's introduction of DOS 6.0 (which has above average margins) and lower US FG costs for Windows 3.X. Hardware accounted for a lower percentage of overall revenues quarter to quarter (declining from 7.0% to 4.8% of total revenue), giving rise to a slight increase in margins.

Product costs increased 0.4 points from Q93-1 to Q93-2 as a percentage of gross revenues. Hardware accounted for a lower percentage of overall revenues quarter to quarter (declining from 8.2% to 7.0%), giving rise to a slight increase in margins. However, cost increases in the Systems product group (up 2.7 points quarter to quarter) increased the cost percentage by 3/4 of a point, and reflected the impact of the hardware component of Windows for Workgroups. WFW's impact was especially significant in US FG Systems cost, where overall costs increased 1.1 points quarter to quarter. WFW accounted for 22% of US FG Windows revenue during Q93-2.

Product costs decreased as a percentage of gross revenues from Q92-4 to Q93-1. The decrease reflects channel mix, specifically increased Europe FG and OEM revenues and a decrease in Windows 3.1 and Win Excel 4.0 upgrade revenues. Product costs increased in Q92-4 from channel mix (higher proportion of US FG sales to total sales), and upgrades for Windows 3.1 and Win Excel 4.0 revenues. Product costs increased in Q92-3 as a percentage of gross revenues. Product mix (upgrade versus standard product) was the prime factor in the increase.

Operating Expenses (in millions)

	Q93-4	Q93-3	Q93-2	Q93-1	Q92-4
Payroll	$ 166	$ 154	$ 147	$ 145	$ 127
Marketing	131	66	83	48	91
Marketing accrual	(72)	22	26	24	(23)
Depreciation	31	29	28	27	26
Employee fringes	27	21	23	22	19
Supplies and equipment	24	19	18	16	18
Travel and entertainment	26	18	19	14	19
Product development	27	18	16	13	17
All other	126	112	95	85	89
	$ 486	$ 459	$ 455	$ 394	$ 383
Sequential increase	6%	1%	15%	3%	20%
Seq increase without marketing	15	7	7	2	18

Q93-4 operating expenses increased $27 million quarter to quarter. Increased payroll (headcount up 5%) caused 44% of the increase. Product Development (up $9 million), professional fees (up $8 million), and travel and entertainment (up $8 million) caused the remainder of the change.

The increase in Q93-3 operating expenses reflected 7% headcount growth (13,802 for Q93-3 vs. 12,888 for Q93-2), PSS obligations (up $8 million), and bad debt expense (up $6 million). The increase in Q93-2 operating expenses reflected 5% headcount growth and marketing expenses related to product introductions such as Access and Windows for Workgroups. The increase in Q93-1 operating expenses reflected 6% headcount growth.

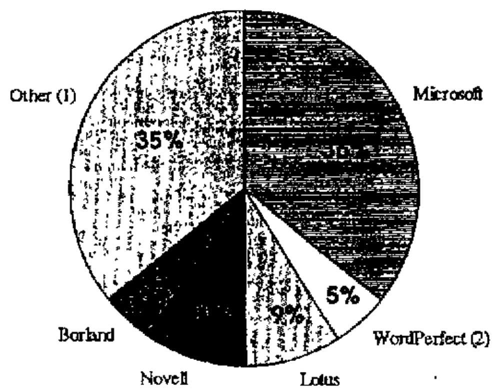
Interest and Nonoperating Expense (in millions)

	Q93-4	Q93-3	Q93-2	Q93-1	Q92-4
Interest income-net					
Interest income	$ 23	$ 21	$ 19	$ 20	$ 16
Interest expense	–	–	–	(1)	--
	$ 23	$ 21	$ 19	$ 19	$ 16
Nonoperating expense					
Financial asset allowance	$ (2)	$ (2)	$ (2)	$ (2)	$ (2)
Foreign currency transactions	(1)	3	4	3	1
All other	(3)	(3)	–	(2)	(2)
	$ (6)	$ (2)	$ 2	$ (1)	$ (3)

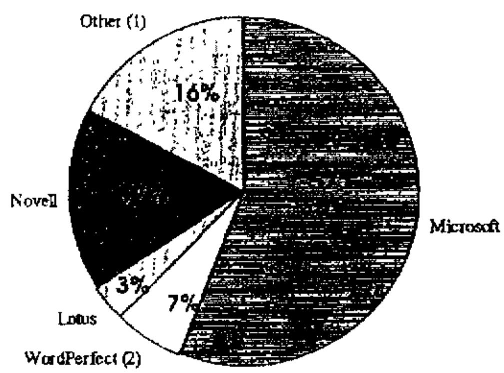
COMPARISON WITH COMPETITION

Software Industry Comparison - (trailing twelve months)

Net Revenues



Net Income



(1) Other includes: Adobe, Aldus, Artisoft, Autodesk, Banyan, Informix, Oracle, Peoplesoft, Platinum, Powersoft, Software Publishing, Sybase, and Symantec. Borland is included in "Other" for net income, since they had a net loss of $45 million

(2) WordPerfect net revenues and net income are estimates

Comparison with Competition

Most recent quarter	Microsoft		Novell		Lotus		Borland	
Net revenues	$ 1,039	100.0%	$ 281	100.0%	$ 236	100.0%	$ 123	100.0%
Cost of revenues	180	17.3	50	17.6	51	21.6	33	27.2
Gross profit	859	82.7	231	82.4	185	78.4	90	72.8
Operating expenses:								
Research and development	138	13.3	37	13.2	30	12.8	15	12.5
Sales and marketing	313	30.1	62	21.9	113	47.6	68	54.5
General and administrative	35	3.4	18	6.6	17	7.3	–	–
Total operating expenses	486	46.8	117	41.7	160	67.7	83	67.0
Operating income	373	35.9	114	40.7	25	10.7	7	5.8
Nonoperating income	17	1.6	8	2.7	(19) (1)	(8.2)	1	0.9
Income before income taxes	390	37.5	122	43.4	6	2.5	8	6.7
Provision for income taxes	125	12.0	42	14.7	11	4.5	2	1.7
	$ 265	25.5%	$ 80	28.7%	$ (5)	(2.0)%	$ 6	5.0%
Average shares outstanding	305		312		44		32	
EPS	$ 0.87		$ 0.26		$(0.11)		$ 0.22	

Trailing twelve months	Microsoft		Novell		Lotus		Borland	
Net revenues	$ 3,753	100.0%	$1,044	100.0%	$ 916	100.0%	$ 473	100.0%
Cost of revenues	633	16.9	200	19.1	203	22.2	130	27.4
Gross profit	3,120	83.1	844	80.9	713	77.8	343	72.6
Operating expenses:								
Research and development	470	12.5	135	13.0	123	13.4	70	14.7
Sales and marketing	1,205	32.1	233	22.4	441	48.2	286	60.6
General and administrative	119	3.2	67	6.4	70	7.6	–	--
Restructuring costs	–	--	–	–	–	--	25 (4)	5.3
Total operating expenses	1,794	47.8	435	41.8	634	69.2	381	80.6
Operating income	1,326	35.3	409	39.1	79	8.6	(38)	(8.0)
Nonoperating income	75	2.0	26	2.5	15 (2)	1.6	3	0.7
Income before income taxes	1,401	37.3	435	41.6	94	10.2	(35)	(7.3)
Provision for income taxes	448	11.9	148	14.1	42	4.5 (3)	10	2.2
	$ 953	25.4%	$ 287	27.5%	$ 52	5.7%	$ (45)	(9.5)%
Average shares outstanding	303		310		43		28	
EPS	$ 3.15		$ 0.93		$ 1.23		$ (1.62)	

(1) Lotus's nonoperating expense for the quarter ended June 30, 1993 includes a write-off of $20 million of purchased research and development in connection with the company's acquisition of Approach Software Corporation.

(2) The net increase in Lotus's trailing twelve nonoperating income was due to a pre-tax gain of $50 million from the sale of the company's investment in Sybase in September 1992. The gain was offset in the current quarter by a $20 million write-off in connection with the purchase of Approach.

(3) Lotus's tax rate will increase 5 percentage points in the coming year due to the recent closure of its tax advantaged manufacturing facility in Puerto Rico. The closure resulted in a charge against revenues in January 1993 of $15 milhon, or 2% of annual expenses, with the elimination of approximately 3% of the company's workforce.

(4) Borland's operating expenses include a pre-tax charge of $25 million, or 7% of annual expenses, for workforce reductions, facilities, and a software technology write-off in December 1992. The restructuring resulted in the elimination of approximately 350 jobs, or 15% of the company's workforce.

MICROSOFT
(consecutive quarters)

	Sep. 30, 1992	Dec. 31, 1992	Mar. 31, 1993	Jun. 30, 1993	Trailing 12 months
Net revenues	$ 818	$ 938	$ 958	$ 1,039	$ 3,753
Cost of revenues	135	157	161	180	633
Gross profit	683	781	797	859	3,120
Operating expenses:					
Research and development	105	111	116	138	470
Sales and marketing	264	315	313	313	1,205
General and administrative	25	29	30	35	119
Total operating expenses	394	455	459	486	1,794
Operating income	289	326	338	373	1,326
Nonoperating income	18	21	19	17	75
Income before income taxes	307	347	357	390	1,401
Provision for income taxes	98	111	114	125	448
Net income	$ 209	$ 236	$ 243	$ 265	$ 953
Average shares outstanding	298.9	303.4	304.2	305.0	302.9
EPS	$ 0.70	$ 0.78	$ 0.80	$ 0.87	$ 3.15
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	16.5	16.7	16.8	17.3	16.9
Gross profit	83.5	83.3	83.2	82.7	83.1
Operating expenses:					
Research and development	12.8	11.8	12.1	13.3	12.5
Sales and marketing	32.3	33.6	32.7	30.1	32.1
General and administrative	3.1	3.1	3.1	3.4	3.2
Total operating expenses	48.2	48.5	47.9	46.8	47.8
Operating income	35.3	34.8	35.3	35.9	35.3
Nonoperating income	2.2	2.2	2.0	1.6	2.0
Income before income taxes	37.5	37.0	37.3	37.5	37.3
Provision for income taxes	11.9	11.8	11.9	12.0	11.9
Net income	25.6%	25.2%	25.4%	25.5%	25.4%

NOVELL
(consecutive quarters)

	Jul. 31, 1992	Oct. 31, 1992	Jan. 30, 1993	Apr. 30, 1993	Trailing 12 months
Net revenues	$ 243	$ 260	$ 260	$ 281 (1)	$ 1,044
Cost of revenues	47	53	50	50	200
Gross profit	196	207	210	231	844
Operating expenses:					
Research and development	31	33	34	37	135
Sales and marketing	58	59	54	62	233
General and administrative	13	15	21	18	67
Total operating expenses	102	107	109	117 (2)	435
Operating income	94	100	101	114	409
Nonoperating income	6	6	7	8	26
Income before income taxes	100	106	108	122	435
Provision for income taxes	34	36	37	42	148
Net income	$ 66	$ 70	$ 71	$ 80	$ 287
Average shares outstanding	308.2	309.0	310.9	311.9	310.0
EPS	$ 0.22	$ 0.23	$ 0.23	$ 0.26	$ 0.93

	Jul. 31, 1992	Oct. 31, 1992	Jan. 30, 1993	Apr. 30, 1993	Trailing 12 months
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	19.3	20.4	19.4	17.6	19.1
Gross profit	80.7	79.6	80.6	82.4	80.9
Operating expenses:					
Research and development	12.7	12.7	13.2	13.2	13.0
Sales and marketing	24.2	22.9	20.5	21.9	22.4
General and administrative	5.2	5.7	8.1	6.6	6.4
Total operating expenses	42.1	41.3	41.8	41.7	41.8
Operating income	38.6	38.3	38.8	40.7	39.1
Nonoperating income	2.5	2.2	2.5	2.7	2.5
Income before income taxes	41.1	40.5	41.3	43.4	41.6
Provision for income taxes	14.0	13.8	14.1	14.7	14.1
Net income	27.1%	26.7%	27.2%	28.7%	27.5%

(1) For the quarter ended July 31, 1993, Novell expects revenues to be flat with the quarter ended April 30, 1993 due to soft Europe revenues. These results include approximately $8 million earned from sales of USL products.

(2) For the quarter ended July 31, 1993, Novell anticipates taking a $270 million charge against earnings in connection with the acquisition of USL on June 14, 1993. An additional $30 million charge will be incurred for the quarter related to the acquisitions of Fluent and Serius.

LOTUS

(consecutive quarters)

	Sep. 30, 1992	Dec. 31, 1992	Mar. 31, 1993	Jun. 30, 1993	Trailing 12 months
Net revenues	$ 207	$ 246	$ 227	$ 236	$ 916
Cost of revenues	48	54	50	51	203
Gross profit	159	192	177	185	713
Operating expenses:					
Research and development	28	33	32	30	123
Sales and marketing	103	119	106	113	441
General and administrative	17	18	18	17	70
Total operating expenses	148	170	156	160	634
Operating income	11	22	21	25	79
Nonoperating income	34	--	--	(19)	15
Income before income taxes	45	22	21	6	94
Provision for income taxes	15	7	9	11	42
Net income	$ 30	$ 15	$ 12	$ (5)	$ 52
Average shares outstanding	41.8	41.8	42.6	44.0	42.5
EPS	$ 0.72	$ 0.35	$ 0.29	$ (0.11)	$ 1.23

Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	22.9	22.0	22.2	21.6	22.2
Gross profit	77.1	78.0	77.8	78.4	77.8
Operating expenses:					
Research and development	13.3	13.5	14.0	12.8	13.4
Sales and marketing	50.1	48.6	46.8	47.6	48.2
General and administrative	8.2	7.2	7.9	7.3	7.6
Total operating expenses	71.6	69.3	68.7	67.7	69.2
Operating income	5.5	8.7	9.1	10.7	8.6
Nonoperating income	16.3	0.1	--	(8.2)	1.6
Income before income taxes	21.8	8.8	9.1	2.5	10.2
Provision for income taxes	7.2	2.9	3.7	4.5	4.5
Net income	14.6%	5.9%	5.4%	(2.0)%	5.7%

BORLAND
(consecutive quarters)

	Sep. 30, 1992	Dec. 31, 1992	Mar. 31, 1993	Jun. 30, 1993	Trailing 12 months
Net revenues	$ 128	$ 104 (1)	$ 117	$ 123 (4)	$ 473
Cost of revenues	30	36 (2)	30	33	130
Gross profit	98	68	87	90	343
Operating expenses:					
Research and development	20	19	16	15	70
Selling, general and administrative	72	81	65	68	286
Restructuring costs	–	25 (3)	–	–	25
Total operating expenses	92	125	81	83	381
Operating income	6	(57)	6	7	(38)
Nonoperating income	1	–	1	1	3
Income before income taxes	7	(57)	7	8	(35)
Provision for income taxes	2	4	2	2	10
Net income	$ 5	$ (61)	$ 5	$ 6	$ (45)
Average shares outstanding	27.2	26.2	26.3	32.5	27.6
EPS	$ 0.20	$ (2.34)	$ 0.19	$ 0.22	$ (1.62)

Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	23.4	34.9	25.4	27.2	27.4
Gross profit	76.6	65.1	74.6	72.8	72.6
Operating expenses:					
Research and development	15.3	18.1	13.4	12.5	14.7
Selling, general and administrative	56.2	77.8	56.4	54.5	60.6
Restructuring costs	–	24.0	–	–	5.3
Total operating expenses	71.5	119.9	69.8	67.0	80.6
Operating income	5.1	(54.8)	4.8	5.8	(8.0)
Nonoperating income	0.5	0.3	1.0	0.9	0.7
Income before income taxes	5.6	(54.5)	5.8	6.7	(7.3)
Provision for income taxes	1.4	4.3	1.5	1.7	2.2
Net income	4.2%	(58.8)%	4.3%	5.0%	(9.5)%

(1) Revenues for the quarter ended December 31, 1992 are net of an $11 million reserve for Quattro Pro price protection.
(2) Cost of revenues for the quarter ended December 31, 1992 includes a $10 million charge for inventory write-downs, freight, and rework.
(3) For the quarter ended December 31, 1992, operating expenses include a pre-tax charge of $25 million for workforce reductions, facilities, and the write-off of software technology.
(4) Revenues for the quarter ended June 30, 1993 include $10 - $15 million for Borland Office. Both revenues and cost of sales for the quarter were grossed up approximately $5 - $7 million which was paid to WordPerfect for inclusion of its word processing application in their office bundle.

COMPARISON WITH COMPETITION

Other Data

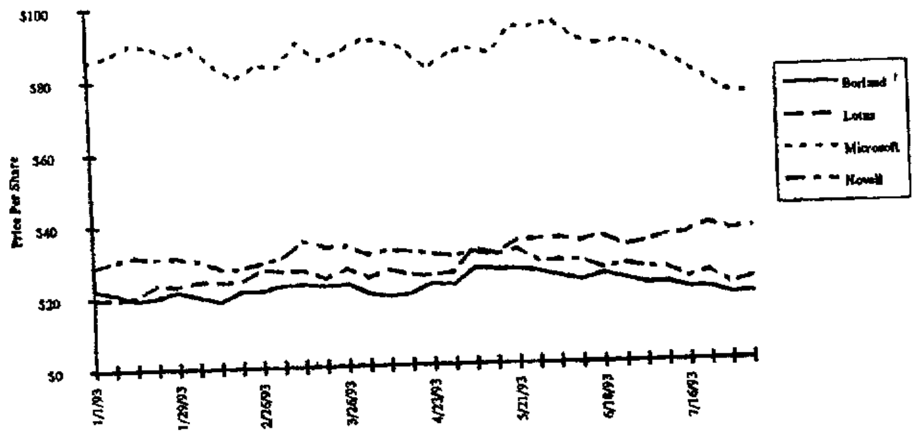
	Microsoft 6/30/93		Novell 4/30/93		Lotus 6/30/93		Borland 6/30/93	
Current assets:								
Cash and short-term investments	$ 2,290	60%	$ 741	56%	$ 332	43%	$ 82	24%
Accounts receivable - net	338	9	272	21	168	22	60	18
Inventories	127	3	7	1	22	3	11	3
Other	95	3	47	3	22	2	9	3
Total current assets	2,850	75	1,067	81	544	70	162	48
Property, plant and equipment - net	867	23	200	15	128	16	156	46
Capitalized software	--	--	--	--	94	12	--	--
Other assets	88	2	52	4	12	2	22	6
	$ 3,805	100%	$ 1,319	100%	$ 778	100%	$ 340	100%
Current liabilities	$ 563	15%	$ 154	12%	$ 267	34%	$ 124	36%
Long-term liabilities	--	--	--	--	78	10	22	6
Other liabilities	--	--	10	1	--	--	--	--
Stockholders' equity	3,242	85	1,155	87	433	56	194	58
	$ 3,805	100%	$ 1,319	100%	$ 778	100%	$ 340	100%

Other data	Microsoft 1993	Microsoft 1992	Novell 1993	Novell 1992	Lotus 1993	Lotus 1992	Borland 1993	Borland 1992
Closing stock price (6/30)	$88.00	$70.00	$26.00	$53.25	$34.63	$18.63	$21.63	$41.25
Common shares outstanding	305	272	312	149	44	43	32	26
Market value	$26,840	$19,040	$8,112	$7,934	$1,524	$801	$724	$1,073
Trailing twelve month revenues	$3,753	$2,759	$1,044	$785	$916	$915	$473	$460
Price/revenues ratio	7.2x	6.9x	7.8x	10.1x	1.7x	0.9x	1.5x	2.3x
Trailing twelve months EPS	$3.15	$2.41	$0.93	$1.37	$1.23	$1.42	$(1.62)	$(4.62)
Price/earnings ratio	27.9x	29.0x	28.0x	38.9x	28.2x	13.1x	*	*
Cash	$2,290	$1,345	$741	$419	$332	$248	$82 (1)	$117
Cash per share	$7.51	$4.94	$2.38	$2.81	$7.55	$5.77	$2.56	$4.50
Book value	$3,242	$2,193	$1,155	$754	$433	$385	$194	$239
Book value per share	$10.63	$8.06	$3.70	$5.06	$9.84	$8.95	$6.06	$9.19
Price/book value ratio	8.3x	8.7x	7.0x	10.5x	3.5x	2.1x	3.7x	4.5x
Growth statistics (year over year):								
Revenue	36%		33%		0%		3%	
Research and development	34%		37%		5%		10%	
Sales and marketing	41%		20%		9%		(4%)	
General and administrative	32%		54%		(1%)		n/a	
Net income	35%		39%		(17%)		63%	
Headcount (most recent disclosure)	14,430		3,680		4,400		2,100	

(1) Borland's cash totals $82. Analysts speculate that the damages payment to Lotus as a result of August 12 spreadsheet copyright infringement ruling could range from $60 million to $100 million.

* Not meaningful.

Primary Competitors Weekly Closing Stock Prices - (January 1 - August 6, 1993)



Comparison with Competition

Other Competitors

	Adobe 5/31/93	Aldus 6/30/93	Apple Computer 6/30/93	Artisoft 6/30/93	Autodesk 4/30/93
Income statement					
Current quarter					
Net revenues	$80	$46	$1,862	$20	$102
Net income (loss)	14	0	(188) (2)	2	15
Net income (loss) per share	0.62	0.02	(1.63)	0.12	0.62
Trailing twelve months					
Net revenues	$282	$178	$7,604	$85	$379
Net income	45	4	182	9	50
Net income per share	1.94	0.26	1.52	0.52	2.02
Net income as a % of net revenues	16%	2%	2%	11%	13%
Balance sheet					
Cash	$192	$62	$857	$31	$145
Other current assets	95	46	3,063	26	103
Other assets	22	50	848	35	107
	$309	$158	$4,768	$92	$355
Liabilities	$53	$32	$2,748	$9	$88
Equity	256	126	2,020	83	267
	$309	$158	$4,768	$92	$355
Other data					
Closing stock price (June 30, 1993)	$61.75	$16.25	$39.50 (3)	$6.88	$56.38
Common shares outstanding (in millions)	23	13	116	18	25
Market value (in millions)	$1,420	$211	$4,582	$124	$1,410
Price/revenues ratio	5.0x	1.2x	0.6x	1.5x	3.7x
Price/earnings ratio	31.8x	62.6x	26.0x	13.1x	27.9x
Cash per share	$8.35	$4.77	$7.39	$1.72	$5.80
Book value per share	$11.13	$9.69	$17.41	$4.61	$10.68
Price/book value ratio	5.5x	1.7x	2.3x	1.5x	5.3x
Growth statistics (year over year):					
Revenue	12%	8%	11%	16%	30%
Net income	(17%)	(74%) (1)	(65%)	(29%)	(3%)

(1) Aldus's year-over-year net revenues increased 8% while net income decreased 74%. The decrease in net income was primarily due to a pre-tax charge of $3 million related to the acquisition of After Hours Software in June 1993, a write-off of software development costs, and increased sales and marketing expenses due to the recent release of PageMaker 5.0 in mid-June.

(2) Apple incurred a net loss of $188 million for the quarter ended June 30, 1993, or $1.63 per share, as a result of a $320 million pre-tax charge related to the company's latest restructuring. Apple estimates eliminating 2,500 positions worldwide, or 15% of its workforce. Apple's year-over-year net revenues increased 11% while net income decreased 65%.

(3) Apple's stock price lost 55% of its value since January 1993.

Other Competitors (cont.)

	Banyan 6/30/93	Computer Assoc. 6/30/93	Informix 6/30/93	IBM 6/30/93	Oracle 5/31/93	Peoplesoft 6/30/93
Income statement						
Current quarter						
Net revenues	$32	$423	$84	$15,519	$473	$13
Net income (loss)	3	31	12	(8,041) (1)	69	2
Net income (loss) per share	0.19	0.18	0.18	(14.10)	0.47	0.15
Trailing twelve months						
Net revenues	$121	$1,897	$326	$62,839	$1,503	$42
Net income (loss)	11	257	58	(16,567)	98	6
Net income (loss) per share	0.60	1.51	1.37	(29.03)	0.67	0.55
Net income (loss) as a % of net revenues	9%	14%	18%	(26%)	7%	15%
Balance sheet						
Cash	$55	$253	$119	$6,771	$358	$59
Other current assets	33	504	88	34,094	484	22
Other assets	12	1,487	45	45,276	342	5
	$100	$2,244	$252	$86,141	$1,184	$86
Liabilities	$31	$1,226	$94	$66,329	$656	$22
Equity	69	1,018	158	19,812	528	64
	$100	$2,244	$252	$86,141	$1,184	$86
Other data						
Closing stock price (June 30, 1993)	$17.50	$29.75	$27.00	$49.38	$49.25	$30.75
Common shares outstanding (in millions)	18	172	68	570	148	13
Market value (in millions)	$315	$5,117	$1,836	$28,147	$7,289	$400
Price/revenues ratio	2.6x	2.7x	5.6x	0.4x	4.9x	9.5x
Price/earnings ratio	29.0x	19.7x	19.7x	*	73.4x	55.6x
Cash per share	$3.06	$1.47	$1.75	$11.88	$2.42	$4.54
Book value per share	$3.83	$5.92	$2.32	$34.76	$3.57	$4.92
Price/book value ratio	4.6x	5.0x	11.6x	1.4x	13.8x	6.2x
Growth statistics (year over year):						
Revenue	14%	19%	47%	(6%)	28%	73%
Net income	88%	52%	70%	(930%)	60%	93%

(1) IBM's net loss for the quarter ended June 30, 1993 was $8 billion, or $14.10 per common share, due to a restructuring charge of $8.9 billion. The net loss for the quarter before the charge was $40 million, or $.08 per common share. The charge covers reductions in workforce (estimated at 85,000 jobs or 28% of employees), manufacturing capacity, office space and related expenses.

* Not meaningful.

COMPARISON WITH COMPETITION

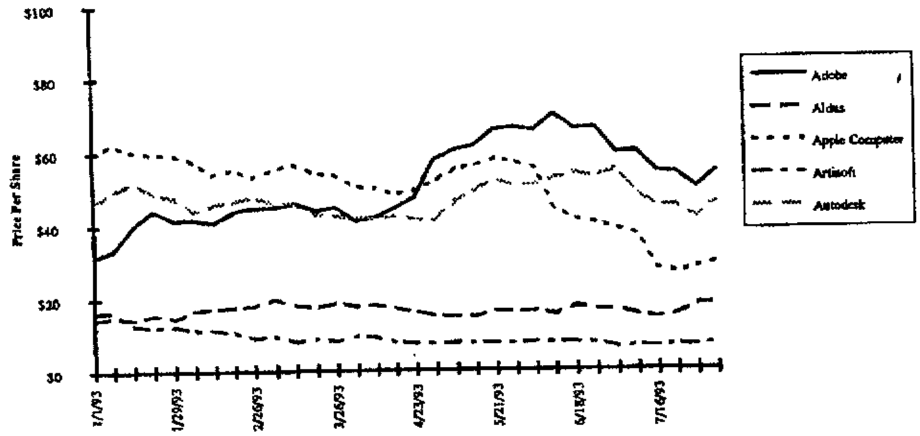
Other Competitors (cont.)

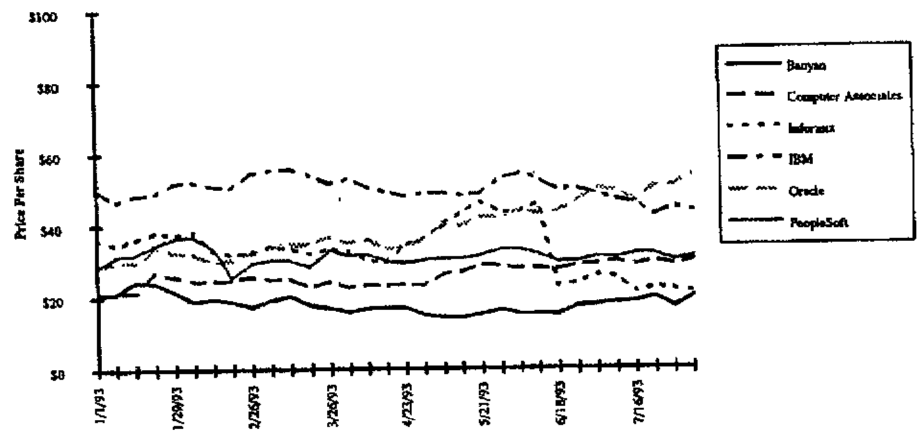
Income statement	Platinum 6/30/93	Powersoft 6/30/93	Software Publishing 6/30/93	Sun 6/30/93	Sybase 6/30/93	Symantec 6/30/93
Current quarter						
Net revenues	$16	$10	$21	$1,261	$96	$59
Net income (loss)	(17) (1)	2	(6) (2)	76	9	(7) (4)
Net income (loss) per share	(1.95)	0.16	(0.49)	0.72	0.36	(0.27)
Trailing twelve months						
Net revenues	$39	$33	$126	$4,309	$327	$203
Net income (loss)	(16)	6	(8)	157	32	(24) (5)
Net income (loss) per share	(2.09)	0.67	(0.67)	1.49	1.27	(0.98)
Net income (loss) as a % of net revenues	(40%)	19%	(7%)	4%	10%	(12%)
Balance sheet						
Cash	$50	$41	$68	$1,139	$98	$51
Other current assets	17	8	24	1,133	96	55
Other assets	13	2	22	496	63	30
	$80	$51	$114	$2,768	$257	$136
Liabilities	$19	$10	$45	$1,125	$111	$72
Equity	61	41	69	1,643	146	64
	$80	$51	$114	$2,768	$257	$136
Other data						
Closing stock price (June 30, 1993)	$24.50	$28.25	$6.75 (3)	$29.63	$74.25	$13.38
Common shares outstanding (in millions)	9	11	12	105	26	26
Market value (in millions)	$221	$311	$81	$3,111	$1,931	$348
Price/revenues ratio	5.7x	9.4x	0.6x	0.7x	5.9x	1.7x
Price/earnings ratio	*	42.1x	*	19.9x	58.4x	*
Cash per share	$5.56	$3.73	$5.67	$10.85	$3.77	$1.96
Book value per share	$6.78	$3.73	$5.75	$15.65	$5.62	$2.46
Price/book value ratio	3.6x	7.6x	1.2x	1.9x	13.2x	5.4x
Growth statistics (year over year):						
Revenue	143%	203%	(20%)	20%	59%	(13%)
Net income	(1708%)	486%	50%	(10%)	107%	(213%)

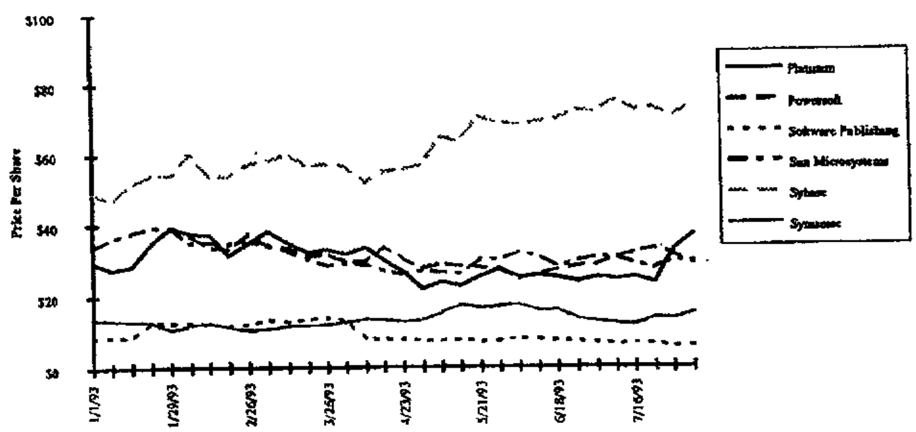
(1) Platinum's net loss for the quarter ended June 30, 1993 is due to charges incurred in the acquisitions of three software companies in the last three months.
(2) Software Publishing experienced a decline in revenues resulting in a loss for the quarter ended June 30, 1993. The company attributes the loss to the impact of competitive bundling of software applications and declining conditions in the international marketplace.
(3) Software Publishing's stock price decreased 50% from the prior quarter.
(4) Symantec's loss generated in the quarter ended June 30, 1993 was due primarily to a $12 million charge resulting from the $47 million acquisition of Contact Software International in June 1993 as well as general restructuring of the company's service operations.
(5) Symantec's net loss for the trailing twelve months was due to charges incurred in obtaining four software companies during the year.
* Not meaningful.

COMPARISON WITH COMPETITION

Other Software Company Weekly Closing Stock Prices - (January 1 - August 6, 1993)







Comparison with Competition – June 30, 1993 (dollars in millions)

Stack Rankings (1 is top, 21 is bottom)

	Trailing Twelve Revenues	Revenue Growth	R&D Spending	Net Income as a % of Revenues	Market Value	Price/ Revenues Ratio	Price/ Earnings Ratio
Microsoft[1]	$3,753 (4)	36% (6)	$470 (3)	25.4% (2)	$26,840 (2)	7.2x (5)	27.9x (10)
Borland	$473 (9)	3% (17)	$70 (9)	-9.5% (20)	$724 (13)	1.5x (16)	*
Lotus	$916 (8)	0% (18)	$123 (8)	5.7% (14)	$1,524 (9)	1.7x (14)	28.2x (8)
Novell	$1,044 (7)	33% (8)	$135 (7)	27.5% (1)	$8,112 (3)	7.8x (4)	28.0x (9)
Adobe	$282 (13)	12% (14)	$64 (10)	16.0% (5)	$1,420 (10)	5.0x (8)	31.8x (6)
Aldus	$178 (15)	8% (16)	$64 (11)	2.0% (17)	$211 (18)	1.2x (18)	62.6x (2)
Apple	$7,604 (2)	11% (15)	$679 (2)	2.4% (16)	$4,582 (6)	0.6x (21)	26.0x (12)
Artisoft	$85 (18)	16% (7)	$5 (20)	11.1% (8)	$124 (20)	1.5x (17)	13.1x (16)
Autodesk	$379 (10)	30% (9)	$53 (12)	13.2% (9)	$1,410 (11)	3.7x (10)	27.9x (11)
Banyan	$121 (17)	14% (12)	$14 (17)	9.0% (11)	$315 (16)	2.6x (13)	29.0x (7)
Computer Associates	$1,897 (5)	19% (11)	$160 (5)	13.5% (7)	$5,117 (5)	2.7x (12)	19.7x (15)
IBM	$62,839 (1)	-6% (19)	$4,891 (1)	-26.4% (21)	$28,147 (1)	0.4x (22)	*
Informix	$326 (11)	47% (5)	$38 (15)	17.7% (4)	$1,836 (12)	5.6x (11)	19.7x (14)
Oracle	$1,503 (6)	28% (10)	$146 (6)	6.5% (13)	$7,289 (4)	4.9x (9)	73.4x (1)
PeopleSoft	$42 (19)	73% (3)	$7 (18)	14.8% (6)	$400 (14)	9.5x (3)	55.6x (4)
Platinum	$39 (20)	143% (2)	$28 (19)	-40.2% (18)	$221 (19)	5.7x (6)	*
Powersoft	$33 (21)	203% (1)	$3 (21)	19.1% (3)	$311 (17)	9.4x (2)	42.1x (5)
Software Publishing	$126 (16)	-20% (21)	$31 (16)	-6.6% (19)	$81 (21)	0.6x (20)	*
Sun	$4,309 (3)	20% (13)	$445 (4)	3.6% (15)	$3,111 (7)	0.7x (19)	19.9x (13)
Sybase	$327 (12)	59% (4)	$51 (13)	9.7% (10)	$1,931 (8)	5.9x (7)	58.4x (3)
Symantec	$203 (14)	-13% (20)	$42 (14)	-11.7% (19)	$348 (15)	1.7x (15)	*

* Not meaningful.

Key Relationships

Income statement	Corporate Software 6/30/93	DEC 6/30/93	Eggbead 3/31/93	Intel 6/30/93	RR Donnelley 6/30/93
Current quarter					
Net revenues	$83	$3,914	$196	$2,130	$994
Net income (loss)	0 (1)	113	2	569	53
Net income (loss) per share	0.01	0.85	0.13	1.30	0.34
Trailing twelve months					
Net revenues	$326	$14,371	$725	$7,436	$4,202
Net income (loss)	5	(251)	7	1,786	107
Net income (loss) per share	0.76	(1.93)	0.41	6.58	0.69
Net income (loss) as a % of net revenues	1%	(2%)	1%	24%	3%
Balance sheet					
Cash	$12	$1,643	$26	$3,121	$17 (3)
Other current assets	85	5,240	213	2,280	1,034
Other assets	12	4,067	24	4,059	2,314
	$109	$10,950	$263	$9,460	$3,365
Liabilities	$52	$6,065	$120	$3,057	$1,642
Equity	57	4,885	143	6,403	1,723
	$109	$10,950	$263	$9,460	$3,365
Other data					
Closing stock price (June 30, 1993)	$10.75	$41.75	$8.13	$55.00	$19.88
Common shares outstanding (in millions)	6	133	17	439	155
Market value (in millions)	$65	$5,553	$138	$24,145	$3,081
Price/revenues ratio	0.2x	0.4x	0.2x	3.2x	0.7x
Price/earnings ratio	14.2x	*	20.0x	8.4x	28.9x
Cash per share	$2.00	$12.35	$1.53	$7.11	$0.11
Book value per share	$9.50	$36.73	$8.41	$14.59	$11.12
Price/book value ratio	1.1x	1.1x	1.0x	3.8x	1.8x
Growth statistics (year over year):					
Revenue	28%	3%	9%	50%	3%
Net income	(9%)	91% (2)	(56%)	127%	(52%)

(1) Corporate Software's revenues and net income for the quarter ended June 30, 1993 reflect a pre-tax restructuring charge of $1.5 million for the company's German operations which reduced reported net income by $944,000, or $.15 per share.

(2) Digital's net revenues have increased 3% on a trailing twelve months basis while net income increased 91%. The increase is due primarily to one time charges taken against revenues in April 1992. The prior year's loss includes a restructuring charge of $1.5 billion, or 10% of annual expenses, related to employee separations, facility consolidations, asset retirements and related costs. The company eliminated approximately 8,000 jobs, or 7% of its workforce.

(3) RR Donnelley balance sheet information is as of March 31, 1993.

* Not meaningful.

COMPARISON WITH PRIOR YEAR (FISCAL YEAR)

Income Statement (in millions)

	FY93		FY92		Change
Net revenues	$3,753	100.0%	$2,759	100.0%	36%
Cost of revenues	633	16.9	467	16.9	36
Gross profit	3,120	83.1	2,292	83.1	36
Operating expenses:					
Research and development	470	12.5	352	12.8	34
Sales and marketing	1,205	32.1	854	30.9	41
General and administrative	119	3.2	90	3.3	32
Total operating expenses	1,794	47.8	1,296	47.0	38
Operating income	1,326	35.3	996	36.1	33
Interest income - net	82	2.2	56	2.0	46
Nonoperating income (expense)	(7)	(0.2)	(11)	(0.4)	(36)
Income before income taxes	1,401	37.3	1,041	37.7	35
Provision for income taxes	448	11.9	333	12.0	35
Net income	$ 953	25.4%	$ 708	25.7%	35
Average shares outstanding	302.9		294.2		
EPS	$ 3.15		$ 2.41		31

Annual net revenue improved by $994 million, or 36%, in FY93 due to growth in all sales channels. The increase, by channel, included Europe FG (up $262 million), US FG (up $256 million), OEM (up $254 million), ICON FG (up $120 million) and Far East FG (up $71 million). Applications increased by $754 million and Systems by $202 million. Hardware, on the other hand, declined by $21 million.

Standard applications grew $560 million or 47%. Upgrades grew $181 million or 70% and upgrades represented 19% of Application's revenue year to date.

During FY93, exchange rates had a $70 million negative impact on revenues.

Cost of revenues remained unchanged at 16.9% year to year, as unfavorable non-product cost increases (1.2 points) were offset by other cost declines (e.g. cost-intensive hardware sales were less significant in FY93, falling in both dollar terms and as a percentage of revenue). Systems costs fell 1.0 point primarily due to a shift in revenue from US and Europe FG to the cost-efficient OEM channel, the introduction of DOS 6.0 and a favorable shift of USFG Win 3.1 sales from updates to standard product.

Operating expenses, overall, were significantly impacted in FY93 by a 25% growth in headcount.

Research and development expenses increased primarily due to payroll (up $48 million or 32%, headcount up 16%) and product development (up $26 million or 55%).

Sales and marketing expenses increased $351 million. This represented a growth rate 5.0 points higher or $43 million more than the growth of net revenue. The three primary causes for the increase were payroll (up 42%, headcount up 29%), marketing (up 35%), and travel and entertainment (up 30%).

General and administrative expenses rose $29 million but declined by 0.1 point as a percentage of net revenue.

Comparison with Prior Year (Fiscal Year)

Net Revenues (in millions)

	FY93		FY92		Change
Channel					
Europe FG	$1,259	34%	$ 997	36%	26%
ICON FG	349	9	229	8	53
Far East FG	155	4	84	3	85
Total IFG	1,763	47	1,310	47	35
US FG	1,182	31	926	34	28
OEM	731	19	477	17	53
Other	77	3	46	2	66
	$3,753	100%	$2,759	100%	36
Product Group					
Systems	$1,267	34%	$1,065	39%	19
Applications	2,173	58	1,419	51	53
Hardware	233	6	254	9	(8)
Other	80	2	21	1	275
	$3,753	100%	$2,759	100%	36

Europe FG remained the largest revenue channel due to growth for Win Office ($163 million). In addition, the November release of Access contributed $35 million in new revenue, while MS-DOS Word declined by $32 million. Systems growth was mixed, with Win 3.1 and the MS-DOS upgrade growing by $49 million and $28 million, respectively, while standard MS-DOS decreased $40 million.

ICON FG was bolstered by growth for Win Office ($27 million), MS-DOS upgrades ($24 million), Windows 3.1 ($20 million), Access ($12 million), Win Excel upgrades ($7 million), Win Word upgrades ($5 million), and FoxPro ($4 million).

Far East FG's revenue growth included Windows 3.1 ($15 million), largely due to the Q93-4 release of Japanese, Korean and Chinese versions. Increases in Windows applications dove-tailed the new release with bumps in Win Excel ($8 million), Win Excel upgrades ($8 million), Win Word upgrades ($7 million) and Win Word ($4 million). Also, Mac Excel increased by $7 million.

US FG showed increases for Win Office ($106 million) and MS-DOS upgrades ($65 million, or 85%), Windows 3.1 ($34 million) and Win Project ($18 million). In addition, the November release of Access provided $38 million in incremental revenue, while the only significant decline was for Windows 3.1 upgrade ($52 million) due to its FY92 introduction.

The main component to OEM's substantial increase was the $185 million rise in Windows 3.1 which represented 73% of the total revenue increase; $131 million in US OEM, $48 million in Europe OEM and $6 million in ICON OEM. Additionally, the MS-DOS operating system grew $54 million, while applications increased $39 million, or 161%, to $63 million.

Systems growth was attributable to Windows 3.1 which increased by $331 million, and MS-DOS upgrades (up $120 million). Partially offsetting those increases were a decline in Windows 3.1 upgrades (down $43 million) and FY92 Windows 3.0 revenues (down $196 million).

Windows applications were the key to applications significant yearly growth. Higher revenues for Win Office (up $299 million) and Win Office upgrade (up $76 million) helped to fuel the increases. In particular, there were increases for Win Word ($179 million), Win Excel ($155 million), Win PowerPoint ($48 million), Win Excel upgrades ($47 million), Win project ($33 million) and Win Works ($30 million). Most of the growth experienced in Win Word, Win Excel, and Win PowerPoint was due to sales of Win Office (Win Office sales represented 72% of Win Word growth, 81% of Win Excel growth, and 75% of Win PowerPoint growth). In addition, the release of Access generated $85 million in new revenue.

Hardware revenues slowed due to declines in Serial/Bus Mice ($11 million) and Ballpoint ($4 million). Due to competitive pressures, Serial/Bus Mice were particularly weak in the Europe FG channel.

Comparison with Prior Year (Fiscal Year)

Fifteen Leading Products (units in thousands, revenue in millions)

	FY93			FY92					Revenues		
Product	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	$/Unit	Volume	Price	Total
Win Word	2,342	$471	$201	1,306	$293	$224	1,036	($23)	232	($54)	$178
Win Excel	2,237	455	203	1,228	300	244	1,009	(41)	247	(92)	155
Windows 3.1	15,580	429	28	1,332	98	74	14,248	(46)	1,048	(717)	331
MS-DOS Std	18,099	323	18	15,166	318	21	2,933	(3)	59	(54)	5
Bus/Ser Mouse	4,873	216	44	3,944	227	58	929	(14)	57	(68)	(11)
MS-DOS 6.0 Upg*	5,016	216	43	–	–	–	5,016	43	–	216	216
Win Excel Upg*	1,110	126	114	766	80	104	344	10	35	11	46
Win Word Upg*	1,054	116	110	716	76	106	338	4	36	4	40
Mac Word	722	88	122	565	84	149	157	(27)	23	(19)	4
Win Access	823	85	103	–	–	--	823	103	–	85	85
Mac Excel	509	81	159	422	84	199	87	(40)	17	(20)	(3)
Win Project	244	81	332	127	48	378	117	(46)	44	(11)	33
Win Powerpoint	1,206	79	66	435	31	71	771	(5)	54	(6)	48
Lan Manager	929	72	78	523	57	109	406	(31)	44	(29)	15
Win Works	1,625	61	38	403	31	77	1,222	(39)	93	(63)	30
		$2,899			$1,727				$1,989	($817)	$1,172
Percent net revenues		77%			63%						

**Excludes maintenance.*
Note: Figures in this table include allocations from bundled products.

Continued strong shipments of the Win Office and Win Office upgrade bundles contributed to the positive variance for Win Word and Win Excel in FY93. US FG shipped 547,000 units, Europe FG shipped 478,000 units and ROW FG shipped 214,000 units. Win Office and Win Office upgrade represented $498 million compared to $123 million in the prior year. The strong revenue growth in bundled products has generated strong volume variances and negative price variances. The price variance impact is a result of the sales mix moving from individual products to the less expensive bundle.

Win Word revenues increased $179 million over prior year on unit sales of 2,342,000. The revenue increase was partially due to movement from MS DOS Word to Win Word (MS DOS Word revenues declined $40 million year over year). All channels reported higher revenues including Europe FG up $91 million at 883,000 units, US FG up $55 million at 871,000 units, ROW FG up $19 million, US OEM up $9 million and Far East FG up $4 million. The price variance was due largely to strong sales of bundled product and price competition in Europe.

Win Excel revenues were $155 million over FY92 on unit sales of 2,237,000. All Channels reported increases over FY92. Europe FG (up $76 million at 831,000 units), US FG (up $44 million at 844,000 units), ROW FG (up $19 million at 287,000 units), Far East FG (up $8 million) and US OEM (up $8 million) comprised the growth.

Windows 3.1 revenues were $429 million on units sales of 15,580,000. The sales mix continued to shift from finished goods to OEM. Of the $331 million increase, $213 million was OEM. Increases were reported over all channels in FY93 due to the Q92-4 launch of Windows 3.1. US OEM (up $131 million at 8,106,000 units), Europe FG (up $49 million at 1,169,000 units) Europe OEM (up $48 million at 2,456,000 units), US FG (up $34 million), and Far East OEM (up $27 million). Additionally, ROW FG, Far East FG and ROW OEM added $20 million, $15 million and $6 million, respectively.

MS-DOS Standard revenues increased $5 million over FY92. The increase was primarily due to OEM revenues offset by a decrease in finished goods revenue, caused by the launch of MS-DOS 6.0 upgrade. Channels reporting positive increases were US OEM (up $33 million at 8,836,000 units), Europe OEM (up $23 million at 3,460,000 units), and ROW OEM (up $10 million). Europe FG, Far East OEM and ROW FG all reported decreases over prior year (down $40 million, $11 million and $10 million, respectively).

Serial/Bus Mouse revenues decreased $11 million due to a shift to the OEM channel and price reductions related to competition. Channels reporting revenue below FY92 were Europe FG (down $17 million to 1,003,000 units compared to 1,084,000 in FY92), US FG (down $10 million to 1,203,000 actual units compared to 1,250,000 in FY92) and ROW FG (down $4 million). Channels reporting higher revenues were US OEM (up $12 million), Far East FG (up $3 million), Europe (up $3 million), and ROW OEM (up $2 million). Revenue decline was primarily due to a shift to the OEM channel and price reductions related to competition.

Comparison with Prior Year (Fiscal Year)

The MS-DOS 6.0 upgrade was introduced at the end of Q93-3. Revenues included US FG ($118 million at 2,855,000 units), Europe FG ($62 million at 1,213,000 units), ROW FG ($34 million at 895,000 units), and Far East ($2 million at 53,000 actual units).

Bundled Products (units in thousands, revenues in millions)

	FY93			FY92			Variance				
									Revenues		
Product	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	$/Unit	Volume	Price	Total
Win Office	922	$421	$458	306	$123	$402	616	$56	247	$52	$299
Win Office Upg	318	76	239	0	0	0	318	239	76	0	76
Mac Office	168	65	387	107	40	374	61	13	23	2	25
DOS/Win	189	20	106	151	19	126	38	(20)	5	(4)	1
Mac Word/Excel	31	6	194	4	2	500	27	(306)	13	(9)	4
Win/BallPoint	23	3	130	16	2	125	7	5	1	0	1
		$592			$186				$365	$41	$406
Percent net revenues		16%			7%						

MS Office revenues were $563 million on unit sales of 1,408,000. Win Office revenues increased 243% on higher volumes, while Mac Office revenues increased 38%. Win/Mouse revenues decreased on higher unit volume due to a shift from retail to OEM and pricing pressures in Europe

Cost of Revenues

	FY93			FY92		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Channel						
Europe FG	34.1	11.6%	3.9%	36.0	13.1%	4.7%
ROW FG	13.3	18.1	2.4	11.3	18.6	2.1
US FG	32.9	14.7	4.8	35.4	16.0	5.7
OEM	17.7	4.1	0.7	15.7	4.4	0.7
Other	2.0	9.6	0.3	1.6	11.5	0.1
	100.0%		12.1%	100.0%		13.3%
Effect of revenue adjustments			x 103.2%			x 102.9%
Product cost - net			12.5			13.7
Non-product costs			4.4			3.2
			16.9%			16.9%

	FY93			FY92		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Product Group						
Systems	33.2%	9.2%	3.1%	36.0%	10.9%	3.9%
Applications	58.4	10.9	6.4	52.4	10.8	5.7
Hardware	6.3	40.2	2.5	9.5	36.6	3.5
Other	2.1	7.1	0.1	2.1	12.8	0.2
	100.0%		12.1%	100.0%		13.3%

Net product costs decreased 1.2 points, but were offset by increases in non-product costs. Non-product cost increases were primarily due to negative manufacturing variances.

Europe FG and USFG cost improvements accounted for the majority of the gross margin improvement year over year. Europe FG costs fell 1.5 points as a result of a 28% decline in cost-intensive hardware sales. USFG Systems costs declined from 18.1% to 14.6% as a result of favorable revenue mix. The mix shifted from Windows to DOS (DOS has higher average margins), and the Windows revenue that remained shifted from updates to more profitable standard products.

On a product group basis, hardware revenues fell in both dollar terms and as a percentage of revenue, causing a 0.7 point improvement in consolidated margins. Systems costs fell substantially year to year as a result of a change in revenue mix from US and Europe retail to OEM, and improvements in USFG systems costs. USFG systems costs fell 3.5 points for the reasons discussed above.

Operating Expenses (in millions)

	FY93	FY92	Change	
Payroll	$ 612	$ 442	$ 170	38%
Marketing	328	243	85	35
Marketing accrual	--	--	--	--
Depreciation	115	80	35	44
Employee fringes	94	67	27	39
Supplies and equipment	75	66	9	15
Travel and entertainment	76	58	18	32
Product development	75	49	26	54
All other	419	291	128	44
	$ 1,794	$ 1,296	$ 498	38

Operating expenses grew 38% compared to revenue growth of 36%. Growth in payroll and marketing expense accounted for half the increase.

Headcount increased 2,888 to 14,430. Sales and marketing represented 61% of the growth with its payroll increasing by $107 million. Payroll increased by $48 million in research and development and by $13 million in general and administrative.

Marketing expense increased by $85 million or 35%, primarily in the finished goods channels (US up 9% to $141 million, Europe FG up 40% to $112 million and ROW up 138% to $57 million).

The 44% increase in other expense was primarily due to bad debt (up $21 million or 84%), administrative services (up $22 million or 58%), professional fees (up $16 million or 41%), rent and utilities (up $15 million or 29%), maintenance and repair (up $13 million or 61%), marketing funds (up $13 million or 65%) and telecommunications (up $12 million or 46%).

Interest and Nonoperating Expense (in millions)

	FY93	FY92	Change
Interest income-net			
Interest income	$ 83	$ 58	$ 25
Interest expense	(1)	(2)	1
	$ 82	$ 56	$ 26
Nonoperating expense			
Financial asset allowance	$ (8)	$ (9)	$ 1
Foreign currency transactions	9	2	7
All other	(8)	(4)	(4)
	$ (7)	$ (11)	$ 4

Net interest income was $82 million, 46% higher than last year. The ending U.S. dollar investment portfolio was 70% larger than a year ago, but yields dropped from 5.3% at June 30, 1992 to 4.3% at June 30, 1993.

Income Taxes

The company's effective tax rate remained constant at 32% year-to-year.

Net Income

Net income was $953 million or 35% higher than last year. As a percentage of net revenue, net income declined 0.3 points. Gross profit remained flat at 83.1% while operating expenses increased 0.8 points. Nonoperating income (up 0.5 points) helped to offset the increase in operating expenses.

Comparison with Prior Year (Quarter)

Income Statement (in millions)

	Q93-4		Q92-4		Change
Net revenues	$1,039	100.0%	$ 815	100.0%	27%
Cost of revenues	181	17.4	136	16.8	33
Gross profit	858	82.6	679	83.2	26
Operating expenses:					
Research and development	138	13.3	102	12.5	35
Sales and marketing	314	30.2	256	31.4	23
General and administrative	34	3.3	25	3.0	36
Total operating expenses	486	46.8	383	46.9	27
Operating income	372	35.8	296	36.3	26
Interest income - net	23	2.2	16	2.0	44
Nonoperating income (expense)	(6)	(0.6)	(3)	(0.4)	100
Income before income taxes	389	37.4	309	37.9	26
Provision for income taxes	124	11.9	99	12.1	25
Net income	$ 265	25.5%	$ 210	25.8%	26
Average shares outstanding	305.0		297.8		
EPS	$ 0.87		$ 0.71		23

The $224 million or 27% comparative quarter net revenue increase was shared by all channels, including OEM (up $92 million), Far East FG (up $40 million), US FG (up $30 million), ICON FG (up $27 million) and Europe FG (up $22 million). By product group, growth was comprised primarily of Applications (up $145 million) and Systems (up $59 million) with a decline in Hardware by $7 million. The increase in Applications was largely due to Win Office which grew by $91 million, while Systems was elevated by the MS-DOS upgrade (up $131 million).

Windows applications revenue rose $138 million to $445 million. Both MS-DOS and MAC applications declined as a percentage of total applications (down 4.6% and 3.5%, respectively) as the Windows environment climbed to 78% of all applications sold during Q93-4. Applications revenue from upgrades declined $5 million or 4.9%. Standard applications grew $123 million or 38%.

Cost of revenues increased by 0.6 points as a percentage of net revenues. Although non product costs were significantly higher than a year ago (up 3.4 points), product costs were down 2.4 points resulting from a shift in sales mix from lower margin hardware into higher margin Applications and Windows. In addition, USFG costs declined from 17.6% to 13.2% as a result of the DOS 6.0 introduction, and a favorable shift in mix from Win 3.1 updates to standard product.

Research and development expense, as a percentage of revenue, increased 0.8 points. Absolute dollars increased primarily due to higher payroll (up 28%) and product development (up 66%).

Sales and marketing represented 56% of the increase in total operating expenses. Payroll increased by $23 million or 31%, bad debt increased by $7 million or 89%, and travel and entertainment increased by $5 million or 36%.

General and administrative expense rose $9 million in absolute terms, and increased 0.3 points as a percent of net revenues versus last year's quarter, primarily due to payroll (up 32%).

Comparison with Prior Year (Quarter)

Net Revenues (in millions)

	Q93-4		Q92-4		Change
Channel					
Europe FG	$ 296	28%	$ 274	34%	8%
ICON FG	99	10	72	8	38
Far East FG	60	6	20	3	196
Total IFG	455	44	366	45	24
US FG	341	33	311	38	10
OEM	217	21	125	15	74
Other	26	2	13	2	84
	$1,039	100%	$ 815	100%	27
Product Group					
Systems	$ 412	40%	$ 353	43%	17
Applications	542	52	397	49	37
Hardware	58	5	65	8	(12)
Other	27	3	–	–	–
	$1,039	100%	$ 815	100%	27

Europe FG's growth was due to the MS-DOS upgrade (up $55 million) and Win Office (up $45 million). Partially offsetting those increases were declines in Windows 3.1 (down $24 million) and Windows 3.1 upgrades (down $21 million) which were released on April 6, 1992.

ICON FG also enjoyed strong growth with the MS-DOS upgrade (up $23 million) and Win Office (up $9 million). However, a sharp decline in Windows 3.1 Upgrades (down $7 million) had a negative impact on the increase.

Far East FG experienced tremendous comparable quarter growth (up 196%) due largely to Windows 3.1 (up $20 million) which was released in Japan during the quarter. Other increases occurred for Win Excel (up $4 million), Serial/Bus Mice (up $3 million) and $2 million each for Mac Excel, Win Excel Upgrade, Win Word and MS-DOS Upgrade. In contrast, MS-DOS fell by $7 million.

US FG MS-DOS upgrade comparable revenues jumped $81 million on the launch of version 6.0 in March, 1993. Strong acceptance of Win Office (up $35 million) drove increases for Win Word (up $21 million), Win Excel (up $8 million) and Win PowerPoint (up $6 million). Decreases for Window 3.1 (down $44 million), Win Excel upgrades (down $20 million) and Win 3.1 upgrades (down $11 million) partially offset the growth.

OEM's 74% increase was broad based with Europe, ROW and US growing by 106%, 85% and 64%, respectively. Win 3.1 led the way, increasing $64 million, including $48 million in US OEM. In addition, MS-DOS grew by $21 million, including $13 million in the US, and applications increased 434% to $26 million.

Systems' rise in revenues resulted mainly from MS-DOS upgrade sales of $81 million, up from $30 million because of the March, 1993 release of version 6.0. In addition, an increase in OEM shipments for Win 3.1 of $50 million helped to offset the impact of a $71 million decrease in Win 3.1 upgrades due to the release of Win 3.1 during Q92-4.

Applications' significant growth is mainly attributable to Win Word which grew $44 million, Win Excel (up $26 million) and Win Power Point (up $15 million). Also, Win Project grew $8 million and Access, which shipped in November, generated $6 million in new revenue. Driving the increases for Windows Desktop applications was the momentum for Win Office which grew $91 million. In total, Office, including Mac and upgrades, grew $100 million.

Hardware, suffering from competitive pressures in Europe, decreased by $8 million due to weak demand for Serial/Bus Mice.

Comparison with Prior Year (Quarter)

Fifteen Leading Products (units in thousands, revenue in millions)

	Q93-4 Actual			Q92-4 Actual			Change				
									Revenues		
Product	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	$/Unit	Volume	Price	Total
MS-DOS/GWBas Upd	3,676	$161	$44	–	–	–	3,676	$44	$0	$161	$161
Windows 3.1	4,719	138	29	1,139	88	74	3,580	(45)	262	(212)	50
Win Word	725	124	171	362	80	221	363	(50)	80	(36)	44
Win Excel Std	698	122	175	412	96	233	286	(58)	66	(40)	26
MS-DOS/GWBas Std	4,860	81	17	4,251	79	19	609	(2)	12	(10)	2
Ser/Bus Mouse	1,361	54	40	1,128	62	55	233	(15)	12	(20)	(8)
Win Excel Upg	248	27	109	471	44	93	(223)	16	(21)	4	(17)
Win Word Upg	256	26	102	261	29	111	(5)	(9)	(1)	(2)	(3)
Win Powerpoint	412	25	61	177	10	56	235	5	13	2	15
Win Project	80	24	300	40	16	400	40	(100)	16	(8)	8
Mac Word	229	21	92	162	23	142	67	(50)	9	(11)	(2)
Mac Excel	141	19	135	125	23	184	16	(49)	3	(7)	(4)
UNIX Lan Manager	259	16	62	156	15	96	103	(34)	10	(9)	1
Win Works	519	14	27	159	9	57	360	(30)	21	(16)	5
DOS Word	50	11	220	62	15	242	(12)	(22)	(3)	(1)	(4)
		$863			$589				$479	($205)	$274
Percent net revenues		83%			72%						

Note: Figures in this table include allocations from bundled products.

Significant quarterly growth in Win Excel and Win Word resulted from continued strong shipments of the Win Office bundle. Sales of Win Office and Win Office upgrade for US FG, Europe FG and ROW FG were 165,000 units, 171,000 units and 80,000 units, respectively. Total Win Office and Win Office Upgrade revenue for Q93-4 totaled $162 million versus comparable Q92-4 of $43 million. Strong growth in bundled product has generated positive volume variances and negative price variances.

Continued strong shipments of the Win Office and Win Office upgrade bundles contributed to the positive variance for Win Word and Win Excel in FY93. US FG shipped 547,000 units, Europe FG shipped 478,000 units and ROW FG shipped 214,000 units. Win Office and Win Office upgrade contributed $498 million compared to $210 million in the prior year. The strong revenue growth in bundled products has generated strong volume variances and negative price variances. The price variance impact is a result of the sales mix moving from individual products to the less expensive bundle.

The MS-DOS upgrade was introduced at the end of Q93-3. Revenues included US FG (up $81 million at 1,967,000 actual units), Europe FG (up $54 million at 1,068,000 actual units), ROW FG (up $23 million at 592,000 actual units), and Far East (up $2 million at 50,000 actual units).

Windows 3.1 revenues were $50 million over Q92-4 and the sales mix continued to shift from FG to OEM. Increases were recorded in US OEM (up $48 million at 2,603,000 actual units), Europe OEM (up $13 million at 631,000 actual units), Far East OEM (up $7 million) and ROW OEM (up $3 million). During Q93-4, localized versions of Windows 3.1 were released which contributed an additional $13 million to the comparable quarter increase in Far East FG. Offsetting the increase in the OEM channel were declines in Europe FG (down $24 million) and US FG (down $10 million).

Win Word revenues grew $44 million to 725,000 units versus 362,000 units in Q92-4; US FG (up $21 million at 259,000 units), Europe FG (up $9 million), US OEM (up $6 million), ROW FG (up $5 million) and Far East FG (up $3 million). Price variances were due to strong shipments of bundled product and competitive pricing in Europe. Win Office and Win Office Upg contributed 416,000 units or 57% of total Win Word unit sales

Win Excel revenues increased $26 million to 698,000 units versus 412,000 units in Q92-4. Growth occurred in US FG (up $8 million at 261,000 units), Europe FG (up $6 million at 213,000 units), US OEM (up $5 million), Far East FG (up $4 million), and ROW FG ($3 million). Overall, price variances were due to strong shipments of bundled product and price pressures in Europe.

Serial/Bus Mouse revenues decreased $8 million due to price reductions related to competition and a shift to the OEM channel. Channels reporting revenue lower than Q92-4 were Europe FG (down $10 million to 212,000 units compared to 299,000 in Q92-4), US FG (down $4 million to 337,000 actual units compared to 346,000 in Q92-4) and ROW FG (down $3 million). Channels reporting higher revenues were Far East FG (up $3 million), US OEM (up $3 million), Europe OEM (up $2 million), and ROW OEM (up $1 million).

Bundled Products (units in thousands, revenues in millions)

	Q93-4 Actual			Q92-4 Actual			Change				
									Revenues		
Product	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	$/Unit	Volume	Price	Total
Win Office	299	$134	$448	117	$43	$368	182	$80	$67	$24	$91
Win Office Upg	117	28	239	--	--	--	117	239	28	0	28
Mac Office	52	21	404	36	12	333	16	71	5	4	9
DOS/Win	28	2	71	55	6	109	(27)	(38)	(3)	(1)	(4)
Mac Word/Excel	7	1	143	1	1	1,000	6	(857)	6	(6)	0
Mac Office Upg	4	1	250	--	--	--	4	250	1	0	1
		$187			$62				$104	$21	$125
Percent net revenues		18%			8%						

The top bundled product revenue increased 202% over Q92-4 due mainly to Win Office which was up 212% as consumers continued to migrate toward the Office suite. Complimenting that growth, Mac Office revenues increased 75%.

Cost of Revenues

	Q93-4			Q92-4		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Channel						
Europe FG	28.2%	12.5%	3.5%	33.0%	13.2%	4.4%
ROW FG	15.0	19.0	2.8	10.7	19.0	2.0
US FG	35.2	13.2	4.7	41.0	17.6	7.2
OEM	19.3	3.8	0.7	13.6	4.4	0.6
Other	2.3	11.8	0.3	1.7	9.2	0.2
	100.0%		12.0%	100.0%		14.4%
Effect of revenue adjustments			x 105.8%			x 108.2%
Product cost - net			12.7			15.5
Non-product costs			4.7			1.3
			17.4%			16.8%

	Q93-4			Q92-4		
	Gross Sales Mix	Cost	Weighted Cost	Gross Sales Mix	Cost	Weighted Cost
Product Group						
Systems	40.1%	9.9%	4.0%	39.4%	12.9%	5.1%
Applications	52.0	10.7	5.5	50.0	11.5	5.8
Hardware	5.5	39.6	2.2	8.5	38.8	3.3
Other	2.4	12.1	0.3	2.1	10.0	0.2
	100.0%		12.0%	100.0%		14.4%

While gross product costs as a percentage of gross revenues decreased by 2.4 points, revenue adjustments and non-product costs caused total cost of revenue to increase by 0.6 points.

US FG cost declines accounted for most of the improvement in gross product costs. Over one-half of USFG's improvement resulted from the successful introduction of DOS 6.0, which has higher than average margins. USFG DOS sales increased seven-fold versus last year's quarter, while related costs declined from 16.7% to 14.3%. Cost declines in USFG Windows accounted for the remainder of the improvement, as the product mix shifted from updates (53% of Q92-4 Win 3.1 revenue) to standard (73% of Q93-4 Win 3.1 revenue).

Gross product costs fell an additional 0.6 points as a result of a favorable mix shift towards US OEM. US OEM revenues grew from 14.1% of total revenue in Q92-4 to 23.1% this quarter. The $33 million increase in Windows revenue accounted for most of the growth.

COMPARISON WITH PRIOR YEAR (QUARTER)

Positive revenue adjustments had a 0.4 point impact on gross margins.

Non-product costs increased 3.3 pqints compared to last year's quarter.

On a product group basis, gross product costs fell 0.7 points as Hardware (which is more cost-intensive) declined from 8.5% of total revenue to 5.5%. Systems costs fell 2.4 points due to a favorable shift to OEM, and cost declines in USFG (DOS 6.0 introduction and favorable mix shift of Win 3.1 from updates to standard product).

Operating Expenses (in millions)

	Q93-4	Q92-4	Change	
Payroll	$ 166	$ 127	$ 39	31%
Marketing	131	91	40	43
Marketing accrual	(72)	(23)	(49)	--
Depreciation	31	26	5	19
Employee fringes	27	19	8	45
Supplies and equipment	24	18	6	29
Travel and entertainment	26	19	7	38
Product development	27	17	10	63
All other	126	89	37	42
	$ 486	$ 383	$ 103	27%

Operating expenses increased at the same rate as net revenue. The increase was the result of headcount growth and increased spending in product development and other expenses.

Sales and marketing represented the largest payroll increase with payroll growing by $23 million, primarily in Europe FG, ROW FG, and PSS. Research and development payroll increased $12 million and general and administrative increased $3 million.

Product Development spending increased across all product groups except OOS and Hardware, with the largest increase in Windows (up 156% over FY92-4).

Other expenses increased largely due to bad debt (up $7 million or 88%), administrative services (up $7 million or 58%), professional fees (up $7 million or 50%), maintenance and repairs (up $4 million or 57%), and telecommunications (up $3 million or 38%).

Interest and Nonoperating Expense (in millions)

	Q93-4	Q92-4	Change
Interest income-net			
Interest income	$ 23	$ 16	$ 7
Interest expense	--	--	--
	$ 23	$ 16	$ 7
Nonoperating expense			
Financial asset allowance	$ (2)	$ (2)	$ --
Foreign currency transactions	(1)	--	(1)
All other	(3)	(1)	(2)
	$ (6)	$ (3)	$ (3)

Net interest income was $23 million, 44% higher than last year due to growth in the investment portfolio, slightly offset by lower interest rates. The FY93-4 yield declined 1.0 point versus FY92-4

Income Taxes

The company's effective tax rate remained constant at 32% year-to-year.

Net Income

Net income increased 26% over Q92-4 to $265 million. As a percentage of net revenue, net income decreased from 25.8% to 25.5%. The 0.3 point decline is attributable to a 0.6 point decrease in gross profit somewhat offset by lower operating expenses (down 0.1 point) and taxes (down 0.2).

Financial Condition

Property, Plant, and Equipment

FY93

Property, Plant, and Equipment (in millions)

	Jul. 31, 1993	Jun. 30, 1992	Change
Land	$144	$142	2
Buildings	389	345	44
Computer equipment	415	324	91
Other	233	166	67
	1,181	977	204
Accumulated depreciation	(314)	(210)	(104)
	$867	$767	$100

Buildings increased $44 million during the year due to Building 24 ($12 million), Building 25 ($4 million), Canyon Park ($3 million), Buildings 8, 12, and 13 ($2 million each), general campus construction ($7 million), France ($14 million), and Ireland ($7 million), offset by a reclassification to leasehold improvements in the United Kingdom ($9 million).

Other property, plant, and equipment additions include domestic furniture and equipment ($14 million), domestic leasehold improvements ($6 million), and domestic telecommunications equipment ($6 million). Subsidiary leasehold improvements totaled $31 million, including additions in Japan ($13 million), the United Kingdom ($5 million), and a reclassification from buildings in the United Kingdom ($9 million), with the remainder broadly distributed. Subsidiary furniture and equipment additions increased $10 million during the year, including additions in Germany ($1 million), with the remainder broadly distributed.

	Quantity Purchased	Cost (millions)	FY93 Avg Price (thousands)	FY92 Avg Price (thousands)
Domestic personal computers (1)				
Dell 486 computers	2,515	$ 10.4	$ 4.1	$ 4.3
Compaq portable 486 computers	1,179	8.4	7.1	9.1
Gateway 486 computers	2,316	8.0	3.5	3.4
Compaq desktop 486 computers	1,216	5.6	4.6	8.4
Compaq servers (3)	534	4.8	9.0	16.4
Other 386 computers	856	4.0	4.7	4.7
Other 486 computers	650	4.0	6.1	6.6
Apple computers	542	2.4	4.4	4.9
Other servers (3)	218	1.5	7.0	-
RISC computers	106	1.2	11.4	16.4
	10,132	50.3		
Other computer equipment				
Subsidiaries		18.9		
Networking equipment		12.1		
Peripherals (2)		8.9		
Software		4.4		
A/P net accrual		(0.9)		
Retirements		(5.1)		
Other		2.8		
Net change		$91.4		

(1) A Microsoft PC SKU typically includes the following components: CPU, SVGA monitor, keyboard, 8-16MB RAM, two floppy drives, 230 - 340MB HD, 8 to 10% sales tax, and freight charges.

(2) Microsoft peripherals include printers, monitors, drives and, other hardware components.

(3) A Microsoft server SKU typically includes: CPU, SVGA monitor, keyboard, 16-32MB RAM, 3.5" floppy drive, 1.05 GB HD, 8 to 10% sales tax, and freight charges.

Q93-4

Property, Plant, and Equipment (in millions)

	Jul. 31, 1993	Mar 31, 1993	Change
Land	$144	$143	1
Buildings	389	373	16
Computer equipment	415	380	35
Other	233	214	19
	1,181	1,110	71
Accumulated depreciation	(314)	(286)	(28)
	$867	$824	$43

Buildings increased $16 million during the quarter due to Building 24 ($4 million), Building 25 ($3 million), Canyon Park ($1 million), general campus construction ($3 million), France ($3 million), and Ireland ($2 million).

Other property, plant, and equipment additions include domestic furniture and equipment ($6 million), domestic leasehold improvements ($3 million), and domestic telecommunications equipment ($2 million). Subsidiary leasehold improvements totaled $5 million, including additions in Japan ($2 million) and the United Kingdom ($2 million), with the remainder broadly distributed. Subsidiary furniture and equipment additions increased $3 million quarter to quarter, and were distributed among the subsidiaries.

	Quantity Purchased	Cost (millions)	Q4 Avg Price (thousands)	Q3 Avg Price (thousands)
Domestic personal computers (1)				
Compaq portable 486 computers	833	$ 5.8	$ 6.9	$ 7.1
Dell 486 computers	840	3.6	4.2	3.8
Gateway 486 computers	907	3.3	3.6	3.1
Compaq servers (3)	260	2.0	7.7	8.9
Compaq desktop 486 computers	441	2.0	4.5	4.7
Other 486 computers	197	1.1	5.3	6.7
Apple computers	188	0.8	4.5	4.7
RISC computers	70	0.7	9.7	17.5
Other servers (3)	51	0.4	7.9	5.7
Other 386 computers	39	0.2	3.9	4.1
	3,826	19.9		
Other computer equipment				
Subsidiaries		7.9		
Networking equipment		3.5		
Peripherals (2)		2.3		
Retirements		(1.9)		
Other		2.8		
Net change		$34.5		

(1) A Microsoft PC SKU typically includes the following components: CPU, SVGA monitor, keyboard, 8-16MB RAM, two floppy drives, 230 - 340MB HD, 8 to 10% sales tax, and freight charges.

(2) Microsoft peripherals include printers, monitors, drives, and other hardware components.

(3) A Microsoft server SKU typically includes: CPU, SVGA monitor, keyboard, 16-32MB RAM, 3.5" floppy drive, 1.05 GB HD, 8 to 10% sales tax, and freight charges.

OTHER ASSETS

Other Assets (in millions)

	June 30, 1993	June 30, 1992	Change	Market Value
Financial assets				
Santa Cruz Operation	$ 20	$ 20	$ –	$ 27
Dorling Kindersley	16	16	–	45
Citrix Systems	2	2	–	
Natural Language Inc.	2	2	–	
Non-performing securities	–	10	(10)	
	40	50	(10)	
Valuation allowance	(28)	(17)	(11)	
	12	33	(21)	
Intellectual property rights				
Consumer Software, Inc.	13	13	–	
Other	49	42	7	
	62	55	7	
Accumulated amortization	(32)	(19)	(13)	
	30	36	(6)	
Miscellaneous	46	35	11	
	$ 88	$ 104	$ (16)	

Financial assets represent our minority investments in companies with strategic technologies. Minority investments are carried at cost less amortization, which we call a valuation allowance, for the excess of cost over our share of the pro-rata book value of the investment. As investees earn income, the need for future valuation provisions for these investments is therefore reduced. The valuation provision that is made each quarter covers any potential losses on the disposition of financial assets. The provision is charged to nonoperating income in the financial statements.

Intellectual property rights represent purchased code or other intellectual property and rights. Their cost is amortized over periods of up to five years. Amortization is generally charged to research and development expense.

Miscellaneous assets include other long-term assets, primarily lease and other deposits and patent rights.

Santa Cruz Operation

Results of Operations (in millions, unaudited)

	Quarter Ended June 30, 1993	Quarter Ended June 30, 1992	Change	Change
Net revenues	$ 43	$ 40	$ 3	8 %
Cost of revenues	13	14	(1)	(7)
Gross profit	30	26	4	15
Operating expenses	28	24	4	17
Net income	$ 2	$ 2	$ –	–

Other Assets

Financial Condition (in millions, unaudited)

	June 30, 1993	June 30, 1992	Change	Change
Cash	$ 54	$ 12	$ 42	350 %
Other current assets	39	29	10	34
Property and other	13	13	–	–
Total assets	$ 106	$ 54	$ 52	96
Current liabilities	$ 38	$ 38	$ –	– %
Long-term liabilities	2	3	(1)	(33)
Stockholders' equity	66	13	53	408
Total liabilities and equity	$ 106	$ 54	$ 52	96

Cash Flows (in millions, unaudited)

	Quarter Ended June 30, 1993	Quarter Ended June 30, 1992
Net income	$ 2	$ 3
Depreciation & amortization	2	1
Change in inventories	-	1
Change in A/R	(2)	1
Other	–	(1)
Cash from operations	2	5
Cash from financing	40	(3)
Cash used for investments	(2)	(1)
Net change in cash	40	1
Cash, beginning of period	14	11
Cash, end of period	$ 54	$ 12

SCO's unaudited book value at June 30, 1993 was $66 million, of which Microsoft's 14.3% equity interest represents $9 million. The cost of Microsoft's investment was $20 million, so cost in excess of our pro-rata share of net assets was approximately $11 million.

Revenues in SCO's third fiscal quarter were down $1 million sequentially, but up 8% on a comparable-quarter basis. Revenues were substantially below SCO's original and subsequently reduced plans. Per SCO management, reasons for the change included lower prices, delays in some major government orders, and consumers waiting for Microsoft's Windows NT.

Operating expenses (including income taxes) increased $1 million over the prior quarter to $28 million. Operating expenses as a percent of net revenues was 65%. Profit before taxes of $3 million represented 6% of revenues. SCO has been profitable for seven quarters in a row, but has fallen substantially behind its FY93 plan.

SCO's liquidity continued to improve, primarily due to completion of the IPO. Cash of $54 million represents 51% of total assets and includes $2 million provided by operations. The current ratio improved to 2.5, compared to 1.1 last year.

SCO completed its IPO on May 26th, selling 6 million primary and secondary shares at a price of $12.50 per share, raising $75 million of gross proceeds. SCO sold 3.6 million primary shares and, after the underwriting discount of $0.87 per share, received proceeds (before expenses) of $42 million. Microsoft did not sell any of its shares in the IPO.

The underwriters of the offering were Goldman Sachs and Donaldson, Lufkin & Jenrette. The underwriters had proposed an offering price of $12 to $14 per share in the preliminary prospectus, but due to reduced investor demand priced the shares toward the low end of the expected offering range. In addition, the underwriters did not exercise their "green shoe" over-allotment option to expand the size of the offering. Due to SCO's slower growth prospects, relatively short track record as a profitable company, and anticipated competition from Windows NT, the offering stock price reflected lower multiples (P/E ratio, price/revenues, etc.) than those commanded by software companies who have recently gone public. Based on the offering price of $12.50 per share, SCO was valued at $367 million.

OTHER ASSETS

Subsequent to the IPO, on July 10th, Jim Harris, SCO's chairman and a former Microsoft VP, passed away. In addition, SCO reported earnings for its third fiscal quarter of $0.07 per share which were substantially below analyst's expectations of $0.15 per share. These two events and a general decline in technology stocks have caused SCO's stock price to drop dramatically since the offering, including $3.375 per share after the earnings announcement. The price of SCO's stock bottomed at $4.75 per share on July 16th and has partially recovered since. At their meeting on July 22nd, the board of directors decided not to appoint a new chairman immediately.

On August 8th, the stock closed at $6.375 per share, valuing Microsoft's stake at $27 million. Microsoft's stake is subject to a "lock up" agreement with the underwriters which restricts it from selling shares through late November 1993. Recently, several lawsuits purporting to represent class actions have been filed against SCO and its board of directors due to alleged lack of disclosure regarding the illness of Jim Harris and the earnings shortfall.

Dorling Kindersley

Results of Operations (in millions, unaudited)

	Quarter Ended Mar. 31, 1993	Quarter Ended Mar. 31, 1992	Change	Change
Net revenues	$ 28	$ 33	$ (5)	(15) %
Cost of revenues	14	17	(3)	(18)
Gross profit	14	16	(2)	(13)
Operating expenses	11	13	(2)	(15)
Operating income	3	3	–	–
Taxation and minority interest	1	2	(1)	(50)
Net income	$ 2	$ 1	$ 1	100

Financial Condition (in millions, unaudited)

	Mar. 31, 1993	Jun. 30, 1992	Change	Change
Cash	$ 25	$ (5)	$ 30	(600) %
Other current assets	73	78	(5)	(6)
Property and other	5	5	–	–
Total assets	$ 103	$ 78	$ 25	32
Current liabilities	$ 42	$ 52	$ (10)	(19) %
Long-term liabilities	3	5	(2)	(40)
Stockholders' equity	58	21	37	176
Total liabilities and equity	$ 103	$ 78	$ 25	32

Cash Flows (in millions, unaudited)

	Quarter Ended Mar. 31, 1993	Quarter Ended Mar. 31, 1992
Net income	$ 2	$ 1
Increase in inventories	(2)	-
Decrease in A/R	5	5
Other	(7)	(2)
Cash from operations	(2)	4
Loan payment	(2)	-
Cash from financing	(2)	-
Net additions to PP&E	(1)	(1)
Cash used for investments	(1)	(1)
Net change in cash	(5)	3
Cash, beginning of period	30	(1)
Cash, end of period	$ 25	$ 2

Dorling Kindersley's book value at March 31, 1993 was $58 million, of which Microsoft's 19.6% share represented $11 million. The cost of Microsoft's investment was $16 million, so cost in excess of our pro-rata share of book value at March 31, 1993 was approximately $5 million. DK also has an outstanding $4 million long-term loan from Microsoft. The June 30, 1993 market value of our investment is $45 million, however, Microsoft is contractually prohibited from selling its shares until the June 30, 1994 financial statements are released.

Revenues in Q93-3 were down $3 million from the prior quarter and 24% under plan. DK's FY93 revenue forecast is £88 million ($142 million), down 4% from the original forecast used in the IPO and down 6% from planned revenues of £94 million. For the quarter, new business revenues were 25% below plan and backlist revenues were 21% below plan (backlist refers to those titles which are not within the first year of publication in the UK and US). The impact from the revenue shortfalls was net income 50% under plan. DKs stock price increased 28 pence from its March 31, 1993, price to close at 295 pence as of June 30, 1993. This increase represents a 10% change over the period.

Cash decreased by $5 million during the quarter due in large part to repayment of long-term debt. Employees numbered 877 at March 31, 1993, 9% above plan of 802.

In Q93-3, Microsoft released the multimedia product, "Microsoft Dinosaurs", which was developed by Microsoft and based on DK's Eyewitness and Atlas Series books. In Q93-2, Microsoft released "Musical Instruments." As of June 30, 1993, actual revenues for Musical Instruments were $500 thousand or 561% above plan. Development is proceeding on "Inside the Human Body", "Children's Encyclopedia", "The Way Things Work", and "Children's Dictionary."

Citrix Systems

Microsoft has a $2.3 million equity investment in Citrix convertible preferred stock. Of this amount, $2 million was purchased as part of a $5 million financing round in December 1991. In February 1993, Microsoft also converted an additional $300 thousand bridge loan to equity, as part of a $2 million financing. Our investment represents approximately 12% of common share equivalents. Other significant shareholders include Intel, Kleiner Perkins, Mayfield Partners, and Sevin Rosen.

As of June 30, 1993, Citrix had a book value of $1.5 million, of which Microsoft's 12% represents $177 thousand; cost in excess of pro-rata share of book value was approximately $2.1 million.

Microsoft also has a $750 thousand development agreement under which Citrix performs OS/2-related work for our benefit. Under the terms of this agreement, payments take the form of credits against royalties otherwise due to Citrix under OS/2, Windows, and Windows NT licensing agreements.

For the six months ended June 30, 1993, Citrix had $1.8 million of revenues compared with a plan of $1.9 million. Total expenses for the six months were $3.6 million resulting in a net loss of $1.8 million. As of July 21, Citrix had adequate liquidity with $640 thousand of cash.

In late July, Citrix signed an agreement with Novell to co-distribute and co-develop application server products.

Citrix is in the final stages of completing additional financing with Weiss Peck & Greer and Digital Communications Associates.

Natural Language Incorporated

Microsoft has a $2.3 million equity investment in Natural Language Incorporated representing an 11% common share equivalent interest in the Company. NLI has negative equity and our investment is being amortized along with other financial assets.

We also have a $323 thousand convertible promissory note from NLI, which will convert to common stock upon the next issuance of equity. In April 1993, the maturity of the note was extended to October 1993. Once again, this note is in default and the board is again considering extending the maturity.

In the twelve months ended June 30, 1993, NLI had revenues of $3.1 million ($4.5 million planned), operating expenses of $3.1 million ($3.9 million planned), and a net loss of $632 thousand (loss of $332 thousand planned). In the quarter ended June 30, 1993, revenues were $510 thousand (versus $960 thousand planned, and down from $941,000 in the previous quarter), operating expenses were $840 thousand ($978 thousand planned), and net loss

was $473 thousand (income of $123 thousand planned). These results compare unfavorably with the previous two quarters, which were profitable. NLI had $509 thousand in cash and $1.9 million negative equity as of June 30, 1993. This cash position has stayed relatively constant over the past two quarters as receivables have fallen considerably through aggressive collections. Unless revenues pick up significantly, however, NLI will become cash flow negative going forward.

The Windows version of Natural Language is due to ship on October 1st and the company expects this to put the company back on its revenue plan.

Current Liabilities

FY93 current liabilities increased $116 million to $563 million at June 30, 1993. Accounts payable were up $43 million due to volume related increases. Accrued compensation increased $24 million due to the accrual of bonuses ($7 million), employee fringes ($5 million), the domestic employee stock purchase plan ($3 million), and subsidiary payroll timing increases ($9 million). Income taxes payable increased $54 million due to accruals based on taxable income. The increases were offset by a decrease in other liabilities ($5 million).

Q93-4 current liabilities increased $14 million versus Q93-3. Accrued compensation increased $24 million due to the accrual of bonuses ($7 million), the domestic employee stock purchase plan ($6 million), and subsidiary payroll timing increases ($6 million). Income taxes payable increased $37 million due to accruals based on taxable income.

Stockholders' Equity

FY93 stockholders' equity increased $1 billion, from $2.2 million to $3.2 million. Net income ($953 million), the exercise of stock options ($229 million), and income tax benefits related to stock options ($207 million) were offset by translation adjustments ($90 million) and the repurchase of shares ($250 million).

In Q93-4 stockholders' equity increased $231 million due to net income ($265 million), the exercise of stock options ($44 million), and income tax benefits related to stock options ($41 million). These increases were offset by stock repurchases ($105 million) and translation adjustments ($14 million).

Channel Reporting

Channel Reporting

Channel Summary

Net Revenues

	FY93		FY93 Plan		Variance
Europe FG	$1,259	34%	$1,279	36%	$ (20)
ICON FG	349	9	329	10	20
Far East FG	155	4	133	4	22
Total IFG	1,763	47	1,741	50	22
US FG	1,182	31	1,194	34	(12)
Domestic OEM	434	12	278	8	156
OEM - Europe	135	3	80	2	55
OEM - ROW	162	4	138	4	24
Total OEM	731	19	496	14	235
Other	77	3	74	2	3
	$3,753	100%	$3,505	100%	$ 248

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Europe FG	$ 296	28%	$ 342	35%	$ 335	35%	$ (46)	$ (39)
ICON FG	99	10	98	10	92	10	1	7
Far East FG	60	6	38	4	42	4	22	18
Total IFG	455	44	478	49	469	49	(23)	(14)
US FG	341	33	332	34	268	28	9	73
Domestic OEM	135	13	74	8	113	12	61	22
OEM - Europe	38	4	22	2	45	4	16	(7)
OEM - ROW	44	4	41	4	45	5	3	(1)
Total OEM	217	21	137	14	203	21	80	14
Other	26	2	22	3	18	2	4	8
	$1,039	100%	$ 969	100%	$ 958	100%	$ 70	$ 81

Operating Income/(Loss)

	FY93		FY93 Plan		Variance
		Revenue		Revenue	
Europe FG	$ 485	38.5%	$ 494	38.6%	$ (9)
ICON FG	104	29.7	83	25.1	21
Far East FG	5	3.3	3	2.6	2
Total IFG	594	33.7	580	33.3	14
US FG	292	24.7	243	20.4	49
Domestic OEM	273	63.0	138	49.5	135
OEM - Europe	96	70.6	40	49.3	56
OEM - ROW	75	46.2	52	38.1	23
Total OEM	444	60.7	230	46.3	214
Other	(4)	(4.9)	(8)	(9.9)	4
	$1,326	35.3	$1,045	29.8	$ 281

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
		Revenue		Revenue		Revenue		
Europe FG	$ 83	27.9%	$ 141	41.1%	$ 154	45.8%	$ (58)	$ (71)
ICON FG	28	28.1	31	32.3	35	37.9	(3)	(7)
Far East FG	2	2.3	5	13.8	6	14.9	(3)	(4)
Total IFG	113	24.6	177	37.2	195	41.5	(64)	(82)
US FG	127	37.4	95	28.7	20	7.4	32	107
Domestic OEM	91	67.4	40	55.0	71	62.6	51	20
OEM - Europe	27	69.0	13	55.5	33	74.8	14	(6)
OEM - ROW	15	35.6	20	47.8	21	47.3	(5)	(6)
Total OEM	133	61.3	73	52.9	125	61.8	60	8
Other	--	1.8	--	0.0	(2)	(8.5)	--	2
	$ 373	35.9	$ 345	35.7	$ 338	35.3	$ 28	$ 35

Channel Summary

Headcount

	June 30, 1993		March 31, 1993		December 31, 1992		September 30, 1992		June 30, 1992	
Europe FG	2,389	32%	2,273	32%	2,057	31%	1,836	30%	1,635	28%
ROW FG	1,208	16	1,092	15	958	15	869	14	794	14
US FG	1,446	19	1,415	20	1,375	21	1,345	22	1,306	23
OEM (Redmond)	81	1	77	1	78	1	77	1	74	1
PSS	1,807	24	1,754	25	1,577	24	1,522	25	1,467	25
Other	296	4	275	4	246	4	221	4	267	5
Sales Support	238	3	236	3	241	4	235	4	228	4
	7,465	100%	7,122	100%	6,532	100%	6,105	100%	5,771	100%

Notes:

IFG includes: All Non-R&D subsidiary headcount. International OEM, PSS, MSU and MCS headcount embedded in the IFG Channel are not specifically identified.

OEM (Redmond) includes: Domestic OEM plus International OEM support personnel located in Redmond.

Other includes: US MSU, US MCS, and Press.

Sales support includes: CorpCom, PR & Tradeshows, US Networks, and SMSD Management.

Europe Finished Goods

FY93

Net revenues, at $1.3 billion, were $20 million below plan for FY93. This variance mainly resulted from below plan local currency revenues in France and Germany.

Net revenues were 26% higher than the previous year, while operating expenses were 41% higher. Year end headcount increased 47% from the prior year end.

Win Word, Win Excel and their upgrades were a combined $94 million, 18% above plan, due primarily to strong sales of the Office bundle.

Q93-4

Net revenues, at $296 million, were $39 million lower than Q93-3. This decrease was the result of a $29 million volume decrease and unfavorable exchange rate trends.

Windows 3.1 and Windows 3.1 Upgrade revenues decreased $20 million from Q93-2, and $8 million from Q93-3.

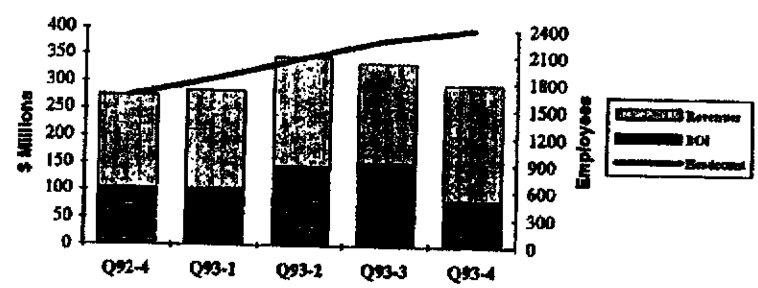
Net revenues were $46 million under plan for Q93-4.

Operating expenses were $7 million over plan due principally to higher than planned marketing expenses.

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 1,259	100.0%	$ 1,279	100.0%	$ (20)
Cost of revenues	205	16.3	200	15.6	(5)
Operating expense	359	28.5	359	28.1	–
Allocations	210	16.7	226	17.7	16
Burdened operating income	$ 485	38.5%	$ 494	38.6	$ (9)

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 296	100.0%	$ 342	100.0%	$ 335	100.0%	$ (46)	$ (39)
Cost of revenues	54	18.2	53	15.5	51	15.2	(1)	(3)
Operating expense	99	33.4	92	26.9	80	23.9	(7)	(19)
Allocations	60	20.3	56	16.4	50	14.9	(4)	(10)
Burdened operating income	$ 83	28.0%	$ 141	41.2%	$ 154	46.0%	$ (58)	$ (71)



Europe Finished Goods

Leading Products (units in thousands, revenues in millions)

FY93

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Word	883	$ 256	$ 290	753	$ 239	$ 317	130	$ 17	$ (27)
Win Excel	831	239	287	690	229	332	141	10	(45)
Windows 3.1	1,169	86	73	1,288	94	73	(119)	(8)	–
Win Excel Upg*	497	64	128	243	34	139	254	30	(11)
MS DOS Upg	1,213	62	51	391	23	60	822	39	(9)
Win Word Upg*	474	59	125	158	22	141	316	37	(16)
Mouse	916	59	64	1,196	89	74	(280)	(30)	(10)
PC Word	140	41	293	220	65	298	(80)	(24)	(5)
Win Access	223	35	158	40	20	499	183	15	(341)
Win Powerpoint	345	32	92	135	17	127	210	15	(35)
		$ 933			$ 832			$ 101	
Percentage of net revenues		74%			65%				

Note: Figures in this table include allocations from bundled products.
** Excludes Maintenance*

Net revenues were 2% under plan. This decrease was partially attributed to lower than planned performance for Mouse, PC Word and Fox Pro. The top 10 products had a negative price variance of $199 million, offset by higher unit volumes. The price decreases were the result of larger than planned mix of licensed units and bundles, as well as, a February price reduction in certain countries. Win Office accounted for 33% and 36% of Win Word and Win Excel licenses and their upgrades, respectively. Revenues for Win Word and Win Word Upgrade were a combined $54 million higher than plan. Win Excel and the Win Excel Upgrade increased a combined $40 million. Win Word and Win Excel represented 39% of net revenues. In addition, Win Word and Win Excel Upgrades were 10% of net revenues.

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Word	226	$ 57	$ 250	200	$ 63	$ 315	26	$ (6)	$ (65)
MS DOS Upg	1,067	55	51	190	12	61	877	43	(10)
Win Excel	213	52	246	180	59	327	33	(7)	(81)
Win Word Upg	121	13	109	41	6	142	80	7	(33)
Windows 3.1	183	13	70	339	25	74	(156)	(12)	(4)
Win Excel Upg	108	12	109	61	9	141	47	3	(32)
Mouse	190	10	53	318	24	75	(128)	(14)	(22)
Win Powerpoint	118	9	74	36	4	124	82	5	(50)
PC Word	29	8	259	64	19	300	(35)	(11)	(41)
Win Project	13	6	474	11	6	499	2	–	(25)
		$ 235			$ 227			$ 8	
Percentage of net revenues		79%			66%				

Note: Figures in this table include allocations from bundled products.
* Excludes Maintenance

MS DOS 6 Upgrade was $43 million higher than plan. This offset lower than plan results for the other top products compared to plan. Had it not been for the favorable results from MS DOS 6, revenues would have been 26% lower than plan. Win Office represented 49% of Win Word and Win Word upgrade licenses and 53% of Win Excel and Win Excel upgrade licenses. The lower than planned unit prices for Win Word, Win Excel and their upgrades were caused by significantly higher than expected Win Office sales as a percentage of total licenses sold for the products.

EUROPE FINISHED GOODS

Quarterly Growth

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Word	226	$ 57	$ 250	259	$ 69	$ 269	(33)	$ (12)	$ (19)
MS DOS Upg	1,083	55	51	150	8	54	933	47	(3)
Win Excel	213	52	246	251	64	256	(38)	(12)	(10)
Win Word Upg*	121	13	109	122	14	111	(1)	(1)	(2)
Windows 3.1	183	13	70	263	18	70	(80)	(5)	–
Win Excel Upg*	108	12	109	137	16	119	(29)	(4)	(10)
Mouse	190	10	53	178	11	60	12	(1)	(7)
Win Powerpoint	118	9	74	105	9	87	13	–	(13)
PC Word	29	8	259	34	8	238	(5)	–	21
Win Project	13	6	474	14	6	453	(1)	–	21
		$ 235			$ 223			$ 12	
Percentage of net revenues		79%			67%				

Note: Figures in this table include allocations from bundled products.
** Excludes Maintenance*

Net revenues decreased 12% from Q93-3. Revenues for most of the top products decreased, but were offset by strong MS DOS 6 Upgrade sales. The high mix of Win Office sales, the mix shift to licenses, and the third quarter price reduction reduced overage unit prices.

Bundled Products (units in thousands, revenues in millions)

FY93

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	479	$ 235	$ 491	122	$ 79	$ 647	357	$ 156	$ (156)
Win/Mouse	178	25	140	318	43	134	(140)	(18)	6
DOS/Win	127	16	124	154	20	130	(27)	(4)	(6)
Mac Office	26	12	465	13	8	581	13	4	(116)
		$ 288			$ 150			$ 138	
Percentage of net revenues		23%			12%				

Note: A unit is a bundle in this section's tables.

Win Office revenue was $156 million, or 197%, higher than plan. Win Office represented 33% of Win Word and Win Excel revenues with their upgrades. The Windows/Mouse bundle was 42% lower than plan.

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	171	$ 75	$ 435	32	$ 20	$ 623	139	$ 55	$ (188)
Win/Mouse	27	3	125	83	11	134	(56)	(8)	(9)
DOS/Win	28	3	122	40	5	130	(12)	(2)	(8)
Mac Office	11	5	424	3	2	574	8	3	(150)
		$ 86			$ 38			$ 48	
Percentage of net revenues		29%			11%				

Note: A unit is a bundle in this section's tables.

Win Office exceeded plan by 275%. Win Office represented 47% of Win Word and Win Word Upgrades revenues. It also represented 49% of Win Excel and Win Excel Upgrades sales. Win Office was particularly strong in the United Kingdom and Germany.

EUROPE FINISHED GOODS

Quarterly Growth

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	171	$ 75	$ 435	142	$ 72	$ 505	29	$ 3	$ (70)
Win/Mouse	27	3	125	33	4	134	(6)	(1)	(9)
DOS/Win	28	3	122	26	3	130	2	--	(8)
Mac Office	11	5	424	7	3	474	4	2	(50)
		$ 86			$ 82			$ 4	
Percentage of net revenues		29%			24%				

Note: A unit is a bundle in this section's tables.

Win Office was 4% higher than Q93-3 and $15 million higher than Q93-2. Win Office was 47% and 49% of Win Word and Win Excel revenues, respectively, compared to 38% for both in the prior quarter.

Business Unit Revenues (in millions)

FY93

	FY93	FY93 Plan	Variance
Consumer	$ 61	$ 75	(14)
Desktop Applications	821	729	92
DB & Dev Tools	85	89	(4)
MS-DOS	97	94	3
Hardware	65	98	(33)
Other Operating Systems	27	33	(6)
Windows	142	155	(13)
Workgroup	20	19	1
Adjustments	(59)	(13)	(46)
Net revenues	$ 1,259	$ 1,279	$ (20)

Net revenues were 2% under plan. The results were driven by lower than planned revenues for all business units except Desktop Applications, MS-DOS and Workgroup. The high mix of Win Office sales positively effected Desktop Applications and Workgroup. The successful launch of MS DOS 6 Upgrade positively effected the MS-DOS business unit. Price competition has adversely effected the Hardware business unit. Win Word and Win Word upgrades exceeded plan by $54 million while Win Excel and Win Excel upgrades exceeded plan by $40 million. Win Office accounted for $134 million of these improvements to plan.

The Consumer business unit was $14 million lower than plan due to lower than expected Mac Works, PC Works and Win Publisher revenues. Database and Development Tools business unit was $4 million lower than plan due to lower than planned Fox Pro revenues offset by strong Access sales.

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Consumer	$ 11	$ 20	$ 19	$ (9)	$ (8)
Desktop Applications	177	191	212	(14)	(35)
DB & Dev Tools	20	28	39	(8)	(19)
MS-DOS	56	25	14	31	42
Hardware	11	26	10	(15)	1
Other Operating Systems	6	9	7	(3)	(1)
Windows	23	42	32	(19)	(9)
Workgroup	6	5	6	1	–
Adjustments	(14)	(4)	(4)	(10)	(10)
Net revenues	$ 296	$ 342	$ 335	$ (46)	$ (39)

EUROPE FINISHED GOODS

Net revenues were 13% under plan for the quarter. Every significant business unit was under plan except MS-DOS. The success of MS-DOS 6 Upgrade during the quarter resulted in a $43 million positive offset to otherwise difficult performance to plan. Windows Desktop applications and updates had negative results compared with plan, even with the stronger than expected performance of Win Office. Database and Development Tools were 29% lower than plan due to lower Fox Pro and Access sales.

Quarterly Growth

Net revenues were 12% lower than the prior quarter. Desktop Applications were 16% lower even though Win Office and Mac Office sales were $3 million and $2 million higher, respectively. Database and development tools were 49% lower as Win Access sales decreased $21 million. Consumer revenues were 42% lower due primarily to decreased Works sales for all environments.

Applications Revenue by Report Level (in millions)

FY93

	FY93	FY93 Plan	Variance
Standard	$ 547	$ 626	$ (79)
Upgrades	174	96	78
Academic	47	87	(40)
License	207	98	109
Maintenance	2	2	–
Special Agreements	–	–	–
Other	10	2	8
Applications revenues	$ 987	$ 911	$ 76

Total Application products exceeded plan by 8%. Licenses represented 21% of total application revenues and exceeded plan by 111%. Application upgrades exceeded plan by 81% and represented 18% of total application revenues. Standard applications were 13% lower than plan.

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Standard	$ 113	$ 169	$ 150	$ (56)	$ (37)
Upgrades	37	25	43	12	(6)
Academic	10	23	12	(13)	(2)
License	48	27	60	21	(12)
Maintenance	1	–	–	1	1
Special Agreements	–	–	–	–	–
Other	4	–	11	4	(7)
Applications revenues	$ 213	$ 244	$ 276	$ (31)	$ (63)

Total Application products were 13% lower than plan. Licenses represented 22% of total application revenues compared to 11% planned. Licenses exceeded plan 78%. Application upgrades exceeded plan 48% and represented 17% of total application revenues. Standard Application products were 33% lower than plan.

Quarterly Growth

Total Application products were 23% lower than Q93-3. Licensed applications were 22% of total Applications revenues for both quarters. Standard applications were 25% lower than Q93-3. Upgrades were 14% lower than Q93-3.

BALANCE SHEETS AND CASH FLOWS

Fiscal Year Ended June 30, 1993 (in millions)

	Jun. 30, 1993		Jun. 30, 1992		Change	
Assets						
Current assets:						
Cash and short-term investments	$2,290	60%	$1,345	51%	$945	70%
Accounts receivable - net	338	9	270	10	68	25
Inventories	127	3	86	3	41	48
Other	95	2	69	3	26	38
Total current assets	2,850	75	1,770	67	1,080	61
Property, plant, and equipment - net	867	23	767	29	100	13
Other assets	88	2	103	4	(15)	(15)
Total assets	$3,805	100%	$2,640	100%	$1,165	44
Liabilities and Stockholders' Equity						
Current liabilities:						
Accounts payable	$ 239	7%	$ 196	4%	$43	22
Accrued compensation	86	2	62	2	24	39
Income taxes payable	127	3	73	3	54	74
Other	111	3	116	4	(5)	(4)
Total current liabilities	563	15	447	17	116	26
Stockholders' equity:						
Common stock and paid-in capital	1,086	29	657	25	429	65
Retained earnings	2,156	57	1,536	58	620	40
Total stockholders' equity	3,242	85	2,193	83	1,049	48
Total liabilities and stockholders' equity	$3,805	100%	$2,640	100%	$1,165	44

	Year Ended Jun. 30, 1993	Jun. 30, 1992
Cash flows from operations		
Net income	$953	$708
Depreciation and amortization	151	112
Current liabilities	177	167
Accounts receivable	(121)	(33)
Inventories	(51)	(40)
Other current assets	(35)	(18)
Net cash from operations	1,074	896
Cash flows from financing		
Common stock issued	229	135
Common stock repurchased	(250)	(135)
Stock option income tax benefits	207	130
Net cash used in financing	186	130
Cash flows used for investments		
Additions to property, plant, and equipment	(236)	(317)
Other	(17)	(40)
Net cash used for investments	(253)	(357)
Net change in cash and short-term investments	1,007	669
Effect of exchange rates	(62)	(10)
Cash and short-term investments, beginning of period	1,345	686
Cash and short-term investments, end of period	$2,290	$1,345

Balance Sheets and Cash Flows

Quarter Ended June 30, 1993 (in millions)

	Jun. 30, 1993		Mar. 31, 1993		Quarter Change	
Assets						
Current assets:						
Cash and short-term investments	$2,290	60%	$2,001	56%	$289	14%
Accounts receivable - net	338	9	439	12	(101)	(23)
Inventories	127	3	119	3	8	7
Other	95	2	87	2	8	9
Total current assets	2,850	75	2,646	74	204	8
Property, plant, and equipment - net	867	23	824	23	43	5
Other assets	88	2	90	3	(2)	(2)
Total assets	$3,805	100%	$3,560	100%	$245	7
Liabilities and Stockholders' Equity						
Current liabilities:						
Accounts payable	$ 239	7%	$ 261	-9%	$(22)	(8)
Accrued compensation	86	2	62	2	24	39
Income taxes payable	127	3	90	3	37	41
Other	111	3	136	4	(25)	(18)
Total current liabilities	563	15	549	15	14	3
Stockholders' equity:						
Common stock and paid-in capital	1,086	29	1,002	28	84	8
Retained earnings	2,156	57	2,009	56	147	7
Total stockholders' equity	3,242	85	3,011	85	231	8
Total liabilities and stockholders' equity	$3,805	100%	$3,560	100%	$245	7

	Q93-4	Q92-4
Cash flows from operations		
Net income	$265	$210
Depreciation and amortization	39	36
Current liabilities	26	106
Accounts receivable	91	(4)
Inventories	(10)	(25)
Other current assets	(10)	(2)
Net cash from operations	401	321
Cash flows from financing		
Common stock issued	44	13
Common stock repurchased	(105)	(63)
Stock option income tax benefits	41	21
Net cash used in financing	(20)	(29)
Cash flows used for investments		
Additions to property, plant, and equipment	(75)	(64)
Other	(5)	(31)
Net cash used for investments	(80)	(95)
Net change in cash and short-term investments	301	197
Effect of exchange rates	(12)	4
Cash and short-term investments, beginning of period	2,001	1,144
Cash and short-term investments, end of period	$2,290	$1,345

BALANCE SHEETS AND CASH FLOWS

Measures of Financial Strength (in millions)

	Jun. 30, 1993	Mar. 31, 1993
Cash and short-term investments	$2,290	$2,001
Total assets	3,805	3,560
Stockholders' equity	3,242	3,011

Rate of Return Indicators (annualized)

Net Income Return On	Q93-4	Q93-3
Equity (average)	33.9%	33.7%
Assets (average)	28.8	28.6
Net revenues	25.4	25.4

Cash, equivalents, and short-term investments reached $2.3 billion at June 30, 1993. One year ago, cash balances were $1.3 billion.

Equity represents 85% of Microsoft assets.

Stock Repurchases

To provide shares for, and reduce the dilutive effect of the stock option plan, the Company purchases its own stock in the open market. Purchases are made during a window that begins several days after we have released earnings and extends through the end of the second month in each quarter. Purchases are made through Goldman Sachs at our direction. During 1993, we repurchased 3.1 million shares at an average price of $79.92 for a total of $250 million. The stock buyback program was suspended during Q93-2, due to potentially sensitive, unpublished information regarding the status of the FTC investigation during the repurchase window. A table of stock repurchases follows.

	Shares adjusted for all splits	Amount (millions)	Trailing 12 Month Avg Cost	Life to Date
Q90-3	756,000	$16		
Q90-4	1,029,375	30		
FY90	1,785,375	$46	$26.14	
Q91-1	1,629,000	$45		
Q91-2	1,338,750	40		
Q91-3	974,250	43		
Q91-4	1,527,750	69		
FY91	5,469,750	$197	35.96	
Q92-1	281,250	$15		
Q92-2	622,500	37		
Q92-3	249,750	20		
Q92-4	826,328	63		
FY92	1,979,828	$135	68.18	
Q93-1	1,113,500	$80		
Q93-2	--	--		
Q93-3	800,000	65		
Q93-4	1,215,000	105		
FY93	3,128,500	$250	79.92	
LTD	12,363,453	$628		$50.83

CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments increased $289 million during Q93-4 and $945 million during FY93 to $2.3 billion at year-end, reflecting a year over year increase of 70%. These liquid assets comprised 80% of current assets, 60% of total assets, and 71% of stockholders' equity.

Our global currency strategy focused on accumulating various currencies to carry out our global business plans. Foreign currency cash and investments were 6% of total cash at June 30, 1993, compared with 15% at the end of the prior year.

Cash and Investment Portfolio Balances (in millions)

	Jul. 31, 1993		Jul. 31, 1992	
MS portfolio				
US$ investments	$1,961	86%	$1,015	75%
Subsidiary Microbank investments	111	5	124	9
MS Puerto Rico investments	104	5	67	5
Operating bank accounts	92	4	56	4
Foreign currency investments	22	1	83	6
Worldwide cash and investments	$2,290	100%	$1,345	100%

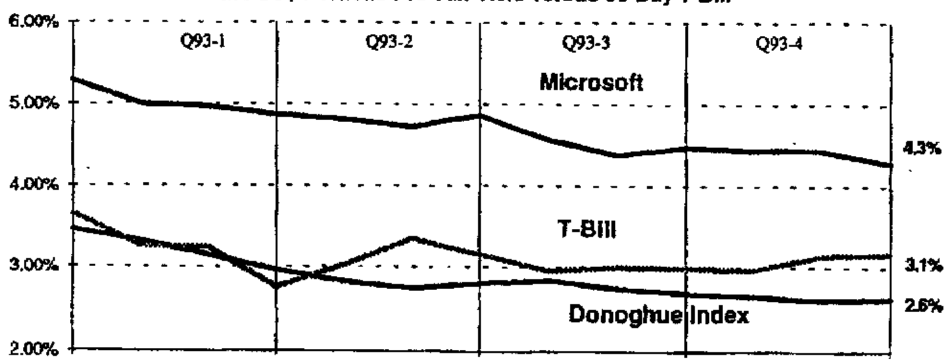
US$ Portfolio Characteristics

Short-term market interest rates were relatively stable during Q93-4. The benchmark 90-day T-Bill remained within a 35 basis point range during the entire quarter. The Microsoft portfolio yield declined slightly due to the maturity of higher yielding securities purchased in prior periods. The Microsoft portfolio ended Q93-4 with a positive spread of 120 basis points over the 90-day T-Bill.

The trendless pattern of short-term market interest rates during the past several quarters is a product of the steady monetary policy pursued by the Federal Reserve Bank. Short-term rates are forecasted to increase during FY94 as a result of expectations of a pick-up in economic activity and a tighter FED monetary policy.

The following table compares the Microsoft portfolio pre-tax yield with that of the benchmark 90-day T-Bill over the trailing twelve months. Also presented for comparison is the IBC Donoghue's Money Fund Index, which tracks the performance of 588 money market funds that invest in high credit-quality, short-term fixed income securities, representing approximately $500.0 billion in assets. If the MS portfolio was ranked among the Donoghue's universe, it would place among the top 20 Taxable Money Market Mutual Funds in the country.

MS US$ Portfolio Pre-Tax Yield versus 90-Day T-Bill



At June 30, 1993, the portfolio was in compliance with all investment guidelines. We continued to emphasize diversification among security types, industry groups, and individual issuers. At June 30, 1993, the U.S. dollar portfolio contained 325 positions, with an average holding of $7 million. The average maturity of these marketable instruments at year end 1993 was 264 days compared with 213 days at year end 1992.

CASH AND SHORT-TERM INVESTMENTS

US$ Portfolio by Security Type (in millions)

The portfolio continued to include both taxable and tax-advantaged securities, and was diversified across a broad group of money market and short-term fixed income security types. The portfolio mix was relatively stable on a quarter-to-quarter basis. The following tables summarize certain portfolio characteristics ("yield" represents the weighted average yield to maturity on a *pre-tax* basis).

	Jun. 30, 1993			Jun. 30, 1992		
Security Type	Cost	Percent	Yield	Cost	Percent	Yield
Municipal Bonds	$ 788	40%	5.3%	$ 291	29%	6.8%
Treasury Securities	343	17	3.5	100	10	4.6
Commercial Paper	246	13	3.1	258	25	4.0
Money Market Preferred	152	8	3.7	123	12	4.6
Corporate Bonds	146	7	5.1	112	11	6.3
Loan Participations	143	7	3.2	75	7	4.0
Floating Rate Notes	79	4	3.6	13	1	4.6
Certificate and Time Deposits	40	2	3.1	-	-	-
U.K. Preferred Stock	12	1	4.0	26	3	4.2
Fixed Rate Auction Preferred	12	1	8.9	17	2	8.3
	$ 1,961	100%	4.3	$ 1,015	100%	4.8

US$ Portfolio by Investment Type (in millions)

The portfolio was also diversified across various tax categories to achieve an enhanced total yield. Approximately 50% of the investments were taxable, 40% were tax-exempt, and 10% were tax-advantaged. During Q93-4, the various tax categories earned pre-tax equivalent yields as follows:

Tax exempt municipals	5.3%
Tax advantaged preferred stock securities	4.1
Taxable securities	3.6

US$ Portfolio by Credit Rating (in millions)

The credit quality of the MS portfolio increased during the year with 91% of the investments rated A or better, versus 86% at June 30, 1992.

	Jul. 31, 1993		Jul. 31, 1992	
Credit Rating	Amount	Percent	Amount	Percent
AAA	$ 526	27%	$ 261	26%
AA	777	40	238	23
A	476	24	373	37
BBB	145	7	140	14
MS Rated	37	2	3	0
	$ 1,961	100%	$ 1,015	100%

Credit Rating Definitions

Investment Grade

AAA	Capacity to pay interest and principal extremely strong.
AA	Capacity to pay interest and principal very strong.
A	Capacity to pay interest and principal strong.
BBB	Capacity to pay interest and principal adequate.
MS Rated	This category consists of securities which may not carry a published rating but for which MS Treasury has conducted credit research and assigned an implied investment grade rating. An example is City of Redmond LID bond anticipation notes.

CASH AND SHORT-TERM INVESTMENTS

US$ Portfolio by Industry (in millions)

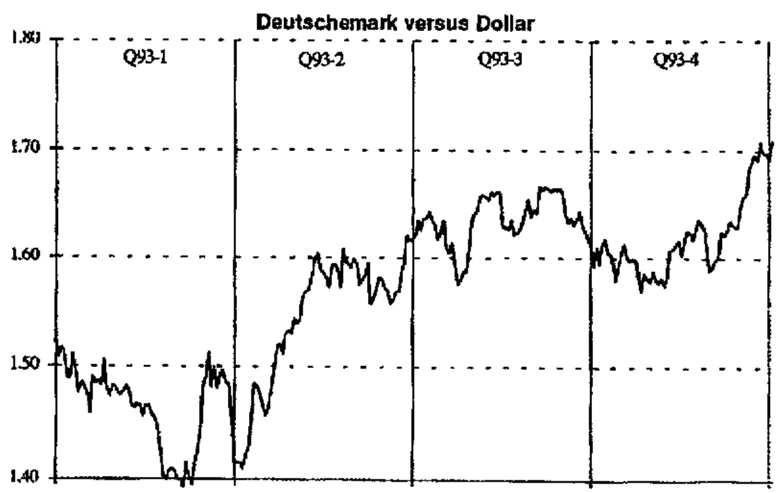
Given the improved financial performance of the banking industry, we expanded our investment in this sector. We reduced our investment in the utilities, tobacco and airline industries in light of increasing credit concerns in those sectors. We increased our investment in US Treasury securities as a narrowing of credit spreads during FY93 elevated the attractiveness of this security type.

	Jun. 30, 1993		Jun. 30, 1992	
Industry	Amount	Percent	Amount	Percent
Municipalities	$ 788	40%	$ 291	29%
US Treasury	345	18	106	10
Banking/Finance	187	10	43	4
Industrial	88	4	143	14
Other	83	4	3	0
Food/Beverage	82	4	74	7
Utilities	73	4	84	8
Medical	61	3	60	6
Securities	60	3	26	3
Natural Resources	58	3	88	9
Automotive	58	3	22	2
Services	44	2	39	4
Retailing	20	1	6	1
Insurance	12	1	3	0
Transportation	2	0	22	2
Chemical	0	–	5	0
	$ 1,961	100%	$ 1,015	100%

Microsoft Puerto Rico Investments

Microsoft Puerto Rico had an investment balance of $104 million at the end of Q93-4. This portfolio was invested in local tax-exempt securities. The funds from the profits of the Puerto Rican manufacturing operation were invested in certificates of deposit and earned a pre-tax yield of 3.7%.

Foreign Currency



Foreign Exchange Management

European currencies broke out of a narrow range during Q93-4, as the dollar strengthened 4% on average to 1.70 deutschemarks. The burst in June was due to the belief that Germany would lower interest rates before the Bundesbank's summer recess in late July. Spain and Portugal both devalued their currencies again during Q93-4 as interest rate cuts were needed in order to revive their flagging domestic economies.

FY93 proved to be a very turbulent year for European currencies and the European Rate Mechanism (ERM). The failure to raise interest rates to defend weak currencies made the ERM an inherently unstable system, prone to self-fulfilling speculative attacks. FY93 devaluations of most European currencies against the deutschemark caused the dollar to post significant gains against Sweden (41%); Finland (39%); Spain (36%); Italy (35%); Portugal (28%); U.K. (22%); Norway (21%); and Ireland (19%). The deutschemark block composed of Germany, Austria, France, Belgium and Denmark devalued (12%) against the dollar.

Many analysts believe the recession will deepen in Europe. With little chance of early economic recovery, interest rates in Europe could further drop with movement towards an average of 5%. The candidates for the biggest rate reductions (and likewise the highest devaluation against the dollar) are Spain, Italy and Denmark. Narrowing interest rate differentials between the dollar and European currencies could cause the U.S. dollar to become undervalued in comparison, thereby allowing the dollar to rise further during the first half of FY94. At the end of FY94, the dollar is forecast to strengthen to a level between 1.80-1.85 deutschemarks.

In Q93-4, the dollar continued its weakening trend against the Japanese yen (7%), ending FY93 at a post-WWII low of 106 yen per dollar. The Japanese currency strengthened a full 15% against the dollar during FY93, primarily as a result of the Clinton Administration's threat of protectionism to persuade the Japanese of the necessity of a stronger yen to reduce the Japanese trade surplus. The likelihood of a rising surplus and further fiscal measures to expand the Japanese economy will likely provide good support for the yen, which may reach 100 yen per dollar in FY94. Australian and Canadian currencies followed the recessional trend of Europe and weakened 11% and 7% respectively against the dollar during FY93.

Foreign currency gains of $9 million were recorded during FY93.

International Cash Management

In conjunction with year-end tax planning, the largest European subsidiaries remitted payments to MS Corporate totaling $44 million while certain intercompany payments were advanced or postponed. All cash transfers were executed by Redmond Treasury through the "Microbank" by year-end FY93. In Q93-4 most subsidiaries with deposit accounts at Citibank London implemented Citibanking II, an on-line system allowing electronic access to bank balances and investment activity.

Foreign Currency Investment Management

During Q93-4, the foreign currency investment portfolios were actively managed by the Redmond Treasury group for eight of the European subsidiaries plus Australia, Corporate, and MBV. At quarter-end, these portfolios totaled an equivalent of $133 million. Foreign currencies in the portfolios included primarily French francs, German deutschemarks, U.K. sterling, and Swedish krone. Foreign exchange contracts and options totaling $31 million were outstanding at the end of Q93-4. The foreign currency portfolios continued to be invested in short-term money market securities, with the yield decreasing to approximately 7% as a result of falling European interest rates.

Accounts Receivable

Consolidated Amounts (in millions)

	Net Receivables	DSO	Allowance Dollars	Allowance % of AR
Q93-4	338	46	76	21
Q93-3	438	54	68	16
Q93-2	339	46	62	18
Q93-1	326	50	62	19
Q92-4	270	42	57	21

Worldwide Accounts Receivable (in millions)

	DSO		Total		Aging Summary			
	Q93-3	Q93-4	Q93-3	Q93-4	Current	1-30	31-60	Over 60
Retail								
US FG	64	45	$203	$192	$148	$39	$1	$4
International	52	48	277	255	200	38	7	10
			480	447	348	77	8	14
OEM	44	39	94	94	67	(1)	6	22
Other	72	60	13	16	10	3	1	2
Total accts receivable	54	46	$587	$557	$425	$79	$15	$38
Aging percentages					76%	14%	3%	7%
OEM GAAP adjustments				72				
Sales returns reserve				(135)				
Customer deposits/deferred rev.				(36)				
Reseller rebates				(44)				
Allowance for doubtful accounts				(76)				
Accounts receivable-net				$338				

US FG receivables decreased 5% quarter to quarter due to increased collections from major retail distributors and resellers, particularly Ingram and Merisel. US FG sales increased 36% quarter to quarter, from $286 million to $387 million, due to significantly high sales of DOS 6.0.

International retail receivables decreased 8% or $22 million quarter to quarter, and balances greater than 60 days decreased 9%. The largest overdue balances by country were Italy ($2 million), Germany ($2 million), Spain ($1 million), France ($1 million) and United Kingdom ($1 million).

OEM sales increased 11% sequentially from $192 million to $213 million, while OEM receivables remained constant at $94 million due to increased collection efforts.

ACCOUNTS RECEIVABLE

Ten Largest Worldwide Accounts Receivable (in millions)

		Aging Summary			
	Total	Current	1-30	31-60	Over 60
Ingram	$65	$48	$17	$0	$1
Merisel	45	29	16	(1)	1
Egghead	28	25	3	0	0
Computer 2000	22	21	1	0	0
CompUSA	14	9	5	0	0
Software Spectrum	13	13	0	0	0
Olivetti	11	9	2	0	0
Corporate Software	11	11	0	0	0
Softbank	8	8	0	0	0
1st Pacific Company, Lt	6	4	2	0	0
Total ten largest	223	177	46	(1)	2
Other	334	248	33	16	36
Total	$557	$425	$79	$15	$38
Ten largest percentage	100%	76%	14%	3%	7%

The ten largest worldwide accounts receivable represent 40% of the $557 million accounts receivable for Q93-4, a 5% decrease from Q93-3.

The 1 to 30 days category decreased 44% to $46 million in Q93-4 from $82 million in Q93-3, reflecting large quarter-end payments from Ingram and Merisel. The 31 to 60 days category remained virtually unchanged quarter to quarter. The over 60 days category decreased $3 million or 60% sequentially, again due to managing our top customers to resolve past due issues.

INVENTORIES

Days Sales (in millions)

	Q93-4	Q93-3	Q93-2	Q93-1	Q92-4
Inventories	$127	$119	$102	$88	$86
Days sales	86	97	73	79	61

Inventories increased $8 million from Q93-3 to Q93-4. Consolidated days inventory on hand (calculated using current quarter product costs divided by 90 days, and net inventory) decreased 11% to 86 days.

Raw Materials, Finished Goods and Allowances (in millions)

	Q93-4	Q93-3	Change
Domestic Inventories			
Raw materials	$51	$52	($1)
Finished goods	41	36	5
Allowances	(25)	(19)	(6)
	67	69	(2)
IFF Inventories			
Raw materials	10	10	0
Finished goods	7	7	0
Allowances	(1)	(2)	1
	16	15	1
Subsidiary and Ireland Inventories			
Raw materials	11	10	1
Finished goods	41	45	(4)
Allowances	(8)	(20)	12
	44	35	9
	$127	$119	$8
Consolidated Inventories			
Raw materials	72	72	0
Finished goods	89	88	1
Allowances	(34)	(41)	7
	$127	$119	$8

Domestic finished goods inventories increased for several reasons. Inventory levels were built up in anticipation of the new release of Access 1.1. Office Pro shipments were lower than expected due to remaining channel inventory of the $99 Access version 1.0. Windows for Workgroups finished goods inventory increased approximately $1 million from last quarter as MS accepted returns of excess channel inventories. Adequate provision has been recorded to account for WFW product returns and obsolete stock.

Inventories by Location (in millions)

	Q93-4	Q93-3	Change
Location			
Subsidiary warehouses	$32	$28	$4
Campus North	82	74	8
Ireland	11	15	(4)
Puerto Rico	2	2	–
	$127	$119	$8
Subsidiary			
France	$3	$4	(1)
Germany	7	6	1
Australia	4	2	2
Sweden	1	2	(1)
England	3	4	(1)
Others	14	10	4
	$32	$28	$4

EUROPE FINISHED GOODS

Net Revenues (in millions)

FY93

	FY93		FY93 Plan		Net Variance	Operations Variance	Exchange Rate Variance
Germany	$ 376	30	$ 369	29	$ 7	$ (27)	$ 34
France	303	24	326	25	(23)	(48)	25
England	218	17	229	18	(11)	4	(15)
Nordic Region	132	10	133	10	(1)	8	(9)
Benelux	72	6	68	5	4	(4)	8
Switzerland	65	5	48	4	17	12	5
Italy	71	6	49	4	22	30	(8)
Austria	29	2	25	2	4	1	3
Spain	33	3	32	3	1	1	–
Redmond	(40)	(4)	–	–	(40)	–	(40)
	$ 1,259	100%	$ 1,279	100%	$ (20)	$ (23)	$ 3

FY93 net revenues were $20 million lower than plan. These results principally relate to shortfalls in volume. France and Germany were 15% and 7% under volume plan, respectively. Italy and Switzerland partially offset this by exceeding volume plan 61% and 25%, respectively. Much of Italy's growth to plan came late in the year when the government passed strong anti-piracy laws.

Q93-4

	Q93-4		Q93-4 Plan		Net Variance	Operations Variance	Exchange Rate Variance
Germany	$ 84	28%	$ 102	30%	$ (18)	$ (23)	$ 5
France	62	21	89	26	(27)	(30)	3
England	47	16	60	18	(13)	(8)	(5)
Nordic Region	28	9	29	8	(1)	5	(6)
Benelux	20	7	19	6	1	(1)	2
Switzerland	14	5	12	4	2	2	–
Italy	34	11	13	4	21	26	(5)
Austria	8	3	7	2	1	1	–
Spain	8	3	11	3	(3)	(2)	(1)
Redmond	(9)	(3)	–	–	(9)	–	(9)
	$ 296	100%	$ 342	100%	$ (46)	$ (30)	$ (16)

Net revenues for the quarter were 13% lower than plan. This resulted from a volume shortfall of 9% and 5% from unfavorable foreign exchange rate trends. Both France and Germany had significant volume shortfalls to plan (34% and 23%, respectively). The UK also did not achieve planned revenues. Italy was 200% over volume plan due in large part to anti-piracy laws enacted in the Country.

EUROPE FINISHED GOODS

Quarterly Growth

	Q93-4		Q93-3		Net Change	Operations Change	Exchange Rate Change
Germany	$ 84	28%	$ 97	33%	$ (13)	$ (12)	$ (1)
France	62	21	73	22	(11)	(10)	(1)
England	47	16	67	20	(20)	(22)	2
Nordic Region	28	9	34	10	(6)	(6)	–
Benelux	20	7	20	5	–	–	–
Switzerland	14	5	15	4	(1)	(1)	–
Italy	34	11	12	4	22	21	1
Austria	8	3	7	2	1	2	(1)
Spain	8	3	10	3	(2)	(1)	(1)
Redmond	(9)	(3)	–	–	(9)	–	(9)
	$ 296	100%	$ 335	100%	$ (39)	$ (29)	$ (10)

Third quarter revenues were 12% lower than Q93-3 and 15% lower than Q93-2. Volume decreased 9% from the prior quarter.

Cost of Revenues

	Q93-4			Q93-4 Plan		
	Sales Mix	Cost	Weighted Cost	Sales Mix	Cost	Weighted Cost
Consumer	3.6%	13.8%	0.5%	5.8%	15.1%	0.9%
Desktop Applications	56.9	8.8	5.0	55.4	7.7	4.2%
DB & Dev Tools	6.5	18.4	1.2	8.0	9.7	0.8%
MS-DOS	18.1	15.7	2.8	7.1	18.4	1.3
Hardware	3.7	38.2	1.4	7.5	39.4	3.0
Other Operating Systems	1.8	7.6	0.1	2.6	12.2	0.3
Windows	7.3	16.6	1.2	12.1	13.7	1.7
Workgroup	1.8	8.3	0.1	1.4	4.3	0.1
Other	0.3	18.1	0.1	0.1	–	–
Product cost - gross	100.0%		12.4%	100.0%		12.3%
Effect of adjustments			x1.06			x1.00
Product cost - net			13.1%			12.3%

Product costs were 13.1% compared to budget of 12.3%. Lower than planned margins for Database and Development Tools and Desktop Applications, and the significant mix impact of MS-DOS 6 Upgrade were offset by lower than planned mix of hardware. The foreign exchange adjustment and higher than planned rebates caused the lower than planned product margins.

Operating Expenses (in millions)

FY93

	FY93	FY93 Plan	Net Variance	Operations Variance	Exchange Rate Variance
Germany	$ 99	$ 90	$ (9)	$ --	$ (9)
France	76	80	4	10	(6)
England	65	68	3	(2)	5
Nordic Region	37	39	2	(1)	3
Benelux	24	21	(3)	--	(3)
Spain	10	11	1	1	–
Italy	16	16	--	(1)	1
Switzerland	15	14	(1)	--	(1)
Austria	9	8	(1)	--	(1)
Redmond	8	12	4	4	--
	$ 359	$ 359	$ --	$ 11	$ (11)

Europe Finished Goods

	FY93	FY93 Plan	Variance
Marketing	$ 112	108	(4)
Payroll and payroll taxes	91	91	–
Product support services	43	62	19
Bldg and grounds dist	17	19	2
Depreciation	16	11	(5)
Other	80	68	(12)
	$ 359	$ 359	$ –

FY93 operating expenses were equal to plan. Marketing and depreciation were higher than plan for the year. All subsidiaries except France and Italy exceeded marketing plan for the year. Most spending overages were approved during the year. Marketing expenses were 39% higher than in FY92, while payroll, payroll taxes and fringe benefits were 50% higher. Germany had a 52% increase in non-marketing expenses compared to revenue growth of 25%. France had a 34% increase in non-marketing expenses from the prior year compared to a 14% revenue increase. The UK's marketing expenses increased 96% from the prior year.

Q93-4

	Q93-4	Q93-4 Plan	Net Variance	Operations Variance	Exchange Rate Variance
Germany	$ 27	$ 23	$ (4)	$ (2)	$ (2)
France	20	21	1	2	(1)
England	19	17	(2)	(4)	2
Nordic Region	11	10	(1)	(3)	2
Benelux	6	6	–	–	–
Spain	3	2	(1)	(1)	–
Italy	5	4	(1)	(1)	–
Switzerland	5	3	(2)	(2)	–
Austria	4	3	(1)	(1)	–
Redmond	(1)	3	4	4	–
	$ 99	$ 92	$ (7)	$ (8)	$ 1

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 35	$ 26	$ (9)
Payroll & payroll taxes	24	24	–
Product support services	12	16	4
Depreciation & amortization	5	3	(2)
Travel and entertainment	4	4	–
Other	19	19	–
	$ 99	$ 92	$ (7)

Operating expenses were 8% over plan for Q93-4. Only France was below plan in operating expenses for the quarter. Marketing expenses were 35% higher than plan for the quarter. Depreciation slightly exceeded plan. Germany's non-marketing expenses were 43% higher than Q92-4 on similar revenue levels. France and the Nordic Region's non-marketing expenses were 29% and 23% higher than Q92-4, respectively. Both had lower revenue than in last year's fourth quarter.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Channels
June 30, 1993	2,389	2,408	19	116	18%	32%
March 31, 1993	2,273	2,350	77	216	18	32
December 31, 1992	2,057	2,243	186	221	18	32
September 30, 1992	1,836	2,068	232	201	17	30
June 30, 1992	1,635	1,701	66	147	16	28

EUROPE FINISHED GOODS

Net revenues per headcount were $124,000 in Q93-4 versus $147,000 in Q93-3. Net revenues per headcount were $174,000 in Q92-4.

Allocations

FY93

The favorable allocation variance resulted primarily from lower than planned allocations for research and development.

Q93-4

Allocation were 7% over plan primarily from higher than expected allocations for research and development. Most other allocated expenses were also higher than plan.

Burdened Operating Income

FY93

The FY93 burdened operating income of $485 million was 2% lower than plan. Net revenues were $20 million lower than plan, while gross margin was less than plan. Operating expenses were 28.5% of net revenues compared to planned 28.1%. Allocations were 7% lower than plan.

Q93-4

Burdened operating income was 41% lower than plan. Volumes were generally lower than plan. Cost of revenues, at 18.2% of revenues, were significantly higher than the planned 15.5%, while operating expenses were 6.5% of net revenues higher than plan. Allocations were 7% higher than plan.

Quarterly Growth

The Q93-4 burdened operating income of $83 million was 41% lower than the $141 million for Q93-3. Net revenues were $39 million lower than Q93-3. Gross margin was 3% of revenues lower than the previous quarter. Operating expenses were 24% higher than the prior quarter due primarily to higher marketing expenses. Allocations were $10 million higher in Q93-4.

ICON Finished Goods

FY93

Net revenues were 7% higher than plan, and burdened operating income was 27% higher than plan. The release of MS-DOS 6 accounted for the majority of the positive revenue variance. The negative expense variance was due to additional headcount and marketing expenses approved at mid-year reviews.

Q93-4

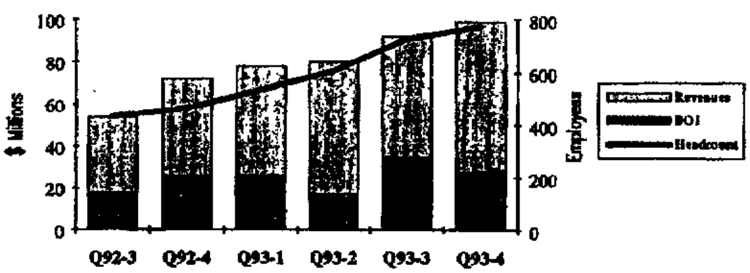
Net revenues were essentially on plan for Q93-4 as result of continuing strength in Latin America and AIME; offset by APAC which was under plan for the quarter, due to a weak June in Canada and negative exchange rates in Canada and Australia. Burdened operating income was below plan due to higher than planned expenses resulting from approvals at the mid-year review and additional accruals for bad debt and President's awards.

Net revenues were 7% higher than the prior quarter, primarily due to the release of MS-DOS 6. Burdened operating income was lower than that of the prior quarter as expenses grew 31% compared to 7% revenue growth.

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 350	100.0%	$ 328	100.0%	$ 22
Cost of revenues	80	22.8	79	23.9	(1)
Operating expense	110	31.4	103	31.4	(7)
Allocations	56	16.1	64	19.5	8
Burdened operating income	$ 104	29.7%	$ 82	25.2%	$ 22

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 99	100.0%	$ 98	100.0%	$ 92	100.0%	$ 1	$ 7
Cost of revenues	22	22.8	23	23.4	17	18.3	1	(5)
Operating expense	34	34.2	27	28.1	26	28.1	(7)	(8)
Allocations	15	14.8	16	16.2	14	15.7	1	(1)
Burdened operating income	$ 28	28.2%	$ 32	32.3%	$ 35	37.9%	$ (4)	$ (7)



ICON FINISHED GOODS

Leading Products (units in thousands, revenues in millions)

FY93

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Excel	287	$ 44	$ 153	238	$ 42	$ 177	49	$ 2	$ (24)
Win Word	294	43	145	234	46	195	60	(3)	(50)
MS-DOS Upgrade	1,066	40	38	298	15	49	768	25	(11)
Windows 3.1	562	31	54	252	21	82	310	10	(28)
Mouse	303	18	60	353	28	80	(50)	(10)	(20)
MS-DOS	270	13	48	144	11	78	126	2	(30)
Win Excel Upgrade	186	13	69	82	9	104	104	4	(35)
Windows 3.1 Upgrade	313	12	40	201	9	43	112	3	(3)
Win Access	153	12	78	10	3	274	143	9	(196)
Win Word Upgrade	168	12	70	68	7	104	100	5	(34)
		$ 238			$ 191			$ 47	
Percentage of net revenues		68%			58%				

Note: Figures in this table include allocations from bundled products.

Revenues for the top ten products were 25% higher than plan. The success of the MS-DOS 6 Upgrade and the introduction of Win Access were the primary causes of the positive variance. All of the top 10 products (except Mice) had positive volume variances and negative price variances. Price variances resulted from introductory pricing of Win Access and MS-DOS 6 Upgrade and higher than planned mix of licensed units, mostly in the APAC region and negative exchange rate trends in Australia and Canada. In addition, a shift in the planned mix from Win Excel and Win Word were standard product to an allocation from Win Office reduced $/unit below plan. Mouse was lower than plan in part due to increased price pressure in the channel.

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
MS-Dos Upgrade	590	$ 23	$ 38	86	$ 4	$ 49	504	$ 19	$ (11)
Win Word	95	12	128	68	13	195	27	(1)	(67)
Win Excel	91	12	133	69	12	178	22	--	(45)
Windows 3.1	171	9	52	71	6	81	100	3	(29)
Mouse	87	4	50	102	8	80	(15)	(4)	(30)
Win Excel Upgrade	41	3	81	24	3	104	17	—	(23)
Win Word Upgrade	48	3	66	20	2	104	28	1	(38)
Win Project	11	2	230	6	2	379	5	—	(149)
Win Powerpoint	49	2	47	31	2	69	18	--	(22)
Mac Word	32	2	65	19	3	179	13	(1)	(114)
		$ 72			$ 55			$ 17	
Percentage of net revenues		73%			56%				

Note: Figures in this table include allocations from bundled products.

Revenues for the top ten products were 31% higher than plan. All of the top 10 products (except Mice) had positive volume variances and negative price variances. The success of MS-DOS 6 Upgrade was the primary cause overall of the positive variance. Much of the negative price variance resulted from introductory pricing for Win Access and MS-DOS upgrade, higher than planned mix of licensed units, and negative exchange rate trends compared to plan. In addition, a shift in the planned mix from Win Excel and Win Word standard product to an allocation from Win Office reduced $/unit below plan. Mouse was lower than plan in part due to increased price pressure in the channel.

ICON Finished Goods

Quarterly Growth

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
MS-Dos Upgrade	590	$ 23	$ 38	345	$ 12	$ 36	245	$ 11	$ 2
Win Word	95	12	128	70	10	146	25	2	(18)
Win Excel	91	12	133	71	11	154	20	1	(21)
Windows 3.1	171	9	52	150	8	55	21	1	(3)
Mouse	87	4	50	66	4	55	21	–	(5)
Win Excel Upgrade	41	3	81	32	3	84	9	–	(3)
Win Word Upgrade	48	3	66	28	2	87	20	1	(21)
Win Project	11	2	230	6	2	328	5	–	(98)
Win Powerpoint	49	2	47	68	2	51	(19)	–	(4)
Mac Word	32	2	65	22	2	93	10	–	(28)
		$ 72			$ 56			$ 16	
Percentage of net revenues		73%			60%				

Note: Figures in this table include allocations from bundled products.

Net revenues increased 29% over the prior quarter. MS-DOS 6 Upgrade accounted for the majority of this increase. Pricing pressures, the shift away from packaged product to licensing and the increasing use of the Office and Office Upgrade as delivery vehicles led to this continuing decrease in revenue per unit.

Bundled Products (units in thousands, revenues in millions)

FY93

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	139	$ 48	$ 345	93	$ 35	$ 380	46	$ 13	$ (35)
Win Office Upgrade	65	13	199	8	2	317	57	11	(118)
Win/Mouse	84	9	110	131	17	128	(47)	(8)	(18)
Mac Office	16	6	371	13	5	364	3	1	7
		$ 76			$ 59			$ 17	
Percentage of net revenues		22%			18%				

Note: A unit is a bundle in this section's tables.

Win Office and Mac Office exceeded plan 36% and 25%, respectively. Win Office was particularly strong in Canada, Mexico and Australia. The negative price variances were due largely to workstation license agreements and exchange rates. The Win Office Upgrade continued to have an increased share of total Office revenues.

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	43	$ 15	$ 340	27	$ 10	$ 382	16	$ 5	$ (42)
Win Office Upgrade	31	7	214	2	1	317	29	6	(103)
Win/Mouse	16	2	109	38	5	128	(22)	(3)	(19)
Mac Office	3	1	410	4	1	367	(1)	–	43
		$ 25			$ 17			$ 8	
Percentage of net revenues		25%			17%				

Note: A unit is a bundle in this section's tables.

Win Office exceeded plan 23%, as sales were strong in Australia and Mexico and the Win Office Upgrade exceeded plan 441%.

ICON Finished Goods

Quarterly Growth

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	43	$ 15	$ 340	35	$ 12	$ 339	8	$ 3	$ 1
Win Office Upgrade	31	7	214	15	3	215	16	4	(1)
Win/Mouse	16	2	109	15	2	104	1	–	5
Mac Office	3	1	410	4	1	321	(1)	–	89
		$ 25			$ 18			$ 7	
Percentage of net revenues		25%			20%				

Note: A unit is a bundle in this section's tables.

Bundle revenues increased $7 million over the prior quarter, primarily due to the success of the Win Office Upgrade. The Mac Office unit price change was the result of special pricing associated with shipments to Northern Telecom in Q3.

Business Unit Revenues (in millions)

FY93

	FY93	FY93 Plan	Variance
Consumer	$ 18	$ 24	$ (6)
Desktop applications	164	157	7
Database and dev. tools	30	18	12
MS-DOS	54	29	25
Hardware	25	35	(10)
Other operating systems	7	14	(7)
Windows	52	49	3
Workgroup	9	8	1
Adjustments	(9)	(6)	(3)
Net revenues	$ 350	$ 328	$ 22

Net revenues were 7% higher than plan. The majority of the positive variance was in Database and Development Tools (Access) and MS-DOS (MS-DOS 6), offsetting negative variances occurred in Hardware and Other operating systems.

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Consumer	$ 4	$ 7	$ 4	$ (3)	$ –
Desktop applications	46	46	39	–	7
Database and dev. tools	7	5	14	2	(7)
MS-DOS	24	9	16	15	8
Hardware	5	10	5	(5)	–
Other operating systems	1	4	2	(3)	(1)
Windows	13	17	13	(4)	–
Workgroup	3	2	2	1	1
Adjustments	(4)	(2)	(3)	(2)	(1)
Net revenues	$ 99	$ 98	$ 92	$ 1	$ 7

Net revenues exceeded plan $1 million. Negative variances in almost all business units were offset by the $15 million positive variance in MS-DOS due to the MS-DOS 6 introduction.

ICON Finished Goods

Quarterly Growth

Net revenues increased $7 million over the prior quarter, primarily due to the MS-DOS 6 introduction. Desktop applications also had positive growth. Database and development tools were down $7 million due to the channel fill in the prior quarter from the $99 introductory price.

Applications Revenue by Report Level (in millions)

FY93

	FY93	FY93 Plan	Variance
Standard	$ 120	$ 132	$ (12)
Upgrades	40	34	6
Academic	9	8	1
License	47	33	14
Other	5	–	5
Applications revenues	$ 221	$ 207	$ 14

Total Application product revenues exceeded plan 7%. License revenues exceeded plan by $14 million and represented 21% of total Application revenue. Australia and Canada had strong license activity. Application upgrades exceeded plan by $6 million while the mix of standard product was $12 million lower than plan.

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Standard	$ 28	$ 39	$ 37	$ (11)	$ (9)
Upgrades	12	10	10	2	2
Academic	3	2	2	1	1
License	13	9	9	4	4
Other	3	–	1	3	2
Applications revenues	$ 59	$ 60	$ 59	$ (1)	$ –

Total Application product revenues were 98% of plan. License revenues exceeded plan by $4 million and represented 22% of total Application revenue (up from 15% in the prior quarter). Australia and Canada had strong license activity. Application upgrades exceeded plan by $2 million, while standard product revenues were $11 million below plan.

Quarterly Growth

Total Application revenues were flat with the prior quarter. Standard product revenues decreased by $9 million, while all other categories increased.

ICON Finished Goods

Net Revenues (in millions)

FY93

	FY93		FY93 Plan		Variance	Operations Variance	Exchange Rate Variance
APAC							
Canada	$ 114.6	32.8%	$ 120.4	36.7%	$ (5.8)	$ 1.3	$ (7.1)
Australia	101.3	29.0	106.0	32.3	(4.7)	3.4	(8.1)
New Zealand	12.8	3.7	11.7	3.6	1.1	1.2	(0.1)
Singapore	10.4	3.0	14.4	4.4	(4.0)	(4.0)	-
Malaysia	4.2	1.2	5.7	1.7	(1.5)	(1.5)	-
	243.3	69.6	258.2	78.6	(14.9)	0.4	(15.3)
LATIN AMERICA							
Mexico	34.1	9.8	18.2	5.5	15.9	15.9	-
Brazil	18.3	5.2	7.8	2.4	10.5	10.5	-
Argentina	6.1	1.7	4.5	1.4	1.6	1.6	-
Venezuela	5.9	1.7	5.3	1.6	0.6	0.6	-
Chile	3.6	1.0	2.5	0.8	1.1	1.1	-
Columbia	3.2	0.9	2.0	0.6	1.2	1.2	-
	71.2	20.4	40.3	12.3	30.9	30.9	-
AIME							
Israel	2.9	0.8	2.1	0.6	0.8	0.8	-
Middle East	6.5	1.9	6.0	1.8	0.5	0.5	-
North Africa/Turkey	6.2	1.8	5.3	1.6	0.9	0.9	-
South Africa	14.8	4.2	10.3	3.1	4.5	4.5	-
Greece	2.0	0.6	1.8	0.5	0.2	0.2	-
India	1.2	0.3	0.9	0.3	0.3	0.3	-
	33.6	9.6	26.4	8.0	7.2	7.2	-
Redmond Operations	1.4	0.4	3.4	1.0	(2.0)	(2.0)	-
	$ 349.5	100.0%	$ 328.3	100.0%	$ 21.2	$ 36.5	$ (15.3)

The positive revenue variance of $21.2 million was due to strong performances in Latin America and AIME, which were 77% and 27% ahead of plan, respectively. APAC was 94% of plan. All subsidiaries, except Singapore and Malaysia finished the year ahead of plan (in local currency). The APAC region had a $0.4 million positive operations variance and a $15.3 million negative exchange variance. Latin America and AIME are not affected by foreign exchange fluctuations as sales to these regions are US dollar denominated.

ICON Finished Goods

Q93-4

	Q93-4		Q93-4 Plan		Variance	Operations Variance	Exchange Rate Variance
APAC							
Canada	$ 31.3	31.6%	$ 38.2	38.9%	$ (6.9)	$ (4.7)	$ (2.2)
Australia	30.1	30.4	30.3	30.9	(0.2)	2.6	(2.8)
New Zealand	4.0	4.0	3.5	3.6	0.5	0.5	–
Singapore	2.6	2.6	4.1	4.2	(1.5)	(1.5)	–
Malaysia	1.2	1.2	1.6	1.6	(0.4)	(0.4)	–
	69.2	69.8	77.7	79.2	(8.5)	(3.5)	(5.0)
LATIN AMERICA							
Mexico	10.5	10.6	4.7	4.8	5.8	5.8	–
Brazil	2.4	2.4	2.5	2.5	(0.1)	(0.1)	–
Argentina	2.2	2.2	1.4	1.4	0.8	0.8	–
Venezuela	2.0	2.0	1.3	1.3	0.7	0.7	–
Chile	1.3	1.3	0.8	0.8	0.5	0.5	–
Columbia	1.3	1.3	0.7	0.7	0.6	0.6	–
	19.7	9.2	11.4	6.7	8.3	8.3	–
AIME							
Israel	0.7	0.7	0.6	0.6	0.1	0.1	–
Middle East	1.7	1.7	2.0	2.0	(0.3)	(0.3)	–
North Africa/ Turkey	1.3	1.3	1.4	1.4	(0.1)	(0.1)	–
South Africa	4.7	4.7	2.9	3.0	1.8	1.8	–
Greece	0.6	0.6	0.6	0.6	–	–	–
India	0.2	0.2	0.2	0.2	–	–	–
	9.2	8.5	7.7	7.8	1.5	1.5	–
Redmond Operations	0.9	0.9	1.3	1.3	(0.4)	(0.4)	–
	$ 99.0	100.0	$ 98.1	100.0	$ 0.9	$ 5.9	$ (5.0)

Net revenues were $0.9 million higher than plan. Latin America was 73% ahead of plan and AIME 19%. The APAC region had a $3.5 million negative operations variance, primarily due to Canada taking back a significant amount of MS-DOS 6 Upgrade in June. APAC also had a $5.0 million negative exchange variance.

ICON Finished Goods

Quarterly Growth

ICON	Q93-4		Q93-3		Change	Operations Change	Exchange Rate Change
Canada	$ 31.3	31.6%	$ 35.9	38.9%	$ (4.6)	$ (4.6)	$ --
Australia	30.1	30.4	21.3	23.1	8.8	8.8	-
New Zealand	4.0	4.0	2.8	3.0	1.2	1.2	-
Singapore	2.6	2.6	2.7	2.9	(0.1)	(0.1)	-
Malaysia	1.2	1.2	1.1	1.2	0.1	0.1	-
	69.2	69.8	63.8	69.2	5.4	5.4	-
LATIN AMERICA							
Mexico	10.5	10.6	9.4	10.2	1.1	1.1	-
Brazil	2.4	2.4	5.2	5.7	(2.8)	(2.8)	-
Argentina	2.2	2.2	1.3	1.4	0.9	0.9	-
Venezuela	2.0	2.0	1.3	1.4	0.7	0.7	-
Chile	1.3	1.3	0.7	0.7	0.6	0.6	-
Columbia	1.3	1.3	0.7	0.7	0.6	0.6	-
	19.7	9.2	18.6	20.1	1.1	1.1	-
AIME							
Israel	0.7	0.7	0.9	1.0	(0.2)	(0.2)	-
Middle East	1.7	1.7	1.8	1.9	(0.1)	(0.1)	-
North Africa/Turkey	1.3	1.3	1.4	1.6	(0.1)	(0.1)	-
South Africa	4.7	4.7	3.8	4 1	0.9	0.9	-
Greece	0.6	0.6	0.5	0.6	0.1	0.1	-
India	0.2	0.2	0.4	0.5	(0.2)	(0.2)	-
	9.2	8.5	8.8	9.6	0.6	0.6	-
Redmond Operations	0.9	0.9	1.0	1.0	(0.1)	(0.1)	-
	$ 99.0	100.0	$ 92.2	100.0%	$ 7.0	$ 7.0	$ -

Revenue growth over the prior quarter was 7%, for the regions. The release of MS-DOS 6 Upgrade was the primary cause of growth. Canada's revenues decreased by $4.6 million due to returns of MS-DOS 6 Upgrade in June and Brazil's revenues decreased by $2.8 million due to financial difficulties of their largest distributor. Exchange rates in Canada and Australia were essentially flat quarter over quarter. The 7% revenue growth compares to an expense growth of 31% for the same period.

Cost Of Revenues

FY93

	Q93-4 Sales Mix	Q93-4 Cost	Q93-4 Weighted Cost	Q93-4 Plan Sales Mix	Q93-4 Plan Cost	Q93-4 Plan Weighted Cost
Consumer	5.1%	17.5%	0.9%	7.1%	21.9%	1.6%
Desktop applications	45.5	12.2	5.6	47.1	11.0	5.2
Database and dev. tools	8.3	18.5	1.5	5.3	15.8	0.8
MS-DOS	14.8	17.0	2.5	8.8	20.4	1.8
Hardware	6.9	40.9	2.8	10.6	37.7	4.0
Other operating systems	1.9	9.0	0.2	4.1	6.3	0.3
Windows	14.6	23.1	3.4	14.6	17.6	2.6
Workgroup	2.5	8.3	0.2	2.2	7.4	0.2
Other	0.4	(119.9)	(0.5)	0.2	23.9	--
Product cost - gross	100.0%		16.6%	100.0%		16.5%
Effect of adjustments			x1.03			x1.01
Product cost - net			17.0%			16.7%

Cost of revenues were 0.3 points over plan. This was primarily due to higher than planned costs for Windows and higher than planned sales for MS-DOS, offset by lower than planned Hardware sales.

ICON Finished Goods

Q93-4

	Q93-4			Q93-4 Plan		
	Sales Mix	Cost	Weighted Cost	Sales Mix	Cost	Weighted Cost
Consumer	4.2%	15.4%	0.6%	6.9%	21.8%	1.5%
Desktop applications	44.1	11.4	5.0	45.8	11.1	5.1
Database and dev. tools	6.4	19.5	1.2	5.2	15.9	0.8
MS-DOS	23.0	16.2	3.7	8.5	20.5	1.7
Hardware	5.4	45.0	2.4	10.2	37.8	3.9
Other operating systems	1.2	10.8	0.1	4.0	6.8	0.3
Windows	12.7	20.9	2.7	17.0	17.5	3.0
Workgroup	2.4	7.9	0.2	2.2	7.5	0.2
Other	0.6	21.5	0.1	0.2	12.9	--
Product cost - gross	100.0%		16.0%	100.0%		16.5%
Effect of adjustments			x1.06			x1.02
Product cost - net			17.0%			16.8%

Cost of revenues were 0.2 points over plan. This was primarily due to higher than planned MS-DOS sales offset by lower than planned Hardware sales.

Operating Expenses (in millions)

FY93

	FY93	FY93 Plan	Net Variance	Operations Variance	Exchange Rate Variance
ICON					
Canada	$ 29.1	$ 29.9	$ 0.8	$ (1.0)	$ 1.8
Australia	34.7	32.8	(1.9)	(4.9)	3.0
New Zealand	3.6	2.9	(0.7)	(0.7)	–
Singapore	3.6	4.7	1.1	1.1	–
Malaysia	1.1	1.5	0.4	0.4	–
	72.1	71.8	(0.3)	(5.1)	4.8
LATIN AMERICA					
Mexico	8.8	7.0	(1.8)	(1.8)	–
Brazil	6.3	3.4	(2.9)	(2.9)	–
Argentina	3.0	2.4	(0.6)	(0.6)	–
Venezuela	1.6	1.8	0.2	0.2	–
Chile	1.3	1.2	(0.1)	(0.1)	–
Columbia	1.1	0.9	(0.2)	(0.2)	–
	22.1	16.7	(5.4)	(5.4)	–
AIME					
Israel	1.0	0.8	(0.2)	(0.2)	–
Middle East	2.8	2.7	(0.1)	(0.1)	–
North Africa/Turkey	1.0	1.3	0.3	0.3	–
South Africa	3.7	3.8	0.1	0.1	–
Greece	0.6	0.9	0.3	0.3	–
India	0.3	0.4	0.1	0.1	–
	9.4	9.9	0.5	0.5	–
Redmond Operations	6.1	4.7	(1.4)	(1.4)	–
	$ 109.7	$ 103.1	$ (6.6)	$ (11.4)	$ 4.8

ICON Finished Goods

	FY93	FY93 Plan	Variance
Bad debt expense	$ 5.0	$ 3.0	$ (2.0)
Marketing	32.4	30.7	(1.7)
Professional fees	3.0	1.6	(1.4)
Payroll and payroll taxes	23.1	23.9	0.8
Product support services	11.4	11.2	(0.2)
Marketing accrual	–	–	–
Other	34.8	32.7	(2.1)
	$ 109.7	$ 103.1	$ (6.6)

YTD operating expenses were $6.6 million above plan, principally due to additional expenditures approved at mid-year review, offset by a positive exchange rate variance of $4.8 million. Bad debt expense was $2 million over plan due to an additional accrual made in Australia since they recently canceled their bad debt insurance, an accrual made in Brazil to cover potential losses from a distributor in financial trouble and due to revenues being over plan. Marketing expenses were $1.7 million over plan, but were 9.3% of revenue compared to plan of 9.4%. Professional fees were $1.4 million over plan due to implementation of TQM programs in Australia and Canada and heavy reliance on outside services to avoid hiring additional heads.

Q93-4

	Q93-4	Q93-4 Plan	Net Variance	Operations Variance	Exchange Rate Variance
ICON					
Canada	$ 8.8	$ 8.2	$ (0.6)	$ (1.3)	$ 0.7
Australia	12.3	8.9	(3.4)	(4.6)	1.2
New Zealand	1.3	0.8	(0.5)	(0.5)	–
Singapore	1.3	1.2	(0.1)	(0.1)	--
Malaysia	0.4	0.4	--	–	–
	24.1	19.5	(4.6)	(6.5)	1 9
LATIN AMERICA					
Mexico	3.5	1.8	(1.7)	(1.7)	–
Brazil	3.1	0.8	(2.3)	(2.3)	–
Argentina	1.1	0.6	(0.5)	(0.5)	–
Venezuela	0.6	0.4	(0.2)	(0.2)	–
Chile	0.5	0.3	(0.2)	(0.2)	–
Columbia	0.4	0.3	(0.1)	(0.1)	--
	9.2	4.2	(5.0)	(5.0)	--
AIME					
Israel	0.4	0.2	(0.2)	(0.2)	–
Middle East	1.0	0.8	(0.2)	(0.2)	–
North Africa/Turkey	0.5	0.3	(0.2)	(0.2)	–
South Africa	1.5	1.0	(0.5)	(0.5)	--
Greece	0.2	0.3	0.1	0.1	--
India	0.1	0.1	0.0	0.0	--
	3.7	2.7	(1.0)	(1.0)	--
Redmond Operations	(3.2)	1.1	4.3	4 3	--
	$ 33.8	$ 27.5	$ (6.3)	$ (8.2)	$ 1.9

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 12.7	$ 8.6	$ (4.1)
Marketing accrual	(3.8)	–	3.8
Bad debt expense	2.5	0.9	(1.6)
Payroll & payroll taxes	7.7	6.4	(1.3)
Product support services	3.5	2.9	(0.6)
Other	11.2	8.7	(2.5)
	$ 33.8	$ 27.5	$ (6.3)

ICON Finished Goods

Operating expenses were $6.3 million over plan for the quarter, primarily due to additional expenditures approved at mid-year review. All regions were over plan. Marketing expenses were $4.1 million over plan, offset by the reversal of the YTD marketing accrual of $3.8 million. Bad debt expense was over plan, primarily due to an additional accrual made in Australia since they recently canceled their bad debt insurance and an accrual made in Brazil to cover potential losses from a distributor in financial trouble. Payroll was over plan by $1.3 million, primarily due to accruals for terminating a General Manager and for President's award in all subsidiaries except Singapore and Malaysia.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total	
					Operating	Channels
June 30, 1993	774	741	(33)	49	6%	10%
March 31, 1993	725	725	–	119	6	10
December 31,1992	606	662	56	72	5	9
September 30, 1992	534	628	94	70	4	7
June 30, 1992	464	443	(21)	31	4	8

Net revenues per headcount were $128,000 in Q93-4, versus $127,000 in Q93-3.

Allocations

FY93

Allocations were $7.9 million lower than plan. Allocated expenses were lower than plan in all allocation categories.

Q93-4

Allocations were $1.1 million lower than plan. Allocated expenses were higher than plan in most categories, but this was offset by the reversal of $1.4 million for Double Byte R&D costs incorrectly charged in prior quarters.

Burdened Operating Income

FY93

Burdened operating income was 27% higher than plan. This was the result of higher than planned revenues ($22 million), and lower than planned allocations.

Q93-4

Burdened operating income was 88% of plan, the only time this fiscal year that it was below plan. This resulted almost entirely from operating expenses exceeding plan by 23%.

Quarterly Growth

Burdened operating income was 80% of the prior quarter as revenues increased only 7% versus expense growth of 31%.

FAR EAST FINISHED GOODS

FY93

Net FG revenues for the Far East region for FY93 were $155 million, $22 million greater than plan. ($15.4 million of this positive variance results from the actual exchange rate of the Japanese Yen being stronger than the budgeted rate, set at the beginning of FY93.) Cost of revenues was 27.7% of revenues, in comparison with plan of 26.3% of revenues. Operating expenses were $9 million over plan and allocations were $3 million over plan. This resulted in a burdened operating income YTD of $5 million in comparison with a plan of $3 million.

Net FG revenues were 16% greater than plan, resulting from strong sales from the launch of the Japanese, Chinese and Hangeul versions of Windows 3.1 released in May 1993. Through the end of Q93-3, net FG revenues were 2% lower than plan.

Win Excel and Win Word were the strongest selling applications for the Far East region, with revenues from these products representing 30% of the total FG revenues for FY93.

Q93-4

Net revenues for Q93-4 for the Far East region were 60% greater than plan.

The localized versions of Windows 3.1 were released in May 1993. In Japan, Win 3.1J was the first retail version of Windows released. Previously, the Japanese version of Windows was marketed solely through the OEM channel. MS is capitalizing on the Window phenomenon in the Far East. For Q93-4, FG revenues from Windows were $14 million, representing 23% of the total FG revenues for the quarter.

Cost of revenues was 29.5% in Q93-4 in comparison with plan of 26.3%, as a result of increased sales of Windows with a relatively high cost of revenues and lower than planned prices for Win Excel and Win Word.

Operating expenses were $11 million greater than plan, because of the foreign exchange variance of the Japanese Yen and increased approved expenditures for the marketing of Window 3.1.

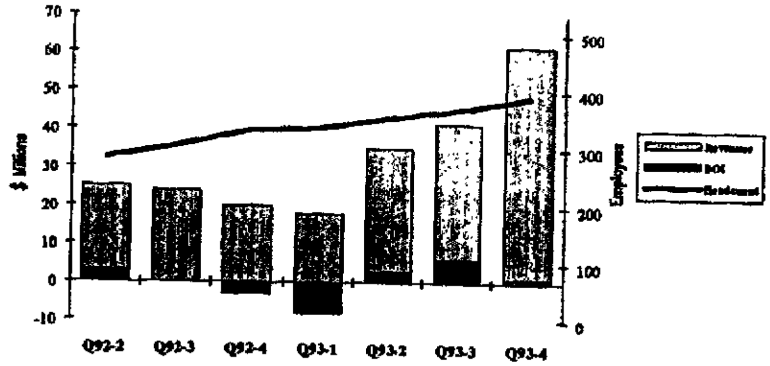
Allocations were $7 million greater than plan. BOI for Q93-4 was $2 million in comparison with planned BOI of $5 million.

Results of Operations (In millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 155	100.0%	$ 133	100.0%	$ 22
Cost of revenues	43	27.7%	35	26.3%	(8)
Operating expense	60	38.7%	51	38.3%	(9)
Allocations	47	30.3%	44	33.1%	(3)
Burdened operating income	$ 5	3.2%	$ 3	2.3%	$ 2

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 61	100.0%	$ 38	100.0%	$ 41	100.0%	$ 23	$ 20
Cost of revenues	18	29.5%	10	26.3%	11	26.8%	(8)	(7)
Operating expense	23	37.7%	12	31.6%	14	34.1%	(11)	(9)
Allocations	18	29.5%	11	28.9%	10	24.4%	(7)	(8)
Burdened operating income	$ 2	3.3%	$ 5	13.2%	$ 6	14.6%	$ (3)	$ (4)

FAR EAST FINISHED GOODS



Leading Products (Units in thousands, revenues in millions)

FY93

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Excel	55	17.8	$ 326	75	22.8	$ 305	(20) $	(5.1)	$ 21
Windows 3.1	150	13.5	90	119	10.5	88	31	3.0	2
Win Excel Upgrade	62	12.0	195	21	3.4	160	40	8.6	35
Mac Excel	30	10.5	347	36	12.5	345	(6)	(2.1)	2
Win Word	45	10.0	221	73	15.2	209	(27)	(5.1)	12
Prof C	19	7.3	376	19	6.2	332	1	1.1	44
Win Word Upgrade	57	6.7	118	14	1.9	134	43	4.8	(16)
PC Works	56	5.2	92	78	8.4	108	(22)	(3.3)	(16)
Windows Manuals	274	4.2	15	174	3.9	23	100	0.3	(7)
Win Office	9	3.5	405	1	0.5	372	7	3.1	32
		$ 90.7			$ 85.4			$ 5.4	
Percentage of net revenues		59%			64%				

Note: Figures in this table include allocations from bundled products.

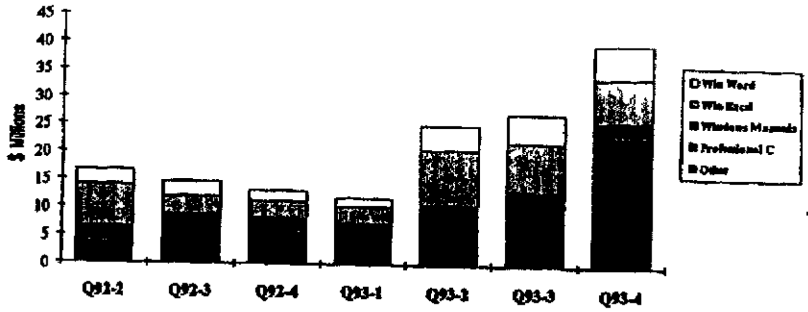
YTD revenues from Windows 3.1 exceeded plan by $3 million, despite the delay from January 1993 to May 1993 in the release of the localized versions of Win 3.1. The leading application, Win Excel (standard product and upgrade) had a positive revenue variance of $3.5 million, resulting from shipment of 20,000 more than planned units and from positive price variances. Win Word, both standard product and upgrade, had a negative revenue variance of $.3 million, resulting from a shortfall in unit sales of 16,000.

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win 3.1	187	$ 13.9	$ 74	54	$ 4.2	$ 78	133	$ 9.7	$ (3)
Win Excel	29	6.2	214	19	5.7	305	10	0.5	(91)
Win Word	25	4.4	175	27	5.5	205	(1)	(1.0)	(30)
Mouse/Paintbrush	36	3.4	94	–	–	–	36	3.4	94
Mac Excel	11	2.8	250	9	3.1	341	2	(0.3)	(91)
Visual Basic Upgrade	13	2.2	172	1	0.1	113	12	2.2	59
MS-DOS/GWBasic Upgrade	50	2.2	43	–	–	–	50	2.2	43
Win Word Upgrade	14	1.7	125	14	1.9	135	–	(0.2)	(10)
Prof C	4	1.7	386	4	1.1	326	1	0.5	60
PC Works	15	1.7	114	23	2.6	110	(9)	(0.9)	4
		$ 40.2			$ 24.2			$ 16.1	
Percentage of net revenues		66%			64%				

Note: Figures in this table include allocations from bundled products.

FAR EAST FINISHED GOODS



Revenues from the top ten products represented 66% of net revenues for Q93-4 and were $16.1 million greater than plan. Localized versions of Windows 3.1 were launched in May 1993. As a result, Windows had a positive revenue variance of $9.7 million during the quarter, resulting from 133,000 more units shipped than planned. Win Excel has a positive variance of $.5 million, attributable to 10,000 more units than planned. This positive volume variance was offset in part by a negative price variance of $91 per unit. Revenues from Win Word were $1 million less than plan, resulting from a negative price variance of $30 per unit.

Quarterly Growth

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Windows 3.1	187	$ 13.9	$ 74	17	$ 0.5	$ 31	171	$ 13.4	$ 44
Win Excel	29	6.2	214	18	4.9	268	11	1.3	(54)
Win Word	25	4.4	175	12	2.2	189	14	2.2	(14)
Mouse/Paintbrush	36	3.4	94	0	0.0	114	36	3.4	(20)
Mac Excel	11	2.8	250	10	3.5	352	2	(0.6)	(103)
Visual Basic Upgrade	13	2.2	172	9	1.2	135	4	1.0	37
MS-DOS/GWBasic Upgrade	50	2.2	43	3	0.1	40	47	2.1	4
Win Word Upgrade	14	1.7	125	23	3.4	146	(9)	(1.6)	(21)
MS-DOS/GWBasic	51	1.7	34	13	0.7	51	38	1.1	(17)
Prof C	4	1.7	386	8	2.8	363	(3)	(1.1)	23
		$ 40.3			$ 19.2			$ 21.1	
Percentage of net revenues		66%			46%				

Note: Figures in this table include allocations from bundled products.

Net revenues for Q93-4 increased by $21.1 million from Q93-3. The Windows 3.1 contributed $13.4 million to the increase, due to product launches in May 1993. Also, Win Word resulted in $2.2 million higher revenue from the prior quarter. The Mouse/Paintbrush bundle contributed $3.4 million to the increase.

Bundled Products (units in thousands, revenues in millions)

FY93

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	9	$ 3.5	$ 405	1	$ 0.5	$ 372	7	$ 3.1	$ 32
Mouse/Windows	23	2.8	121	0	2.7	–	23	$ 0.1	$ 121
Win 3.1/MS-DOS	23	2.2	94	-0	–	–	23	$ 2.2	$ 94
Other	0	3.0	–	0	1.0		0	$ 2.0	–
		$ 11.5			$ 4.2			$ 7.4	
Percentage of net revenues		7%			3%				

Note: A unit is a bundle in this section's tables.

Bundled products were $7.4 million higher than plan YTD. This results from better than planned sales from Windows 3.1 bundles and from Win Office. Bundled products represented 7% of net revenues for the channel.

FAR EAST FINISHED GOODS

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Mouse/Win	35.9	$ 4.3	$ 119	9.5	$ 1.0	$ –	26.3	$ 3.2	$ 119
Win 3.1/MS-DOS	22.9	2.2	94	–	–	–	22.9	2.2	94
Other	–	2.6	–	–	0.6	–	–	2.0	–
		$ 9.0			$ 1.6			$ 7.4	
Percentage of net revenues		15%			4%				

Note: A unit is a bundle in this section's tables.

Bundled products for Q93-4 were $7.4 million greater than plan, as a result of the bundled products of localized versions of Windows 3.1. Revenues from other bundled products were primarily Win Office.

Quarterly Growth

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Mouse/Windows	35.9	$ 4.3	$ 119	0.4	$ 0.0	$ 97	35.5	$ 4.2	$ 22
Win 3.1/MS-DOS Bundle	22.9	2.2	94	–	–	–	22.9	2.2	94
Other	–	2.6	–	–	0.7	–	–	1.8	–
		$ 9.0			$ 0.7			$ 8.2	
Percentage of net revenues		15%			2%				

Note: A unit is a bundle in this section's tables.

Revenues from bundled products increased $8.2 million in Q93-4 over the previous quarter. Bundled products represented 15% of the FG revenues in Q93-4. Revenues from other bundled products in Q93-4 were primarily Win Office.

Business Unit Revenues (in millions)

FY93

	FY93	FY93 Plan	Variance
Consumer	$ 10.2	$ 12.3	$ (2.2)
Desktop Applications	71.0	62.8	8.2
DB & Dev Tools	27.0	22.3	4.7
MS-DOS	8.0	2.9	5.0
Hardware	7.9	7.1	0.8
Other Operating Systems	4.3	5.4	(1.1)
Windows	26.2	20.5	5.8
Workgroup	0.4	–	0.4
Adjustments	(.1)	0.0	(0.2)
Net revenues	$ 154.8	$ 133.4	$ 21.5

Net FG revenues were greater than plan for FY93. For FY93, there was a positive variance of $5.8 million from Windows in spite of the delay in the release of localized versions of Windows 3.1. Desktop Applications had a positive variance of $8.2 million. Database and Development Tools products also had a positive variance of $4.7 million.

Far East Finished Goods

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Consumer	$ 3.2	$ 3.9	$ 2.2	$ (0.7)	$ 1.1
Desktop Applications	20.1	17.4	22.5	2.6	(2.4)
DB & Dev Tools	8.9	5.3	9.9	3.6	(1.0)
MS-DOS	4.4	0.7	1.1	3.8	3.3
Hardware,	5.3	2.2	0.9	3.0	4.4
Other Operating Systems	1.1	1.5	1.3	(0.4)	(0.2)
Windows	17.4	6.6	3.5	10.9	13.9
Workgroup	0.1	–	0.1	0.1	0.0
Adjustments	–	0.2	–	–	–
Net revenues	$ 60.6	$ 37.8	$ 41.5	$ 22.9	$ 19.1

Net revenues for Q93-4 were $22.9 million above plan. $10.9 million of the variance was Windows and $2.6 million was Desktop Applications, primarily Win Excel and Win Word. Database and Development Tools products were 67% higher than plan, primarily from Professional C. MS-DOS was $3.6 million greater than plan, primarily from increased sales resulting from recent government actions in Taiwan and Korea enforcing piracy laws.

Quarterly Growth

Net revenues increased $19.1 million from Q93-3. A majority of this increase related to Windows and Windows bundles. Net revenues from Desktop Applications in Q93-4 were less than the previous quarter as a result of increased revenues in Q93-3 from marketing campaigns in MS Japan to their registered users. The decrease in revenues in DB & Dev Tools was due to the release of Kanji Professional C in Q93-3.

Applications Revenue by Report Level (In millions)

FY93

	FY93	FY93 Plan	Variance
Standard	$ 69.5	$ 83.8	$ (14.4)
Upgrade	31.3	12.7	18.6
Other	1.8	0.1	1.7
License	5.9	0.9	5.0
Applications revenues	$ 108.6	$ 97.6	$ 11.0

Sales of license products exceeded plan YTD by $5.0 million, as a result of a MLP campaign targeted to business accounts, which was launched in Q93-3 in Japan. Upgrade revenues were $18.6 million in excess of plan from sales from marketing campaigns to the registered users of MS Japan.

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Standard	$ 21.0	$ 23.1	$ 28.4	$ (2.1)	$ (7.4)
Upgrades	8 2	3.3	4.4	4.9	3.8
Other	0.7	0.0	0.1	0.7	0.6
License	2.5	0 3	2.0	2.2	0.5
Applications revenues	$ 32.4	$ 26.7	$ 34.8	$ 5.7	$ (2.4)

The $5.1 million positive variance for Applications revenues resulted from higher than planned sales of upgrade sales to registered users. Licensed Applications represented only 7% of total Application revenues.

FAR EAST FINISHED GOODS

Quarterly Growth

Application revenues decreased by $3.0 million in Q93-4 from the previous quarter, primarily as a result of the special campaigns initiated in Q93-3.

Net Revenues (in millions)

FY93

	FY93		FY93 Plan		Net Variance	Operations Variance	Exchange Rate Variance
Japan	$ 123.2	79.6%	$ 105.5	79.0%	$ 17.7	$ 2.9	$ 14.8
Korea	9.7	6.3	10.0	7.5	(0.3)	(0.1)	(0.2)
Taiwan	12.7	8.2	11.1	8.3	1.6	0.8	0.8
Hong Kong	9.3	6.0	7.5	5.2	1.8	1.8	–
Redmond	(0.1)	(0.1)	(0.5)	(0.4)	0.4	0.4	–
	$ 154.8	100.0%	$ 133.6	99.6%	$ 21.2	$ 5.8	$ 15.4

The positive revenue variance of $21.2 million was due to foreign exchange rate variances of $15.4 million and operations variances of $5.8 million. The planned exchange rate for the Japanese Yen was 133 Yen for each US Dollar. The US $ was hit with a Post WW II low of approximately 104 Yen during Q93-4.

Q93-4

	Q93-4		Q93-4 Plan		Variance	Operations Variance	Exchange Rate Variance
Japan	$ 48.1	78.0%	$ 29.7	78.2%	$ 18.4	$ 10.0	$ 8.4
Korea	4.8	7.8%	2.7	7.1%	2.1	2.1	–
Taiwan	4.9	7.9%	3.5	9.2%	1.4	1.1	0.3
Hong Kong	3.4	5.5%	2.6	6.8%	0.8	0.9	(0.1)
Redmond	0.5	0.8%	(0.5)	(1.3)%	1.0	(0.2)	1.2
	$ 61.7	100.0%	$ 38.0	100.0%	$ 23.7	$ 13.9	$ 9.8

The Q93-4 positive revenue variance was $23.7 million. Japan incurred a positive operations variance for Q93-4 of $10.0 million and a positive exchange rate variance of $8.4 million. Korea had a positive operations variance principally from the sale of increased units of Windows 3.1 and MS-DOS.

Quarterly Growth

	Q93-4		Q93-3		Net Change	Operations Change	Exchange Rate Change
Japan	$ 48.1	78.0%	$ 34.7	83.4%	$ 13.4	$ 8.3	$ 5.1
Korea	4.8	7.8	2.0	4.8	2.8	2.8	–
Taiwan	4.9	7.9	2.7	6.5	2.2	2.0	0.2
Hong Kong	3.4	5.5	2.1	5.0	1.3	1.3	–
Redmond	0.5	0.8	0.1	0.2	0.4	0.4	–
	$ 61.7	100.0%	$ 41.6	100.0%	$ 20.1	$ 14.8	$ 5.3

Revenue for Q93-4 increased $20.1 million in comparison with Q93-3. This increase was attributable to a 24% volume increase for Japan and a positive foreign exchange rate variance.

FAR EAST FINISHED GOODS

Cost Of Revenues

	Q93-4 Sales Mix	Q93-4 Cost	Q93-4 Weighted Cost	Q93-4 Plan Sales Mix	Q93-4 Plan Cost	Q93-4 Plan Weighted Cost
Consumer	5.3%	15.6%	0.8%	10.3%	20.4%	2.1%
Desktop Applications	33.1%	15.1%	5.0%	46.1%	13.8%	6.4%
DB & Dev Tools	14.7%	14.1%	2.1%	14.0%	17.2%	2.4%
MS-DOS	7.3%	35.5%	2.6%	2.1%	39.3%	0.8%
Hardware	8.7%	48.7%	4.2%	6.0%	51.9%	3.1%
Other Operating Systems	1.8%	35.1%	0.6%	3.9%	27.0%	1.1%
Windows	28.7%	29.2%	8.4%	17.4%	31.9%	5.6%
Workgroup	0.2%	0.7%	–	0.0%	20.0%	–
Other	0.2%		0.1%	0.2%	64.4%	0.1%
Product cost - gross	100.0%		23.8%	100.0%		21.6%
Effect of adjustments			x1.24			x 1.22
Product cost - net			29.5%			26.3%

Gross product costs were 2.2% lower than plan. This is principally a result from changes in the product mix from plan. In Q93-4, revenues from Windows were 28.7% of net FG revenues in comparison with plan of 17.4%. The planned cost of Windows as a percentage of revenues was 31.9%. The increased sales from Windows has increased the average gross product costs as a percentage of revenues by 2.8%.

Operating Expenses (In millions)

FY93

	FY93	FY93 Plan	Net Variance	Operations Variance	Exchange Rate Variance
Japan	50.1	40.7	(9.4)	(3.4)	(6.0)
Korea	2.6	3.1	0.5	0.5	0.0
Taiwan	3.4	3.4	–	0.2	(0.2)
Hong Kong	2.6	2.2	(0.4)	(0.4)	–
Redmond Operations	1.7	1.3	(0.4)	(0.4)	–
	$ 60.4	$ 50.7	$ (9.7)	$ (3.5)	$ (6.2)

	FY93	FY93 Plan	Variance
Marketing	$ 27.5	$ 20.5	$ (7.0)
Product support services	10.4	9.7	(0.7)
Payroll and payroll taxes	9.1	8.6	(0.6)
Building and grounds distributor	4.1	4.4	0.3
Travel and entertainment	2.2	1.7	(0.4)
Other	7.1	5.8	(1.3)
	$ 60.4	$ 50.7	$ (9.7)

FY93 operating expenses were $9.7 million greater than plan. $6.2 million of this negative variance was from foreign exchange rate variances and $3.5 million from operations. The increased marketing expenditures were approved as a result of the Windows 3.1 launches in Q93-4.

Far East Finished Goods

Q93-4

	Q93-4	Q93-4 Plan	Net Variance	Operations Variance	Exchange Rate Variance
Japan	19.6	9.1	(10.5)	(7.0)	(3.5)
Korea	0.9	0.8	(0.1)	(0.1)	0.0
Taiwan	1.0	0.9	(0.2)	(0.1)	(0.1)
Hong Kong	0.9	0.6	(0.3)	(0.5)	0.2
Redmond Operations	0.9	0.3	(0.6)	(0.5)	–
	$ 23.3	$ 11.7	$ (11.7)	$ (8.1)	$ (3.4)

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 12.2	$ 4.1	$ (8.1)
Product support services	3.4	2.5	(0.9)
Payroll and payroll taxes	2.7	2.3	(0.5)
Building and ground distribution	1.3	0.9	(0.4)
Travel and entertainment	0.9	0.4	(0.4)
Other	2.8	1.5	(1.4)
	$ 23.3	$ 11.7	$ (11.6)

Operating expenses were $10.7 million above plan for Q93-4, principally as a result of $8.1 million higher than planned expenses, principally in Japan. In addition, there was a $2.6 million negative variance from foreign exchange in Q93-4.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Channels
June 30, 1993	434	355	(79)	67	3%	5%
March 31, 1993	367	332	(35)	15	3	5
December 31, 1992	352	345	(7)	17	3	5
September 30, 1992	335	327	(8)	5	3	5
June 30, 1992	330	287	(43)	26	3	5

Allocations

FY93

Allocations were $3 million greater than plan. The primary factor was higher than expected research and development expenses. The actual R & D expenses were $41 million in comparison with plan of $37 million.

Other allocations were $1.7 million less than plan.

Burdened Operating Income

FY93

Burdened operating income of $5 million exceeded plan by $2 million. This was largely due to greater than planned revenues and positive foreign exchange rate variances.

Burdened operating income of $2 million was less than the plan of $5 million for Q93-4. This variance was the result of higher than planned cost of revenues ($8 million) and higher than planned operating expenses ($11 million).

FAR EAST FINISHED GOODS

Quarterly Growth

Burdened operating income for Q93-4 was $4 million lower than Q93-3. Operating income of $20 million for Q93-4 compared positively with operating income of $16 million for Q93-3. This was largely the result of $20 million higher revenues in Q93-4.

US Finished Goods

FY93

Net revenues equaled plan as the successes of Office, MS-DOS 6 Upgrade, and Access were offset by below plan performances of Windows for Workgroups, stand-alone versions of Office bundle component products, Win Font Pack, Window Printer Systems, and Mouse, and the slippage of Windows NT, Mac Fox Pro, PC Flight Simulator, Win 3.1 CD, and Win Scenes.

Q93-4

Net revenues were 106% of plan, and 132% of Q93-3. The increase over plan was primarily due to the continued success of MS-DOS 6 Upgrade and Office, but was partially offset by below plan revenues of stand-alone Office bundle component products, below plan sales of Windows 3.1, product returns of Windows for Workgroups, and new product slippage's in Windows NT and Mac Fox Pro.

Win Office (all SKUs) revenues reached $67 million, the fourth consecutive quarterly record, following the release of version 3.0 in Q93-1. The competitive upgrade, launched during Q93-3, contributed $9 million while Win Office Professional (Office plus Access 1.1), launched in June, contributed $3 million in unplanned revenues. Other product releases included Visual Basic 3.0 (exceeded plan by $6 million) and the Carrera Mouse (exceeded plan by $2 million).

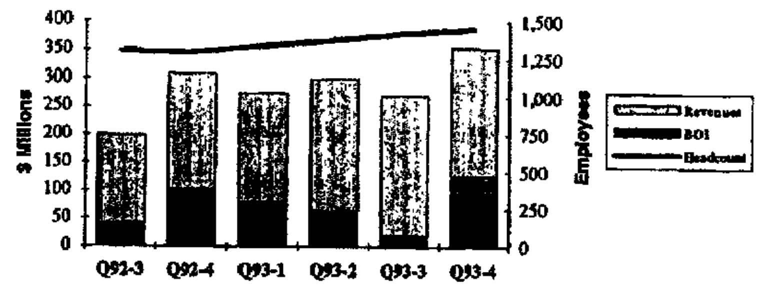
The MS Select program began in late March and has grown to 87 customers entering into agreements in the U.S. by the end of the quarter, up from twenty customers at the end of the previous quarter. Coinciding with the release of MS-DOS 6 Upgrade, the Upgrade Your World Campaign ran from April 1 to May 31. The product shipments for the Upgrade Your World program occurred in March, with increased sell-through of Office, Windows 3.1 Upgrade, and MS-DOS 6 occurring in Q93-4. The Extended License Agreement (XLA) Program was discontinued at the end of Q93-2. This quarter 38,091 licenses were granted to corporate customers in accordance with previous agreements, raising year-to-date XLA license grants to 223,855.

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 1,194	100.0%	$ 1,194	100.0%	$ –
Cost of revenues	255	21.4	255	21.4	–
Operating expense	451	37.8	482	40.4	31
Allocations	196	16.4	214	17.8	18
Burdened operating income	$ 292	24.4%	$ 243	20.4%	$ 49

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 353	100.0%	$ 332	100.0%	$ 268	100.0%	$ 21	$ 85
Cost of revenues	71	20.1	70	21.2	67	25.0	(1)	(4)
Operating expense	97	27.5	112	33.8	133	49.8	15	36
Allocations	58	16.3	55	16.3	48	17.8	(3)	(10)
Burdened operating income	$ 127	36.1%	$ 95	28.7%	$ 20	7.4%	$ 32	$ 107

US Finished Goods



Leading Products (units in thousands, revenues in millions)

FY93

	FY93			FY93 Plan			Variance		
	Unit	Revs	$/Unit	Unit	Revs	$/Unit	Unit	Revs	$/Unit
Win Word	871	$ 150	$ 172	653	$ 119	$ 183	218	$ 31	$ (11)
Win Excel	844	143	169	613	122	199	231	21	(29)
MS-DOS 6.0	2,855	118	41	983	54	55	1,873	64	(14)
Mouse	1,196	94	78	1,221	105	86	(25)	(12)	(8)
Windows 3.1	1,538	85	55	1,490	87	59	48	(3)	(4)
Mac Word	509	56	110	417	57	137	92	(1)	(27)
Mac Excel	328	44	133	245	48	197	83	(5)	(64)
Win Project	126	43	343	73	28	378	53	16	(34)
Win Word Upg*	355	39	109	598	58	97	(243)	(19)	12
Win Access	442	38	85	71	8	120	372	29	(34)
		$ 808			$ 687			$ 121	
Percentage of net revenues		68%			58%				

**Excludes Maintenance.*
Note: Figures in this table include allocations from bundled products, and units distributed under XLA agreements.

Leading Product revenues exceeded plan by 18%, primarily due to the success of MS-DOS 6 Upgrade, Office, and Access. A $259 million favorable volume (licensed users) variance was partially offset by a $138 million unfavorable price variance. The unfavorable price variance was the result of a greater than planned mix of high discount Special Agreements, and 223,855 XLA licenses granted to corporate customers. Excluding the impact of XLA, $/unit for Win Word, Win Excel, Mac Word, and Mac Excel were $179, $176, $113, and $139, respectively.

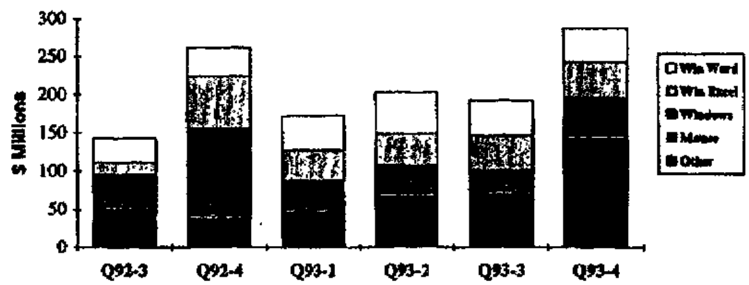
Win Word revenues exceeded plan by 26%, including $35 million in above plan revenues contributed by Win Office. Win Word Upgrade revenues were 33% below plan primarily due to the shift to Office product. Win Excel revenues were 17% above plan, as a result of $34 million in above plan revenues from Win Office sales. Excluding the allocation from Office sales, Win Excel standard product was $14 million below plan. A shift in the planned mix from Win Excel standard product to Win Excel's allocation from Win Office drove $/unit below plan.

US Finished Goods

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
MS-DOS 6	1,967	$ 81	$ 41	270	$ 15	$ 54	1,697	$ 67	$ (13)
Win Excel	261	46	176	167	33	199	95	13	(22)
Win Word	259	45	172	181	33	183	78	11	(11)
Windows 3.1	505	31	60	347	20	58	158	10	2
Mouse	339	24	72	284	24	84	55	1	(12)
Win Project	40	14	360	17	6	378	23	8	(17)
Mac Word	157	14	92	103	14	138	54	0	(46)
Mac Excel	86	11	134	67	13	197	19	(2)	(63)
Win Powerpoint	165	11	66	96	10	106	70	1	(40)
Win Excel Upg*	91	10	112	104	12	113	(13)	(2)	(1)
		$288			$ 180			$108	
Percentage of net revenues		82%			54%				

**Excludes Maintenance.*
Note: Figures in this table include allocations from bundled products, and units distributed under XLA agreements.



Leading Product revenues were 61% ahead of plan as a result of the continued success of MS-DOS 6 Upgrade, the Office bundle, and Windows 3.1. Overall, a $164 million favorable volume (licensed users) variance was partially offset by a $57 million unfavorable price ($/unit) variance. The unfavorable price variance resulted from the discounted Special Agreements and XLA licenses granted to corporate customers. Excluding the impact of XLA, $/unit for Win Word, Win Excel, Mac Word, and Mac Excel were $175, $180, $95, and $138, respectively.

MS-DOS 6 Upgrade launched near the end of last quarter with sales of $81 million in Q93-4 versus a plan of $15 million. Win Word standard product revenues were 35% above plan. Excluding the allocation from bundled products, standard product was $2 million below plan, offset by Office's contribution of $14 million in above plan revenues.

Win Excel standard product revenues exceeded plan by 39%. Revenues attributed to Win Excel from the Win Office bundle were $13 million above plan, while Win Excel exclusive of its allocation from Win Office was $1 million below plan. Excluding XLA and Maintenance licenses, $/unit for new standard users totaled $180, $19 below plan. Upgrade revenues were $2 million (13%) below plan, while $/unit nearly equaled plan of $113.

Win Project revenues continued to be strong and were 129% ahead of plan following the release of version 3.0 in the first quarter.

US Finished Goods

Quarterly Growth

	Q93-4			Q93-3			Change		
	Unit	Revs	$/Unit	Unit	Revs	$/Unit	Unit	Revs	$/Unit
MS-DOS 6	1,967	$ 81	$ 41	888	$ 37	$ 41	1,078	$ 44	$ --
Win Excel	261	46	176	171	31	179	91	15	(3)
Win Word	259	45	172	143	25	175	117	19	(4)
Windows 3.1	505	31	60	327	19	58	178	12	3
Mouse	339	24	72	199	14	69	140	11	3
Win Project	40	14	360	28	10	357	12	4	4
Mac Word	157	14	92	80	8	104	77	6	(11)
Mac Excel	86	11	134	60	8	140	26	3	(7)
Win Powerpoint	165	11	66	109	7	65	57	4	0
Win Excel Upg*	91	10	112	108	13	118	(17)	(2)	(5)
		$ 288			$ 172			$ 117	
Percentage of net revenues		82%			64%				

**Excludes Maintenance.*
Note: Figures in this table include allocations from bundled products, and units distributed under XLA agreements.

Leading Product revenues rose 67% above Q93-3 primarily due to the launch of MS-DOS 6, continued strength of Win Word, and above plan sales of Win Excel. Sales of the Office bundle accounted for 54% of the increase in Win Word and Win Excel revenues. Despite a continued shift in hardware revenues toward the OEM channel, mouse revenues exceeded prior quarter revenues primarily due to the successful launch of the Carrera Mouse.

Bundled Products (units in thousands, revenues in millions)

FY93

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	463	$ 171	$ 370	247	$ 93	$ 375	216	$ 79	$ (5)
Win Office Upg	84	27	320	–	–	–	84	27	320
Mac Office	132	49	371	89	34	381	43	15	(10)
Win/Mouse	298	36	121	384	47	124	(86)	(11)	(3)
		$ 283			$ 174			$ 110	
Percentage of net revenues		24%			15%				

Excludes Maintenance, includes units distributed under XLA agreements.
Note: A unit is a bundle in the bundled products tables.

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	138	$ 55	$ 394	67	$ 25	$ 375	71	$ 30	$ 19
Win Office Upg	27	9	343	–	–	–	27	9	343
Mac Office	41	16	390	24	9	381	17	7	9
Win/Mouse	54	7	122	86	11	124	(32)	(4)	(2)
		$ 87			$ 45			$ 42	
Percentage of net revenues		24%			14%				

Excludes Maintenance, includes units distributed under XLA agreements.
Note: A unit is a bundle in the bundled products tables.

Sales of Win Office continued to be strong exceeding plan by 85% for the year and 116% for the quarter, following the 64% above plan performance in Q93-3 and the release of version 3.0 in Q93-1. Win Office Upgrade generated $27 million in unplanned revenues through a competitive upgrade promotion launched in February. Mac Office revenues finished the year 45% above plan, following an 11% above plan performance in the prior quarter and the October release of version 3.0. Win/Mouse Bundle revenues were below plan as the shift in sales of operating systems and hardware continued toward the OEM channel.

Quarterly Growth

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	138	$ 55	$ 394	94	$ 36	$ 377	44	$ 19	$ 17
Win Office Upg	27	9	343	57	18	309	(30)	(9)	34
Mac Office	41	16	390	27	10	375	14	6	15
Win/Mouse	54	7	122	51	5	119	3	2	3
		$ 87			$ 69			$ 18	
Percentage of net revenues		25%			26%				

Excludes Maintenance, includes units distributed under XLA agreements.
Note: A unit is a bundle in the bundled products tables.

The increased penetration of the Windows platform combined with the attractiveness of the Office bundle as an economical means of obtaining a full suite of Windows applications, pushed Win Office revenues 50% above the prior quarter. Win Office Upgrade unit volume decreased, reflecting channel filling shipments in the prior quarter.

Business Unit Revenues (in millions)

FY93

	FY93	FY93 Plan	Variance
Consumer	$ 65	$ 73	$ (8)
Desktop Applications	641	578	63
DB & Dev Tools	142	131	11
MS-DOS	144	73	71
Hardware	98	111	(13)
Other Operating Systems	26	27	(1)
Windows	126	240	(114)
Workgroup	33	33	–
Adjustments	(81)	(72)	(9)
Net revenues	$ 1,194	$ 1,194	$ –

Total Applications revenues were 108% of plan, representing 69% of FY93 gross revenues. Desktop Applications revenues were 111% of plan due to the success of Win Office, which contributed $108 million in above plan revenues for standard product, upgrade, and the new Office Professional, and Mac Office, which contributed $15 million in above plan revenues. This was partially offset by below plan sales of stand-alone versions of Office component products (standard and upgrade): Win Word ($34 million), Win Excel ($31 million), Mac Excel ($16 million), and Win PowerPoint ($11 million, standard product only).

Database and Development Tools revenues were 8% ahead of plan. Access revenues for standard product and competitive upgrade exceeded budget by $34 million but were largely offset by below plan performances of standard product and upgrades of all environments of Fox Pro (totaling $29 million below pan) and PC Pro C ($9 million below plan).

MS-DOS revenues were 97% above plan. MS-DOS 6 Upgrade shipped in mid-March and provided $118 million of revenue in FY93. MS-DOS 5 Upgrade exceeded budget by $4 million.

Windows Business Unit revenues were 53% of plan due to a $45 million sales variance of Windows for Workgroups. Slower than planned sales of Font Pack, Printer Systems, and Windows 3.1 Upgrade produced below plan variances of $19 million, $16 million, and $10 million, respectively. The delay of Windows NT and Win 3.1 CD caused $12 million and $9 million in revenue variances, respectively.

US Finished Goods

Hardware revenues fell 12% short of plan due to below plan sales of the Paintbrush/Mouse, Win/Mouse bundle, and Win Sound System and the shift of Mouse to the OEM channel. These decreases were partially offset by $13 million in above plan sales of Naked Mouse.

As a percentage of gross revenues, actual rebates (6.2%) were above plan (5.3%). Rebates were accrued conservatively based on the assumption that all LVRs and GLVRs would reach "Grand Slam" rebate levels by meeting certain sales volume requirements. "Grand Slam" rebates totaled $4.5 million during FY93 versus a budget of $2.3 million. Without this $2.2 million variance, actual rebates would have been 6.0% of gross revenues. The remaining 0.2% variance represents a shift of sales from Distributors to LVR's, who receive a higher rebate rate.

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Consumer	$ 12	$ 20	$ 12	$ (8)	$ –
Desktop Applications	183	155	132	28	51
DB & Dev Tools	36	37	53	(1)	(17)
MS-DOS	82	15	42	67	40
Hardware	25	27	14	(2)	11
Other Operating Systems	5	7	5	(2)	–
Windows	35	81	22	(46)	13
Workgroup	9	10	6	(1)	3
Adjustments	(34)	(20)	(18)	(14)	(16)
Net revenues	$ 353	$ 332	$ 268	$ 21	$ 85

Total Applications revenues were 8% better than plan, representing 62% of Q93-4 gross revenues. Desktop Applications revenues were 118% of plan due to above plan revenues generated by the continued success of Win Office ($41 million above plan for all SKUs), Mac Office ($7 million above plan), and Win Project ($8 million). These variances were partially offset by below plan sales of stand-alone standard and upgrade product of Win Word ($14 million), Mac Excel ($8 million), and Win Excel ($6 million).

Database and Development Tools revenues were 97% of plan. Access sales slowed to $2 million below plan for standard product and upgrades, a slip in Mac Fox Pro produced a $7 million revenue variance, and below plan sales of PC Pro C generated a $3 million revenue shortfall. These variances were mostly offset by above plan performance of Win Visual Basic Pro ($6 million), Win Visual C++ ($5 million), and Win Fox Pro ($2 million).

MS-DOS revenues were 565% of plan. MS-DOS 6 Upgrade shipped in mid-March and provided $81 million of revenue in Q93-4 versus a plan of $15 million.

Windows Business Unit revenues were 43% of plan due to a below plan sales variance of Windows for Workgroups ($33 million), Windows NT being late ($12 million), and slower than planned sales of Win Font Pack ($5 million) and Win Printer Systems ($4 million). Below plan sales were partially offset by above plan revenues of Windows 3.1 ($10 million).

Hardware revenues were 91% of plan due to revenue shortfalls of Mouse/Paintbrush, Ballpoint Mouse, and Win Sound System. These variances were largely offset by above plan revenues of Naked Mouse ($9 million) following the release of the Carrera mouse in April.

Quarterly Growth

Gross revenues increased 36% from Q93-3, primarily due to a 95% increase in the MS-DOS Business Unit, a 73% increase in the Hardware Business Unit, and a 39% increase in the Desktop Applications Business Unit. MS-DOS BU revenues increased due to a sharp sales increase in MS-DOS 6 Upgrade. The Hardware BU increase was attributable to the introduction of the Carrera Mouse. The Desktop Applications revenues increases resulted from higher sales of Office, Win Word, Win Excel, and Win Project. The Windows BU revenues increased $13 million due to increased sales of Windows 3.1 standard product and upgrade. The Database and Development Tools BU posted a $17 million decline due to reduction in Access sales.

US Finished Goods

Applications Revenue by Environment (in millions)

FY93

	FY93	FY93 Plan	Variance
Windows	$ 610	$ 508	$ 102
Mac	179	173	6
MS-DOS	89	129	(40)
OS/2 and Other	3	5	(2)
Applications revenues	$ 881	$ 815	$ 66

Windows applications were 20% ahead of plan and accounted for 69% of applications and 48% of gross revenue (versus plan of 62% and 40%, respectively) as the result of strong sales of standard product and upgrades of Office, Access, Visual Basic Pro, and Project. These variances were partially offset by below plan performance of standard product and upgrades of Excel and Word and PowerPoint standard product. MS-DOS applications fell 31% below plan due to shortfalls in sales of Fox Pro, Pro C, Word, and Mail Client, and the delay of Flight Simulator. The delay of Mac Fox Pro accounts for the Mac variance.

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Windows	$ 178	$ 140	$ 157	$ 38	$ 21
Mac	43	48	29	(5)	14
MS-DOS	19	31	17	(12)	2
OS/2 and Other	--	3	--	(3)	--
Applications revenues	$ 240	$ 222	$ 203	$ 18	$ 37

Windows applications revenues surpassed plan by 27% due to the continued success of Office and above plan sales of Project and Visual Basic products. Partially offsetting variances in Windows included Word, Excel, Access, and PowerPoint. Mac applications revenues were 11% below plan due to shortfalls in Excel and Fox Pro, and partially offset by Office revenues, which were $7 million above plan. Revenues of MS-DOS applications were 39% below budget due to the delay in PC Flight Simulator ($4 million), and a decline in sales of Mail Client and Pro C.

Quarterly Growth

The continued success of Win Office and increases in Word, Excel, and Project accounted for the majority of increased Windows Application sales, offset by decreases in Access and Office Upgrade revenues. Mac Application sales increased due to higher sales in Office, Word, Works, and Excel.

Applications Revenue by Report Level (in millions)

FY93

	FY93	FY93 Plan	Variance
Standard	$ 548	$ 541	$ 7
Upgrades	178	178	–
Academic	40	34	6
License	83	50	33
Maintenance	19	9	10
Other	13	3	10
Applications revenues	$ 881	$ 815	$ 66

US Finished Goods

The releases of Win and Mac Office 3.0, Access, Win Project 3.0 and Win Visual Basic Pro drove standard product revenues 1% above plan for FY93. Sales of these products accounted for 50% of standard application product sales, but were mostly offset by below plan sales of Fox Pro (all environments), Word (all environments), Win and Mac Excel, PowerPoint (all environments), and PC Mail Client. License (right to copy) revenues were 63% above plan due to strong sales of Win and Mac Office, PC Mail Client, Win Word, and Win Project licenses. These variances were partially offset by below plan sales of Win Excel and PC Fox Pro. Maintenance revenues were 102% above plan due to above plan performance of Win and Mac Office, Win Excel, and Win PowerPoint.

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Standard	$ 149	$ 153	$ 125	$ (4)	$ 24
Upgrades	45	43	48	2	(3)
Academic	10	9	5	1	5
License	27	14	18	13	9
Maintenance	6	3	5	3	1
Other	3	–	2	3	1
Applications revenues	$ 240	$ 222	$ 203	$ 18	$ 37

Standard product revenues were below plan as strong sales of Win and Mac Office, Win Visual Basic Pro, and Win Project were more than offset by below plan sales of Fox Pro (all environments), Mac Excel, Win Word, PC Mail Client, Mac Word, and Mac Excel, and the delay of PC Flight Simulator. Unplanned sales of the Win Office Upgrade contributed $9 million to upgrade revenues, that was mostly offset by below plan sales of Win Word, Win Excel, and Mac Excel. Strong sales of Win Office ($7 million above plan), and above plan performances of Win Word ($2 million), Mac Office ($1 million), and Win Project ($1 million), drove License revenues to exceed plan by 90%. In relation to plan, the actual unit mix shifted from standard single license user product to license and maintenance SKUs, lowering the average $/unit. This shift resulted primarily from above planned unit license sales of PC Mail Client and maintenance of Win Word, PC Mail Client, Win Office, and Win Schedule +.

Quarterly Growth

Increased Win Office sales, as well as increases in sales of Win Excel, all environments of Word, and Win Project drove Q93-4 standard product revenues 20% above Q93-3 levels, despite declining Access revenues. Sales of Win Office, Excel, and Word accounted for the majority of the increase in license revenues. Increased sales of Win Word and Mac Works drove a 90% increase in Academic product sales.

US Finished Goods

Customer Classification Revenues (in millions)

	Q93-4			Q93-3			
	Sales	Percent	Discount	Sales	Percent	Discount	Growth
Resellers							
Distributors	$ 171	44%	53%	$ 121	42%	44%	41%
Major Chains	74	19%	49	69	24%	41	6%
LVR's	71	18%	44	38	13%	41	88%
Franchisors	18	5%	46	15	5%	44	23%
Gov't Resellers	4	1%	47	4	2%	46	(10%)
Mass Merchandisers	3	1%	67	3	1%	51	10%
Education Resellers	0	0%	54	0	0%	60	(4%)
Total Resellers	340	88%	50%	250	88%	43%	36%
VAR's/Solution Providers							
Gov't Integrators	4	1%	57%	3	1%	68%	27%
VAR's/Solution Providers	1	0%	39	1	0%	44	(36%)
Total VAR's/Solution Providers	5	1%	55%	4	1%	64%	12%
Direct							
Corporate Accounts	24	6%	57%	13	5%	69%	86%
End Users	10	3%	37	11	4%	39	(8%)
Educational	7	2%	53	6	2%	50	14%
Gov't Accounts	0	0%	38	0	0%	59	(1%)
Total Direct	42	11%	53%	31	11%	28%	36%
Gross Revenues	$ 387	100%	51%	$ 286	100%	46%	36%

Overall discounts increased from 46% to 51% as the MS-DOS 6 Upgrade discounts averaged 65% and as the mix of MS-DOS 6 Upgrade sales increased significantly over prior quarter. Distributor revenues increased by $50 million, primarily due to increased purchases of MS-DOS 6 Upgrade, Mouse, and all SKUs of Office and Word. These increases were partially offset by a $15 million decline in purchases of Access.

LVR revenues grew 88% as purchases of Office, Excel, Project, Word, and Windows 3.1 nearly doubled from Q93-3 levels. LVR purchases of MS-DOS Upgrade increased by 278%. The $11 million increase in Corporate Accounts revenues resulted from standard product purchases of Windows 3.1, Office, and Word. These increases were partially offset by decreases in purchases of Publisher.

Significant Customers (in millions)

	Q93-4	Q93-3	Q93-2	Q93-1	Q92-4
Ingram Micro	$ 93	$ 61	$ 92	$ 72	$ 94
Merisel	66	56	56	51	63
Egghead	52	51	46	22	60
Comp USA	22	19	11	8	13
Software Spectrum	24	11	18	14	15
Corporate Software	21	11	17	10	14
Computerland	10	8	6	9	8
800 Software	10	7	8	8	7
Softmart	9	6	8	6	6
Intelligent Electronics	6	4	5	2	11
	$ 313	$ 234	$ 267	$ 202	$ 291
Percent of Gross Revenue	81%	82%	80%	76%	80%

Revenues from shipments to Significant Customer increased 34% due to heavy purchases of MS-DOS, Win Office, Win Word, and Mouse; partially offset by below Q93-3 levels of Access.

US Finished Goods

Cost of Revenues

FY93

	FY93 Sales Mix	FY93 Cost	FY93 Weighted Cost	FY93 Plan Sales Mix	FY93 Plan Cost	FY93 Plan Weighted Cost
Consumer	5.1%	13.4%	0.7%	5.8%	13.1%	0.8%
Desktop Applications	50.3	10.4	5.2%	45.7	11.5	5.3%
DB & Dev Tools	11.2	22.4	2.5%	10.1	17.5	1.8%
MS-DOS	11.3	13.9	1.6%	5.8	19.0	1.1%
Hardware	7.7	35.0	2.7%	8.7	38.4	3.4%
Other Operating Systems	1.9	7.2	0.1%	1.9	5.7	0.1%
Windows	9.9	16.8	1.7%	19.4	20.6	4.0%
Workgroup	2.6	6.7	0.2%	2.6	7.5	0.2%
Product cost - gross	100.0%		14.7%	100.0%		16.5%
Effect of revenue adjustments			x 106.7%			x 106.0%
Product cost - net			15.6			17.5
Non-product costs			5.8			3.9
Cost of revenues as % of net revenues			21.4%			21.4%

Product costs, as a percentage of product revenues, were below plan due to a shift in the sales mix away from relatively low margin Hardware and Windows Business Units toward higher margin MS-DOS products. Non-product costs as a percentage of net revenues, exceeded plan by 1.7% due to an obsolescence provision for Windows for Workgroups and above plan charges for freight out and returns scrap.

Q93-4

	Q93-4 Sales Mix	Q93-4 Cost	Q93-4 Weighted Cost	Q93-4 Plan Sales Mix	Q93-4 Plan Cost	Q93-4 Plan Weighted Cost
Consumer	3.1%	11.3%	0.3%	5.5%	13.0%	0.7%
Desktop Applications	47.3	9.9	4.7%	44.2	11.4	5.0%
DB & Dev Tools	9.3	20.1	1.9%	10.5	12.9	1.4%
MS-DOS	21.2	14.3	3.0%	4.1	18.9	0.8%
Hardware	6.3	30.0	1.9%	7.6	39.4	3.0%
Other Operating Systems	1.4	8.4	0.1%	1.5	6.1	0.1%
Windows	9.0	11.8	1.1%	23.6	22.3	5.3%
Workgroup	2.4	8.1	0.2%	3.0	6.9	0.2%
Product cost - gross	100.0%		13.2%	100.0%		16.4%
Effect of revenue adjustments			x 109.7%			x 105.9%
Product cost - net			14.5			17.5
Non-product costs			5.6			3.7
Cost of revenues as % of net revenues			20.1%			21.2%

Product costs, as a percentage of net revenues, were 3.0% below plan due to a shift in the sales mix toward the higher margin MS-DOS products, and away from Windows. Products for Windows were significantly below budget due to heavy Windows for Workgroups products. Non-product costs, as a percentage of net revenues, were 1.9% above plan due to above plan charges for hardware tooling and rework.

Quarterly Growth

Q93-4	Q93-3	Q93-2	Q93-1	Q92-4
20.1%	25.0%	21.0%	19.8%	16.1%

Operating Expenses (in millions)

FY93

	FY93	FY93 Plan	Variance
Marketing	$ 169	$ 169	$ 0
PSS	106	117	11
Payroll & Payroll taxes	75	78	3
Other	101	118	17
Total Operating Expenses	$ 451	$ 482	$ 31

Marketing expense was on plan due to lower than planned expenditures for Windows Systems ($4 million), Non-specific ($3 million), Excel ($2 million), and Word ($2 million), offset by above plan expenditures for Marketing Funds ($5 million) and Windows NT ($4 million). PSS costs were 10% below plan due to slower than planned additions to PSS headcount throughout the year. Payroll & Payroll taxes were slightly below plan due to slower than planned hiring. Other significant variances included below plan spending of Buffer Funds ($30 million), Travel & Entertainment ($3 million), and Depreciation ($2 million), partially offset by an unplanned accrual for expected future PSS costs ($17 million) and above plan Administrative Services expenses ($3 million). The Marketing Accrual at year-end was zero.

Q93-4

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 62	$ 26	($ 36)
Marketing Accrual	(56)	0	56
PSS	33	31	(2)
Payroll & Payroll taxes	20	20	0
Other	38	35	(3)
Total Operating Expenses	$ 97	$ 112	$ 15

Marketing expense was 138% above plan due to greater than planned Desktop Applications ($10 million), Database & Development Tools ($5 million), Windows NT ($4 million), and Windows ($3 million) expenses recognized in the financial systems. A $56 million reversal of the Marketing Accrual was recorded to correct the difference between planned and actual timing of marketing spend. Although PSS headcount was below plan, PSS costs were 6% above plan primarily due to greater than planned expenses for MS-DOS 6 after it was outsourced to Corporate Software. An unplanned accrual for expected future PSS costs contributed $3 million to above plan operating expenses.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Channels
June 30, 1993	1,446	1,493	47	31	11%	19%
March 31, 1993	1,415	1,491	76	40	11%	20%
December 31, 1992	1,375	1,486	111	30	12%	21%
September 30, 1992	1,345	1,485	140	39	12%	22%
June 30, 1992	1,306	1,370	64	(4)	13%	23%

Headcount trailed plan by 3% mostly due to below plan headcount in Field Sales (37) and Sales Operations (32), and partially offset by above plan headcount in Solutions Partnerships (19). Net revenue per headcount was:

Q93-4	Q93-3	Q93-2	Q93-1
$244,000	$189,000	$217,000	$204,000

Allocations

FY93

Allocations were $17 million below plan due primarily to lower than planned R&D allocations, the result of slower than planned headcount ramp and lower than planned third party R&D spending.

Q93-4

Allocations were $4 million above plan due primarily to greater than planned Applications R&D and Finance and Administration allocations.

Burdened Operating Income

FY93

Burdened operating income exceeded plan by $49 million (20%) due primarily to Buffer Funds ($30 million below plan), R&D allocations ($15 million below plan), and PSS costs ($11 million below plan), partially offset by an unplanned PSS accrual of $17 million.

Q93-4

Burdened operating income exceeded plan by $32 million (34%) due primarily to above plan net revenues ($21 million) and the $56 million reversal of the marketing accrual, partially offset by above planned marketing ($37 million), PSS Accrual, and R&D allocations.

Quarterly Growth

Burdened operating income increased by 547% ($107 million) primarily due to increased net revenues (up $85 million from Q93-3) along with a $56 million reversal of the marketing accrual and a smaller PSS accrual ($8 million less than Q93-3).

OEM

FY93

OEM had net revenues of $731 million, which were 47% greater than budget and 53% greater than FY92. Factors contributing to the record revenues included increased unit shipments by the "Big Six" (Gateway 2000, IBM, Compaq, Dell, AST, and Packard Bell), increased Windows penetration, and increased application and mouse sales.

PC industry price wars continued throughout the year, shrinking margins for the OEMs, eliminating the weaker players, and consolidating the industry. OEM benefited from the increased unit sales, but also incurred $20 million in bad debt write-offs, some of which may later be recovered, as a result of bankruptcies occurring in the mid-tier OEMs. Bankruptcies will continue during FY94.

During FY93, 17 OEMs were audited by Microsoft's third-party audit team for license compliance. Of these, 13 were found to be under reporting, resulting in revenues of $6 million at a cost to Microsoft of $350,000.

The Microsoft Easy Distribution programs are helping OEM reach the low-end market better and are making it easier for smaller PC manufacturers to do business with MS. During FY93, over 2 million units of MS-DOS were sold through MED distributors.

Q93-4

Revenues of $217 million were 74% higher than Q92-4 and 58% higher than plan.

With MS-DOS 6.0, OEM introduced several anti-piracy controls. OEMs are required to purchase MS-DOS 6.0 from authorized replicators rather than duplicating the product and documentation themselves. In addition, the product carries a Certificate of Authenticity (COA) containing a hologram, serial number, and other anti-counterfeit measures. Unbundled product can now be traced back to the OEM within 48 hours. Non-complying OEMs can then be warned, terminated, or converted to the Easy Distribution program. To date, no counterfeit MS-DOS 6.0 has been identified.

Results of Operations (In millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 731	100.0%	$ 496	100.0%	$ 235
Cost of revenues	36	5.0	13	2.7	(23)
Operating expense	85	11.6	64	13.0	(21)
Allocations	166	22.7	189	38.0	23
Burdened operating income	$ 444	60.7%	$ 230	46.3%	$ 214

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 217	100.0%	$ 137	100.0%	$ 203	100.0%	$ 80	$ 14
Cost of revenues	12	5.3	3	2.3	11	5.2	(9)	(1)
Operating expense	22	10.2	14	10.4	25	12.5	(8)	3
Allocations	50	23.2	47	34.4	42	20.5	(3)	(8)
Burdened operating income	$ 133	61.3%	$ 73	52.9%	$ 125	61.8%	$ 60	$ 8

OEM

Leading Products (units in thousands, revenues in millions)

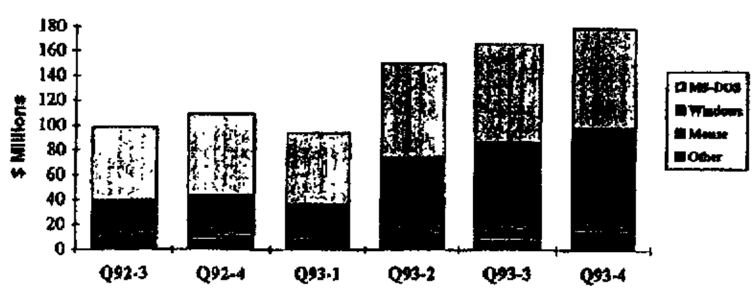
FY93

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
MS-DOS	17,542	$ 291	$ 17	16,662	$ 274	$ 16	880	$ 17	$ 1
Windows 3.X	12,320	215	17	7,436	133	18	4,884	82	(1)
Mouse (Pkgd Product)	2,157	41	19	489	9	18	1,668	32	1
LAN Manager	690	30	43	393	16	41	297	14	2
Works	1,705	22	13	1,192	15	13	513	7	–
		$ 599			$ 447			$ 152	
Percentage of net revenues		82%			90%				

Increased PC shipments and higher Windows penetration created the positive MS-DOS and Windows variances. Sales by Gateway 2000, Dell, Unisys and AST caused the majority of the Mouse overage. Works shipments reflect the strong sales of consumer PCs by OEMs such as IBM (PS/1), Packard Bell, and Gateway 2000.

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
MS-DOS	4,827	$ 80	$ 17	4,690	$ 75	$ 16	137	$ 5	$ 1
Windows 3.X	3,812	73	19	2,119	37	$ 17	1,693	36	2
Mouse (Pkgd Product)	652	11	17	124	2	$ 16	528	9	1
LAN Manager	158	7	44	105	4	$ 38	53	3	6
Works	652	8	12	311	4	$ 13	341	4	(1)
		$ 179			$ 122			$ 57	
Percentage of net revenues		82%			89%				



OEM

Continued strong shipments by key domestic OEMs such as Compaq, Dell, and AST provided $7 million of the MS-DOS variance. Ramping shipments by Olivetti and Escom and out-of-period reporting by Siemens-Nixdorf contributed another $2 million. These positive variances were offset by a $3 million negative variance in the Far East resulting from Far East OEMs losing market share in both their export and domestic markets and a late royalty report from Acer ($1 million). The combination of increased PC shipments and increased Windows penetration led to a $36 million variance in Windows. IBM's royalties for OS/2-related Windows (WABCC) accounted for $15 million of the balance. Mouse sales rode on the tail of Windows' success, with sales to Dell, Gateway 2000, and AST composing the majority of the Mouse variance. The LAN Manager variance can be largely attributed to increased server shipments by IBM ($2 million). These shipments, which carry higher royalties than client units, caused the variance in the $/unit.

Quarterly Growth

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
MS-DOS	4,827	$ 80	$ 17	4,736	$ 79	$ 17	91	$ 1	$ --
Windows	3,812	73	19	3,770	66	18	42	7	1
Mouse (Pkgd Product)	652	11	17	664	13	20	(12)	(2)	(3)
LAN Manager	158	7	44	182	9	49	(24)	(2)	(5)
Works	652	8	12	519	7	13	133	1	(1)
		$ 179			$ 174			$ 5	
Percentage of net revenues		82%			86%				

Overall, increased shipments by our larger OEMs resulted in the positive change from prior quarter. Windows revenue per unit increased due to the a flat fee payment from IBM for OS/2 sold on non-IBM machines. (IBM pays royalties for Windows code that permits OS/2 to run Windows applications.) The average rate for LAN Manager decreased because of a lower server/client ratio than in Q93-3 caused by DEC client units being a higher percentage of total units.

OEM

Net Revenues (in millions)

	FY93	FY93 Plan	FY92	Variance	Change
Domestic					
Licensing	$ 360.2	$ 261.7	$ 215.2	$ 98.5	$ 145.0
Packaged product	42.8	16.7	41.3	26.1	1.5
Gross domestic revenue	403.0	278.4	256.5	124.6	146.5
Domestic revenue adjustments					
GAAP/PPB accrual	30.6	–	15.6	30.6	15.0
Net domestic revenue	433.6	278.4	272.1	155.2	161.5
International Europe					
Germany	62.1	32.5	26.0	29.6	36.1
Italy	16.8	14.3	15.2	2.5	1.6
Nordic region	17.5	9.2	8.1	8.3	9.4
United Kingdom	16.6	13.5	10.3	3.1	6.3
Holland	6.7	5.8	4.3	0.9	2.4
France	5.8	3.7	1.8	2.1	4.0
Spain	1.5	1.0	0.9	0.5	0.6
Other	1.3	–	6.1	1.3	(4.8)
Gross European revenue	128.3	80.0	72.7	48.3	55.6
Int'l Europe revenue adjustments					
GAAP/PPB accrual	7.3	–	2.3	7.3	5.0
Net Int'l Europe revenue	135.6	80.0	75.0	55.6	60.6
International Far East					
Japan	47.2	50.0	49.5	(2.8)	(2.3)
Taiwan	45.5	40.5	36.7	5.0	8.8
Korea	28.0	21.4	17.4	6.6	10.6
Hong Kong	8.2	4.3	4.0	3.9	4.2
Gross Int'l Far East revenue	128.9	116.2	107.6	12.7	21.3
Int'l Far East revenue adjustments					
GAAP/PPB accrual	5.4	–	10.4	5.4	(5.0)
Net Int'l Far East revenue	134.3	116.2	118.0	18.1	16.3
International ICON					
Canada	7.5	9.0	3.8	(1.5)	3.7
Singapore	5.5	5.3	0.6	0.2	4.9
Australia	7.1	6.3	1.7	0.8	5.4
Latin America	3.9	4.9	2.4	(1.0)	1.5
Aime	1.2	1.0	0.6	0.2	0.6
Other	0.9	(5.0)	–	5.9	0.9
Gross Int'l ICON revenue	26.1	21.5	9.1	4.6	17.0
Int'l ICON revenue adjustments					
GAAP/PPB accrual	1.4	–	2.6	1.4	(1.2)
Net Int'l ICON revenue	27.5	21.5	11.7	6.0	15.8
Net worldwide revenue	$ 731.0	$ 496.1	$ 476.8	$ 234.9	$ 254.2

OEM

FY93 OEM revenue, net of a $45 million GAAP accrual, was 47% greater than plan. Absent this adjustment, OEM gross revenue of $686 million was 28% above plan; Domestic gross revenue was 45% above plan, European gross revenue was 60% above plan; and ROW gross revenue was 13% above plan.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Domestic					
Licensing	$ 121.2	$ 68.7	$ 97.6	$ 52.5	$ 23.6
Packaged product	10.5	4.2	12.8	6.3	(2.3)
Gross domestic revenue	131.7	72.9	110.4	58.8	21.3
Domestic revenue adjustments					
GAAP/PPB accrual	3.7	–	2.5	3.7	1.2
Net domestic revenue	135.4	72.9	112.9	62.5	22.5
International Europe					
Germany	16.9	10.0	22.0	6.9	(5.1)
Italy	5.3	3.7	3.9	1.6	1.4
Nordic region	4.1	2.5	7.1	1.6	(3.0)
United Kingdom	5.2	3.8	3.9	1.4	1.3
Holland	1.7	1.7	2.3	–	(0.6)
France	2.3	1.3	1.8	1.0	0.5
Spain	0.6	0.2	0.4	0.4	0.2
Other	0.3	–	0.5	0.3	(0.2)
Gross European revenue	36.4	23.2	41.9	13.2	(5.5)
Int'l Europe revenue adjustments					
GAAP/PPB accrual	1.5	–	2.1	1.5	(0.6)
Net Int'l Europe revenue	37.9	23.2	44.0	14.7	(6.1)
International Far East					
Japan	14.2	18.0	10.6	(3.8)	3.6
Taiwan	12.6	9.9	13.1	2.7	(0.5)
Korea	6.3	5.5	7.1	0.8	(0.8)
Hong Kong	1.9	1.1	2.0	0.8	(0.1)
Gross Int'l Far East revenue	35.0	34.5	32.8	0.5	2.2
Int'l Far East revenue adjustments					
GAAP/PPB accrual	(0.8)	–	6.4	(0.8)	(7.2)
Net Int'l Far East revenue	34.2	34.5	39.2	(0.3)	(5.0)
International ICON					
Canada	1.9	2.6	2.0	(0.7)	(0.1)
Singapore	1.9	1.6	1.3	0.3	0.6
Australia	3.0	2.0	2.3	1.0	0.7
Latin America	1.6	1.5	0.6	0.1	1.0
Aime	0.7	0.2	0.2	0.5	0.5
Other	0.4	(1.2)	0.3	1.6	0.1
Gross Int'l ICON revenue	9.5	6.7	6.7	2.8	2.8
Int'l ICON revenue adjustments					
GAAP/PPB accrual	(0.2)	-	-	(0.2)	(0.2)
Net Int'l ICON revenue	9.3	6.7	6.7	2.6	2.6
Net worldwide revenue	$ 216.8	$ 137.3	$ 202.8	$ 79.5	$ 14.0

OEM

Q93-4 revenues, net of $4 million GAAP accrual, were 58% greater than plan and 7% greater than Q93-3.

Significant Customers (in millions)

	FY93	FY93 Plan	FY92	Variance	Change
Gateway 2000	$ 55.2	$ 30.5	$ 19.5	$ 24.7	$ 35.7
IBM	44.6	12.1	18.9	32.5	25.7
Compaq	43.4	18.6	16.0	24.8	27.4
Dell	40.6	14.7	14.1	25.9	26.5
AST	22.6	10.8	10.4	11.8	12.2
Packard Bell	17.5	12.1	10.0	5.4	7.5
DEC	17.0	14.7	10.9	2.3	6.1
NEC	16.0	15.2	16.1	0.8	(0.1)
Vobis	13.7	6.9	5.9	6.8	7.8
Olivetti	13.1	12.0	12.3	1.1	0.8
Escom	10.8	3.9	2.6	6.9	8.2
Hewlett Packard	9.8	4.5	4.4	5.3	5.4
NCR	9.6	5.9	5.3	3.7	4.3
Acer	9.5	10.1	8.4	(0.6)	1.1
Siemens Nixdorf	9.4	5.9	5.3	3.5	4.1
Unisys	9.3	3.7	13.1	5.6	(3.8)
Zenith	9.2	10.8	9.4	(1.6)	(0.2)
Tandy	8.9	10.7	5.6	(1.8)	3.3
Toshiba	8.6	9.8	6.9	(1.2)	1.7
SCO	7.9	9.1	8.7	(1.2)	(0.8)
Other Customers	309.6	274.1	242.1	35.5	67.5
Gross Revenue	686.3	496.1	445.9	190.2	240.4
Revenue adjustments	44.7	–	30.9	44.7	13.8
Net revenue	$ 731.0	$ 496.1	$ 476.8	$ 234.9	$ 254.2

FY93 was the year of the "Big Six" as Gateway 2000, IBM, Compaq, Dell, AST, and Packard Bell gained market share at the expense of the mid-tier OEMs through competitive pricing, expansion into new channels, and adoption of channel-specific branding strategies. Most of these companies squeezed margins to stay competitive in the price wars, leaving little room for further price cuts. IBM, Compaq, Dell, and AST also grew in markets outside the U.S. Packard Bell remained a major player in the mass merchandising channel, although high product returns and tight margins continue to threaten its financial stability. Among the solution providers, DEC and Hewlett Packard had robust growth, with DEC expected to post its first profitable quarter in 2 years. FY93 bankruptcies included Tandon, Everex, Copam, Cumulus, Northgate, and CompuAdd.

PC sales in Europe were up sharply during FY93, although not necessarily reflected in European OEMs sales, due to the resurgence of the top-tier U.S. vendors, such as IBM and Compaq, and to channel expansion. Compaq became the leading portable PC shipper in Europe. Second-tier OEMs such as Victor, Tulip, and Tandon lost share to the top-tier OEMs as those OEMs overcame the backlog problems that had shifted buyers to the second-tier. Successful companies generally operated in multiple channels and developed brands for each channel in addition to abandoning premium pricing strategies by establishing pricing within 5 to 10% of their second-tier competition.

Growth was slower in the Far East as Korea and Taiwan lost there ability to compete on price alone. Hyundai, Sanyo, Samsung, and Datatech all had negative MS-DOS revenue variances.

MS-DOS 6.0 licenses, signed by virtually all previously licensed OEMs, shifted the right to replicate product from the OEM to authorized replicators. This change is expected to sharply curtail the amount of unbundling that occurs in the channels.

OEM

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Gateway 2000	$ 22.3	$ 5.3	$ 13.3	$ 17.0	$ 9.0
IBM	19.6	3.4	17.5	16.2	2.1
Compaq	16.7	5.2	12.0	11.5	4.7
Dell	12.0	4.2	8.7	7.8	3.3
AST	7.3	2.9	6.3	4.4	1.0
DEC	6.3	4.3	3.9	2.0	2.4
NEC	5.8	5.8	2.7	–	3.1
Packard Bell	4.8	3.5	5.8	1.3	(1.0)
Olivetti	4.0	3.0	2.7	1.0	1.3
Siemens Nixdorf	3.6	2.0	4.4	1.6	(0.8)
Toshiba	3.1	4.7	2.1	(1.6)	1.0
Acer	3.0	2.5	2.4	0.5	0.6
Unisys	2.9	0.9	2.6	2.0	0.3
Hewlett Packard	2.8	1.0	3.2	1.8	(0.4)
Vobis	2.7	2.0	2.7	0.7	–
Escom	2.6	1.0	6.0	1.6	(3.4)
NCR	2.6	1.8	3.0	0.8	(0.4)
Tandy	2.5	2.3	2.6	0.2	(0.1)
Zenith	2.0	2.7	2.8	(0.7)	(0.8)
Video Technology	1.6	0.8	1.5	0.8	0.1
Other Customers	84.4	78.0	85.6	6.4	(1.2)
Gross Revenue	212.6	137.3	191.8	75.3	20.8
Revenue adjustments	4.2	–	11.0	4.2	(6.8)
Net revenue	$ 216.8	$ 137.3	$ 202.8	$ 79.5	$ 14.0

Revenue growth from the top 5 OEMs drove most of the $75 million positive variance. Gateway 2000's $9 million change included $1.8 million of catch-up reporting under its applications license, and IBM revenue included $5.2 million for OS/2 shipped on non-IBM machines.

Compaq will distribute operating systems (Unix, Windows NT, NetWare) by CD-ROM. Although CD players are currently in only a small percentage of PCs, this distribution method has the future potential of changing the OEM software pricing and distribution model. Gateway 2000 ships 70% of its PCs with CD ROM players.

Prepaid Balances (in millions)

	June 30, 1993	March 31, 1993	June 30, 1992
Gross	$ 164	$ 169	$ 179
Reserve	(29)	(29)	(41)
Net prepaid balance	$ 135	$ 140	$ 138
Qtrs. of revenue in PPB	0.7	0.7	1.1

Unspecified Product Billings (UPB) of $8 million for Q93-4 resulted from due on signing and minimum commitment billings in excess of recoupment by product-specific royalties. Though UPB was positive, the Prepaid Balance decreased. This anomaly occurred primarily because of the termination due to bankruptcy of several licenses that carried large prepaid balances.

This quarter's revenue accrual of $4 million reflects an increase from Q93-3 in the accrual for earned but unreported royalties ($8 million), partially offset by an increase in deferred revenue related to billings prior to product acceptance ($4 million). Consistent increases in the revenue accrual during FY93 reflect rising unit shipments and greater revenue per PC.

Operating Expenses and Allocations

FY93

Operating expenses were $20 million above plan primarily due to a $16 million increase in the bad debt reserve. Allocations were $22 million under plan, mainly because of Systems R&D that was $20 million below plan.

Q93-4

Q93-4 operating expenses were $8 million above plan primarily due to a $6 million variance in bad debt, of which $5 million was an increase in the bad debt reserve. This increase resulted from specific identification of high risk OEMs. Allocations were $3 million under plan, primarily because of Systems R&D that was $2 million below plan.

Redmond Based Headcount*

					As a Percent of Total	
	Actual	Plan	Variance	Change	Operating	Channels
June 30, 1993	81	81	–	4	1%	1%
March 31, 1993	77	80	3	(1)	1	1
December 31, 1992	78	79	1	1	1	1
September 30, 1992	77	78	1	3	1	1
June 30, 1992	74	66	(8)	2	1	1

**The headcount totals represent Redmond-based people only. Subsidiary personnel dedicated to International OEM are included in the IPG Channel*

Burdened Operating Income

FY93

Burdened operating income was $444 million (94%) greater than plan as a result of higher revenues and lower allocations than plan.

Q93-4

Q93-3 burdened operating income was $70 million (125%) greater than plan as a result of above-plan revenues and below-plan allocations, partially offset by negative variances in cost of revenues and operating expenses.

Quarterly Growth

Q94-4 burdened operating income was 7% greater than Q93-3 burdened operating income of $125 million. The growth resulted from revenue growth offset by slightly higher allocations.

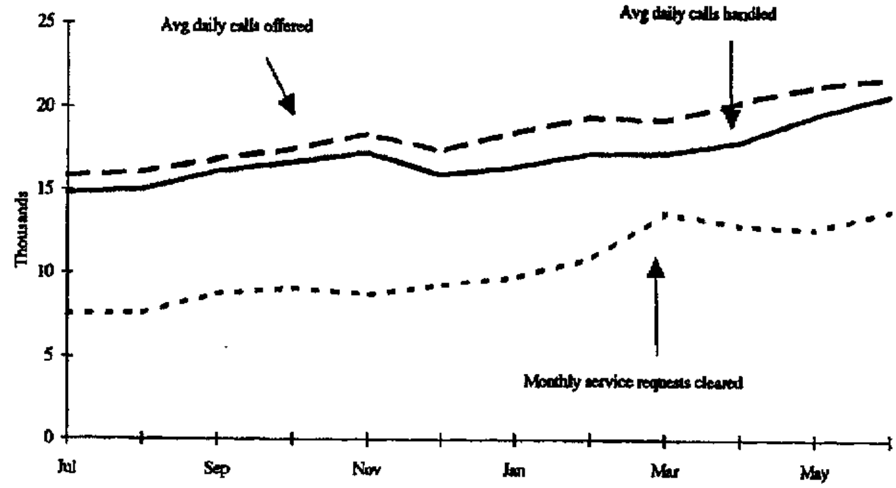
PSS

Daily call volume in Q93-4 increased 11% from the previous quarter. Domestic PSS operating expenses of $38.8 million were greater than plan by $1.5 million, or 4%, reflecting higher support costs for products. At June 30, 1993, PSS headcount of 1,807 was 8% below plan.

Average Daily Calls

As illustrated in the following chart, average daily calls offered, average daily calls handled and monthly service requests cleared increased in Q93-4.

PSS Activity



Total average daily calls offered and handled increased 11% and 14%, respectively, over Q93-3 volumes. As depicted in the graph, the gap between calls offered and handled narrowed in Q93-4. Calls handled for the quarter were 92% of calls offered, which compares to 89% in Q93-3 and a PSS target rate of 95%. This positive result reflects increased hiring over the past two quarters.

Average monthly service requests cleared increased 13% to 12,925 in Q93-4 from 11,408 in Q93-3.

Average Daily Calls by Business Unit

	Offered			Handled			Handle Ratio		Average Call Time	
	Q93-4	Q93-3	Change	Q93-4	Q93-3	Change	Q93-4	Q93-3	Q93-4	Q93-3
Windows	4,177	4,605	(9.3)%	3,847	4,292	(10.4)%	92%	93%	15.42	14.59
OBU	3,967	4,216	(5.9)%	3,775	3,642	3.6%	95%	86%	10.77	10.75
ABU	3,313	3,416	(3.0)%	3,029	2,946	2.8%	91%	86%	10.70	10.20
MS-DOS	2,652	392	577.1%	2,190	380	475.8%	83%	97%	19.50	11.61
DABU	1,685	1,207	39.6%	1,528	1,013	50.9%	91%	84%	13.17	12.70
Fox	1,536	1,117	37.6%	1,479	1,088	35.9%	96%	97%	12.88	12.71
EBU	1,432	1,759	(18.6)%	1,330	1,513	(12.1)%	93%	86%	8.22	7.78
Strategic support	789	807	(2.2)%	761	728	4.5%	96%	90%	4.69	4.99
Languages	618	559	10.5%	583	514	13.4%	94%	92%	11.58	9.94
GBU	448	430	4.1%	427	396	7.9%	95%	92%	7.51	7.79
Hardware	227	226	0.3%	206	208	(1.0)%	91%	92%	8.49	8.35
Other	284	267	6.2%	249	219	13.7%	88%	82%	N/A	N/A
	21,128	19,002	11.2%	19,404	16,939	14.5%	92%	89%	12.33	11.30

PSS

Average daily calls related to DOS 6.0 (MS-DOS), Win Access (DABU) and Win FoxPro (Fox) all increased, following product releases in the third and fourth quarters. Windows 3.1 calls continue to decline from the peak levels in Q92-4.

PSS Cost Distribution by Product Unit (in millions)

The following chart illustrates the distribution of domestic PSS cost to product units.

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Windows	$ 7.4	20.2%	$ 11.9	33.6%	$ 9.2	32.6%	$ 4.5	$ 1.8
Word	5.2	14.1	5.1	14.4	4.3	15.1	(0.1)	(0.9)
MS-DOS	4.1	11.1	1.4	3.9	0.2	0.8	(2.7)	(3.8)
Fox	3.8	10.3	2.0	5.7	3.2	11.4	(1.8)	(0.6)
Excel	3.7	10.0	4.4	12.5	2.9	10.3	0.8	(0.7)
DBM	2.7	7.4	0.3	0.7	1.7	5.9	(2.4)	(1.0)
Other Operating Sys	2.5	6.7	3.1	8.7	1.5	5.5	0.6	(0.9)
Workgroup	1.6	4.3	1.3	3.5	0.7	2.5	(0.3)	(0.9)
Languages	1.4	3.8	1.5	4.3	1.0	3.7	0.1	(0.4)
Works	1.2	3.2	0.9	2.6	1.0	3.5	(0.2)	(0.2)
Windows NT	0.9	2.5	1.4	4.1	0.6	2.0	0.5	(0.4)
Graphics	0.6	1.6	0.3	0.7	0.4	1.5	(0.3)	(0.2)
Project	0.5	1.3	0.3	0.7	0.4	1.4	(0.2)	(0.1)
Basic	0.5	1.3	0.8	2.3	0.4	1.4	0.3	(0.1)
Entry	0.4	1.0	0.3	0.8	0.3	1.1	(0.1)	--
Hardware	0.2	0.6	0.3	0.7	0.3	0.9	--	--
Multimedia Systems	0.1	0.3	0.1	0.3	0.1	0.4	--	--
Multimedia Publishing	0.1	0.2	0.1	0.2	0.1	0.2	--	--
Mobile Windows	--	--	0.0	0.1	--	--	--	--
	$ 36.6	100.0%	$ 35.3	100.0%	$ 28.2	100.0%	$ (1.3)	$ (8.4)

Q93-4 domestic PSS costs (which exclude $2.2 million of expense incurred in the US to assist the International PSS groups) were $8.4 million greater than Q93-3, and $1.3 million above plan. This increase was primarily due to support for increased call volumes related to the release of MS-DOS 6.0, as well as continued increases in calls related to Access and FoxPro. Windows, Word, MS-DOS, Fox and Excel contributed 67% of all product costs incurred in Q93-4.

Over the last 12 months, product support costs averaged 7.1% of domestic (USFG and US-OEM) gross revenues, compared to the plan of 8.6%.

PSS Cost Distribution by Channel (in millions)

Within the ABC system, product support costs for each product unit were distributed to the USFG and US-OEM channels based on the historical sales split between these channels.

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
USFG	$ 32.8	89.6%	$ 31.1	88.1%	$ 25.1	89.0%	$ (1.7)	$ (7.7)
US-OEM	3.8	10.4%	4.2	11.9%	3.1	11.0%	0.4	(0.7)
Domestic Channels	36.6	100.0%	35.3	100.0%	28.2	100.0%	(1.3)	(8.4)
International	2.2		2.0		1.7		(0.2)	(0.5)
	$ 38.8		$ 37.3		$ 29.9		$ (1.5)	$ (8.9)

PSS

PSS Cost by Product (in millions)

Ranking Q93-4	Ranking Q93-3	Product	Q93-4	Q93-3	% Change
1	1	Windows	$ 4.7	$ 6.9	(32.7)%
2	17	MS-DOS	4.3	0.4	1,078.6
3	2	Win Word	3.9	3.3	18.8
4	3	Win Excel	3.0	2.3	30.7
5	8	Access	2.7	2.0	29.8
6	4	LAN Manager	2.6	2.0	30.1
7	5	PC FoxPro	1.8	2.4	(24.0)
8	14	Win FoxPro	1.7	0.5	269.8
9	6	PC Mail	1.7	1.2	40.9
10	9	Windows SDK	1.7	1.6	4.9
11	12	Mac Word	1.2	0.9	27.5
12	11	Win Workgroups	1.0	1.1	(8.7)
13	13	C Compiler	0.7	0.7	1.5
14	10	SQL Server	0.7	0.6	13.7
15	22	Mac Excel	0.6	0.7	(7.4)
			$ 32.2	$ 26.6	21.3%

The top 15 products, measured by support costs, are presented above. Paralleling the trend of increased phone call volume, support costs have increased significantly for MS-DOS, Win Excel, Access, LAN Manager, PC Mail, Mac Word and Win FoxPro. Windows and PC FoxPro, on the other hand, have reported dramatic decreases.

Domestic Operating Expenses (in millions)

	Q93-4	Q93-4 Plan	Variance
Payroll & Fringes	$ 17.2	$ 19.2	$ 2.0
Supplies & equipment	3.7	2.8	(0.9)
Paid support offset	(3.0)	(2.5)	0.5
Other	20.8	17.8	(3.0)
	$ 38.8	$ 37.3	$ (1.5)

Total Q93-4 operating expenses (including $2.2 million to assist International PSS groups) were 4% greater than plan. This increase was primarily due to a negative cost per head variance of $4.5 million, offset by a positive headcount variance of $ 3.0 million. Domestic PSS revenue, which offsets support costs, was $3.0 million in Q93-4. Annual Support Agreements represent 76% of this total.

Domestic Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Channels
June 30, 1993	1,807	1,956	149	53	14%	24%
March 31, 1993	1,754	1,933	179	177	14%	25%
December 31, 1992	1,577	1,873	296	55	12%	25%
September 30, 1992	1,522	1,760	238	55	14%	25%
June 30, 1992	1,467	1,363	(104)	240	14%	25%

International PSS

Product support is provided in 28 subsidiaries. Nineteen of these subsidiaries provide full service end user, corporate and developer support, with the other nine providing limited support. Support is handled primarily by telephone with a few subsidiaries offering On-Line and CompuServe support. An escalation process allows subsidiaries to submit those questions to Redmond which cannot be answered by the subsidiary.

Other Channels

Net Revenues (in millions)

	FY93	FY93 Plan	Variance
Press	$ 15.7	$ 18.5	$ (2.8)
US MSU	13.2	11.7	1.5
US MCS	12.3	11.1	1.2
Int'l MSU - Europe	2.4	3.3	(0.9)
Int'l MCS - Europe	3.9	4.3	(0.4)
Int'l MSU - ROW	2.0	2.0	--
Int'l MCS - ROW	1.3	1.6	(0.3)
Eliminations	--	--	--
	$ 50.8	$ 52.5	$ (1.7)

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Press	$ 5.1	$ 6.4	$ 5.7	$ (1.3)	$ (0.6)
US MSU	4.2	4.1	4.5	0.1	(0.3)
US MCS	5.1	4.3	3.9	0.8	1.2
Int'l MSU - Europe	0.8	1.1	0.9	(0.3)	(0.1)
Int'l MCS - Europe	1.4	1.8	1.3	(0.4)	0.1
Int'l MSU - ROW	0.5	0.7	1.2	(0.2)	(0.7)
Int'l MCS - ROW	0.5	0.7	0.6	(0.2)	(0.1)
Eliminations	--	--	--	--	--
	$ 17.6	$ 19.1	$ 18.1	$ (1.5)	$ (0.5)

Operating Income (Loss) (in millions)

	FY93	FY93 Plan	Variance
Press	$ 0.1	$ 0.2	$ (0.1)
US MSU	(1.9)	(4.8)	2.9
US MCS	0.6	(0.2)	0.8
Int'l MSU - Europe	(1.2)	0.4	(1.6)
Int'l MCS - Europe	(1.0)	(1.8)	0.8
Int'l MSU - ROW	(0.2)	(0.2)	0.1
Int'l MCS - ROW	(0.7)	(0.9)	0.2
Eliminations	--	--	--
	$ (4.2)	$ (7.3)	$ 3.1

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Press	$ (0.2)	$ --	$ (0.1)	$ (0.1)	$ (0.1)
US MSU	(1.0)	(1.3)	(0.4)	0.3	(0.6)
US MCS	0.8	0.4	(0.2)	0.4	1.0
Int'l MSU - Europe	(0.4)	0.2	(0.3)	(0.5)	(0.1)
Int'l MCS - Europe	(0.4)	(0.4)	(0.2)	0.0	(0.2)
Int'l MSU - ROW	(0.2)	(0.1)	0.4	(0.1)	(0.6)
Int'l MCS - ROW	(0.2)	(0.2)	0.1	(0.1)	(0.3)
Eliminations	--	--	--	--	--
	$ (1.5)	$ (1.4)	$ (0.7)	$ (0.1)	$ (0.8)

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Channel
Press	27	32	5	(1)	–%	–%
US MSU	84	89	5	(1)	1	1
US MCS	164	120	(44)	31	1	2
	275	241	(34)	29	2%	3%

Press

Revenues were $1.3 million below plan for the quarter. Cost of revenues were $505,000 less than plan due to favorable product costs, inventory adjustments, and royalty variances. Operating expenses were $700,000 less than plan due primarily to positive variances in marketing, professional fees, and administrative services. Allocations were $84,000 above plan due to a negative variance in the Book Development Group's expenses. Operating income was $137,000 less than plan.

US MSU

Revenues were $65,000 over plan. Operating expenses were $394,000 less than plan, achieved by a $322,000 favorable variance in miscellaneous operating expenses and lower than planned payroll, partially offset by higher than planned spending on marketing.

US MCS

Revenues were $756,000 over plan due to more chargeable hours worked. Operating expenses were $310,000 over plan due to higher than planned headcount.

Int'l MSU-Europe

Revenues for the quarter were $840,000, $305,000 less than plan. Operating income reflected both the shortfall in revenues and cost of revenues that were $259,000 higher than plan.

Int'l MCS-Europe

Revenues were $1.4 million, $330,000 less than plan. The $39,000 favorable variance in Operating income reflected the shortfall in revenues and cost of revenues that were $121,000 higher than plan, offset by Operating expenses that were $433,000 below plan.

Int'l MSU-ROW

Revenues were $520,000, $198,000 below plan. The $114,000 unfavorable variance in Operating income reflected the shortfall in revenues, partially offset by a $98,000 favorable variance in Operating Expenses.

Int'l MCS-ROW

Revenues were $131,000 below plan. Operating expenses were $70,000 below plan, resulting in the unfavorable operating income variance of $51,000.

Product Group Reporting

Product Group Summary

Net Revenues

	FY93		FY93 Plan		Variance
Applications	$ 2,173	58%	$ 2,004	57%	$ 169
Systems	1,267	34	1,173	33	94
Hardware	233	6	253	7	(20)
Other	80	2	75	3	5
	$ 3,753	100%	$ 3,505	100%	$ 248

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Applications	$ 542	52%	$ 543	56%	$ 580	61%	$ (1)	$ (38)
Systems	414	40	339	35	313	33	75	101
Hardware	56	5	66	7	45	5	(10)	11
Other	27	3	21	2	20	1	6	7
	$ 1,039	100%	$ 969	100%	$ 958	100%	$ 70	$ 81

Operating Income (Loss)

	FY93		FY93 Plan		Variance
		Revenue		Revenue	
Applications	$ 822	37.8%	$ 666	33.2%	$ 156
Systems	453	35.4	313	26.7	140
Hardware	55	23.9	74	29.0	(19)
Other	(4)	(5.4)	(8)	(9.4)	4
	$ 1,326	35.2	$ 1,045	29.8	$ 281

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
		Revenue		Revenue		Revenue		
Applications	$ 187	34.6%	$ 207	38.0%	$ 231	39.8%	$ (20)	$ (44)
Systems	179	42.0	120	35.5	102	32.4	59	77
Hardware	7	12.0	19	28.4	7	15.0	(12)	--
Other	--	(2.2)	--	0.4	(2)	(6.8)	--	2
	$ 373	35.5	$ 346	35.7	$ 338	35.3	$ 27	$ 35

Headcount (percent is of Product Groups' total)

	June 30, 1993		March 31, 1993		December 31, 1992		September 30, 1992		June 30, 1992	
Applications	2,324	53%	2,232	53%	2,192	54%	2,138	54%	2,037	54%
Systems	1,446	33	1,436	34	1,402	34	1,389	35	1,258	34
Hardware	77	2	71	2	61	1	51	1	51	1
International R&D	225	5	222	5	188	5	173	4	337	9
Other*	289	7	245	6	224	6	199	6	62	2
	4,361	100%	4,206	100%	4,067	100%	3,950	100%	3,745	100%

**Includes WPG, Services and Books.*

Note: Prior quarters have been restated to include IPG Ireland headcount.

Bundled Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	922	$ 422	$ 458	451	$ 203	$ 450	471	$ 219	$ 8
Win Office Upg	318	76	239	20	7	350	298	69	(111)
Mac Office	168	65	387	115	46	400	53	19	(13)
DOS/Win	189	20	106	474	54	114	(285)	(34)	(8)
Mac Word/Excel	31	6	194	–	–	–	31	6	194
Win/BallPoint	23	3	130	–	–	–	23	3	130
		$ 592			$ 310			$ 282	

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	299	$ 134	$ 448	123	$ 54	$ 439	176	$ 80	$ 9
Win Office Upg	117	28	239	5	2	400	112	26	(161)
Mac Office	52	21	404	32	13	406	20	8	(2)
DOS/Win	28	2	71	36	4	111	(8)	(2)	(40)
Mac Word/Excel	7	1	143	–	–	–	7	1	143
Mac Office Upg	4	1	250	–	–	–	4	1	250
		$ 187			$ 73			$ 114	

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Office	299	$ 134	$ 448	225	$ 109	$ 484	74	$ 25	$ (36)
Win Office Upg	117	28	239	135	34	252	(18)	(6)	(13)
Mac Office	52	21	404	37	14	378	15	7	26
DOS/Win	28	2	71	35	4	114	(7)	(2)	(43)
Mac Word/Excel	7	1	143	6	1	167	1	–	(24)
Mac Office Upg	4	1	250	3	1	333	1	–	(83)
		$ 187			$ 163			$ 24	

Note: A unit is a bundle in the bundled products tables.

Product Group Summary

Quarterly Revenues (in millions)

	Q93-1		Q93-2		Q93-3		Q93-4		FY93	
Applications	$ 478	58%	$ 573	61%	$ 580	61%	$ 542	52%	$ 2,173	58%
Systems	258	32	283	30	313	33	414	40	1267	34
Hardware	66	8	64	7	45	5	56	5	233	6
Other	16	2	18	2	20	1	27	3	80	2
	$ 818	100%	$ 938	100%	$ 958	100%	$1,039	100%	$ 3,753	100%

	Q92-1		Q92-2		Q92-3		Q92-4		FY92	
Applications	$ 270	47%	$ 387	57%	$ 366	54%	$ 397	49%	$ 1,421	52%
Systems	245	42	220	32	248	36	354	43	1,067	39
Hardware	59	10	71	10	59	9	65	8	254	9
Other	6	1	4	1	8	1	(1)	–	17	1
	$ 580	100%	$ 682	100%	$ 681	100%	$ 815	100%	$ 2,759	100%

	Q91-1		Q91-2		Q91-3		Q91-4		FY91	
Applications	$ 178	48%	$ 244	53%	$ 256	52%	$ 257	49%	$ 935	51%
Systems	138	37	164	36	168	34	220	42	690	37
Hardware	50	14	59	13	57	12	47	9	213	12
Other	4	1	(6)	(1)	6	2	2	–	6	–
	$ 370	100%	$ 461	100%	$ 487	100%	$ 526	100%	$ 1,844	100%

	Q90-1		Q90-2		Q90-3		Q90-4		FY90	
Applications	$ 106	45%	$ 153	51%	$ 158	51%	$ 145	43%	$ 562	48%
Systems	98	42	105	35	113	36	148	44	464	39
Hardware	25	11	36	12	33	11	35	10	129	11
Other	6	3	6	2	7	2	9	3	28	2
	$ 235	100%	$ 300	100%	$ 311	100%	$ 337	100%	$ 1,183	100%

Note: FY91 and FY90 have not been restated to reflect the FY93 financial view.

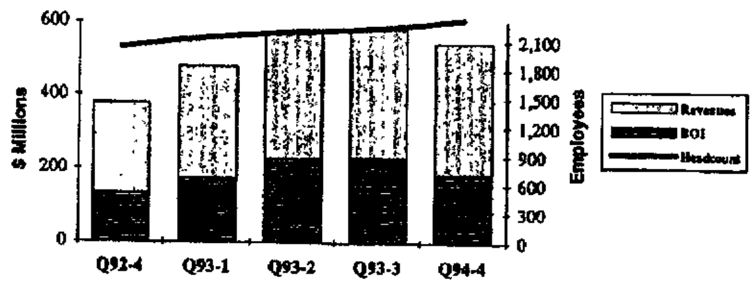
APPLICATIONS SUMMARY

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 2,173	100.0%	$ 2,004	100.0%	$ 169
Cost of revenues	345	15.9	300	14.9	(45)
Operating expense	534	24.6	577	28.8	43
Allocations	472	21.7	461	23.1	(11)
Burdened operating income	$ 822	37.8%	$ 666	33.2%	$ 156

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 542	100.0%	$ 543	100.0%	$ 580	100.0%	$ (1)	$ (38)
Cost of revenues	90	16.7	79	14.6	93	16.1	(11)	3
Operating expense	121	22.4	138	25.5	143	24.7	17	22
Allocations	144	26.3	119	21.9	113	19.4	(25)	(31)
Burdened operating income	$ 187	34.6%	$ 207	38.0%	$ 231	39.8%	$ (20)	$ (44)

Note: Table includes Desktop Applications Division Management.



Note: Prior quarters have been restated to include IPG Ireland headcount.

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
Europe FG	$ 988	$ 911	$ 77
US FG	881	812	69
ICON FG	221	207	14
Far East FG	109	97	12
US OEM	52	28	24
Europe OEM	8	5	3
Far East OEM	4	2	2
Adjustments	(90)	(58)	(32)
Net revenues	$ 2,173	$ 2,004	$ 169

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US FG	$ 240	$ 222	$ 203	$ 18	$ 37
Europe FG	213	244	276	(31)	(63)
ICON FG	59	60	60	(1)	(1)
Far East FG	33	27	35	6	(2)
US OEM	23	5	14	18	9
Europe OEM	2	1	3	1	(1)
Far East OEM	1	1	1	--	--
Adjustments	211	205	191	6	20
Net revenues	$ 542	$ 543	$ 580	$ (1)	$ (38)

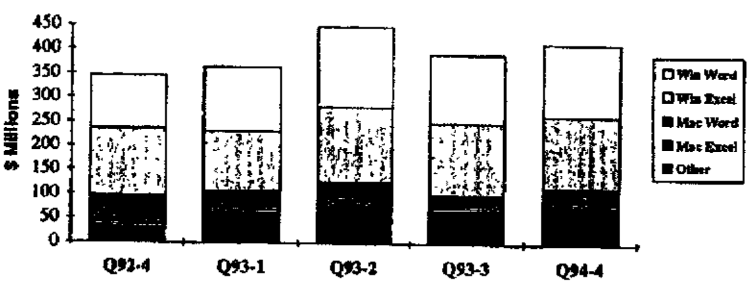
Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Word	2,342	$ 471	$ 201	1,770	$ 423	$ 239	572	$ 48	$ (38)
Win Excel	2,237	455	203	1,787	426	238	450	29	(35)
Win Excel Upg*	1,110	126	114	728	89	122	382	37	(8)
Win Word Upg*	1,054	116	110	839	89	106	215	27	4
Mac Word	722	88	122	616	99	161	106	(11)	(39)
Win Access	823	85	103	61	27	443	762	58	(340)
Mac Excel	509	81	159	445	102	229	64	(21)	(70)
Win Project	244	81	332	140	58	414	104	23	(82)
Win PowerPoint	1,206	79	66	629	60	95	577	19	(29)
Win Works	1,625	61	38	933	58	62	692	3	(24)
		$1,643			$1,431			$ 212	
Percentage of net revenues		75%			71%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Word	725	$ 124	$ 171	485	$ 115	$ 237	240	$ 9	$ (66)
Win Excel	698	122	175	444	110	248	254	12	(73)
Win Excel Upg*	248	27	109	191	23	120	57	4	(11)
Win Word Upg*	256	26	102	243	26	107	13	--	(5)
Win PowerPoint	412	25	61	170	17	100	242	8	(39)
Win Project	80	24	300	34	14	412	46	10	(112)
Mac Word	229	21	92	157	26	166	72	(5)	(74)
Mac Excel	141	19	135	120	27	225	21	(8)	(90)
Win Works	519	14	27	233	15	64	286	(1)	(37)
DOS Word	50	11	220	96	25	260	(46)	(14)	(40)
		$ 413			$ 398			$ 15	
Percentage of net revenues		76%			73%				

**Excludes maintenance.*
Note: Figures in this table include allocations from bundled products.



APPLICATIONS SUMMARY

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Word	725	$ 124	$ 171	541	$ 110	$ 203	184	$ 14	$ (32)
Win Excel	698	122	175	564	113	200	134	9	(25)
Win Excel Upg*	248	27	109	305	37	121	(57)	(10)	(12)
Win Word Upg*	256	26	102	268	31	116	(12)	(5)	(14)
Win PowerPoint	412	25	61	291	19	65	121	6	(4)
Win Project	80	24	300	58	19	328	22	5	(28)
Mac Word	229	21	92	134	17	127	95	4	(35)
Mac Excel	141	19	135	100	17	170	41	2	(35)
Win Works	519	14	27	524	17	32	(5)	(3)	(5)
DOS Word	50	11	220	49	10	204	1	1	16
		$ 413			$ 390			$ 23	
Percentage of net revenues		76%			67%				

* *Excludes maintenance*

Note: Figures in this table include allocations from bundled products.

Revenues by Report Level (in millions)

	FY93	FY93 Plan	Variance
Standard	$ 1,272	$ 1,348	$ (76)
Upgrades	354	293	61
Academic	119	131	(12)
License	385	242	143
Maintenance	22	11	11
Whitebox	74	28	46
Other	37	8	29
	2,263	2,061	202
Adjustments	(90)	(57)	(33)
Net revenues	$ 2,173	$ 2,004	$ 169

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Standard	$ 308	$ 376	$ 338	$ (68)	$ (30)
Upgrades	82	74	86	8	(4)
Academic	28	34	25	(6)	3
License	112	63	99	49	13
Maintenance	8	3	6	5	2
Whitebox	22	8	21	14	1
Other	12	1	15	11	(3)
	572	559	590	13	(18)
Adjustments	(30)	(16)	(10)	(14)	(20)
Net revenues	$ 542	$ 543	$ 580	$ (1)	$ (38)

Applications Summary

Revenues by Environment (in millions)

	FY93		FY93 Plan		Variance
Windows	$ 1,696	75%	$ 1,393	68%	$ 303
Mac	294	13	309	15	(15)
DOS	263	12	355	17	(92)
Other	10	–	4	–	6
	2,263	100%	2061	100%	202
Adjustments	(90)		(57)		(33)
Net revenues	$ 2,173		$ 2,004		$ 169

	Q93-4		Q93-4 Plan		Q93-3		Q93-2		Q93-1	
Windows	$ 445	78%	$ 377	67%	$ 468	79%	$ 446	72%	$ 336	69%
Mac	68	12	84	15	58	10	88	14	81	17
DOS	56	10	94	17	63	11	79	13	65	13
Other	3	–	4	1	1	–	3	1	3	1
	572	100%	559	100%	590	100%	616	100%	485	100%
Adjustments	(30)		(16)		(10)		(43)		(7)	
Net revenues	$ 542		$ 543		$ 580		$ 573		$ 478	

Business Unit Results (in millions)

Net Revenues

	FY93		FY93 Plan		Variance
Desktop Applications	$ 1,659	76.4%	$ 1,504	75.0%	$ 155
Database & Dev. Tools	276	12.7	249	12.4	27
Consumer	176	8.1	194	9.7	(18)
Workgroup	61	2.8	57	2.8	4
Rounding	1	–	–	0.1	1
	$ 2,173	100.0%	$ 2,004	100.0%	$ 169

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Desktop Applications	$ 418	79.8%	$ 400	73.7%	$ 405	69.9%	$ 18	$ 13
Database & Dev. Tools	68	12.5	73	13.4	115	19.9	(5)	(47)
Consumer	38	7.0	53	9.8	45	7.8	(15)	(7)
Workgroup	17	3.1	17	3.1	14	2.4	–	3
Rounding	1	(2.4)	–	–	1	–	1	–
	$ 542	100.0%	$ 543	100.0%	$ 580	100.0%	$ (1)	$ (38)

APPLICATIONS SUMMARY

Operating Income (Loss)

	FY93		FY93 Plan		Variance
Desktop Applications	$ 807	98.2%	$ 652	97.9%	$ 155
Consumer	24	2.9	28	4.2	(4)
Database & Dev. Tools	12	1.5	8	1.2	4
Workgroup	(22)	(2.7)	(23)	(3.5)	1
Rounding	1	0.1	1	0.2	–
	$ 822	100.0%	$ 666	100.0%	$ 156

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Desktop Applications	$ 198	105.9%	$ 185	89.4%	$ 191	82.5%	$ 13	$ 7
Consumer	(1)	(0.5)	10	4.8	7	3.2	(11)	(8)
Database & Dev. Tools	(4)	(2.1)	15	7.2	40	17.2	(19)	(44)
Workgroup	(6)	(3.2)	(3)	(1.4)	(7)	(3.0)	(3)	1
Rounding	–	(0.1)	–	–	–	0.1	–	–
	$ 187	100.0%	$ 207	100.0%	$ 231	100.0%	$ (20)	$ (44)

Headcount (percent is of Product Groups' total)

	June 30, 1993		March 31, 1993		December 31, 1992		September 30, 1992		June 30, 1992	
Desktop Applications*	869	21%	880	21%	853	21%	834	21%	807	22%
Consumer	432	10	402	10	379	9	367	9	356	10
Database & Dev. Tools	648	16	598	14	600	15	608	15	550	15
Workgroup	375	9	352	8	360	9	329	8	324	9
	2,324	56%	2,232	53%	2,192	54%	2,138	54%	2,037	55%

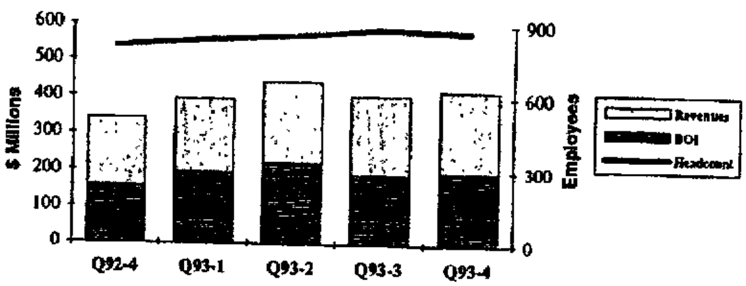
***Desktop Applications numbers include Desktop Applications support headcount.**
Note: Prior quarters have been restated to include IPG Ireland headcount.

DESKTOP APPLICATIONS SUMMARY

Net Revenues

	FY93		FY93 Plan		Variance
Excel	$ 691	41.7%	$ 645	42.9%	$ 46
Word	749	45.1	704	46.8	45
Graphics	119	7.2	85	5.7	34
Project	100	6.0	70	4.7	30
Rounding	–	–	–	(0.1)	–
	$ 1,659	100.0%	$ 1,504	100.0%	$ 155

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Excel	$ 171	40.9%	$ 168	42.0%	$ 176	43.4%	$ 3	$ (5)
Word	185	44.3	192	48.0	176	43.4	(7)	9
Graphics	35	8.4	24	6.0	31	7.6	11	4
Project	27	6.5	16	4.0	23	5.6	11	4
Rounding	--	(0.1)	–	–	(1)	–	–	1
	$ 418	100.0%	$ 400	100.0%	$ 405	100.0%	$ 18	$ 13



Note: Prior quarters have been restated to include IPG Ireland headcount.

Operating Income

	FY93	Revenue	FY93 Plan	Revenue	Variance
Excel	$ 332	48.1%	$ 284	44.0%	$ 48
Word	350	46.7	307	43.6	43
Graphics	62	52.3	30	36.0	32
Project	63	63.3	31	44.9	32
Rounding	–	–	–	–	--
	$ 807	48.7	$ 652	43.4	$ 155

	Q93-4	Revenue	Q93-4 Plan	Revenue	Q93-3	Revenue	Variance	Change
Excel	$ 76	44.3%	$ 77	45.6%	$ 87	49.3%	$ (1)	$ (11)
Word	81	43.7	90	47.0	76	43.3	(9)	5
Graphics	21	61.3	10	43.8	16	50.4	11	5
Project	20	74 7	7	43.5	12	54.1	13	8
Rounding	–	–	1	--	--	--	(1)	--
	$ 198	47.4	$ 185	46.1	$ 191	47.0	$ 13	$ 7

DESKTOP APPLICATIONS SUMMARY

Headcount (percent is of Product Groups' total)

	June 30, 1993		March 31, 1993		December 31, 1992		September 30, 1992		June 30, 1992	
Excel	243	6%	242	6%	231	6%	229	6%	222	6%
Word	260	6	281	7	279	7	282	7	252	7
Graphics	66	2	67	2	62	2	56	1	56	1
Project	73	2	75	2	69	2	72	2	69	2
DAD Support	227	5	215	5	212	5	195	5	208	6
	869	21%	880	21%	853	22%	834	21%	807	22%

Note: Prior quarters have been restated to include IPG Ireland headcount.

EXCEL

FY93

Excel 4.0 received a number of top honors and awards during FY93: Software Digest Ratings Report, Highest overall evaluation; InfoWorld, Top-rated Windows-based spreadsheet; BYTE magazine, Award of Excellence; PC/Computing, Most Valuable Product award; PCWorld, World Class award; Best of '92 spreadsheet. For the Macintosh: MacWEEK, Editor's Choice Diamond award; MacUser, Five Mice, highest rating; MacWord, World Class Award.

Excel was chosen as the testbed application for Windows NT. Excel will be one of the first major applications to support NT.

Excel Business Unit estimated that Excel held 51% of the Windows spreadsheet market share and 89% of the Macintosh spreadsheet market share in North America for FY93 year to date as of March '93.

The Excel User Education group received two awards from the regional Society for Technical Communications; one for the Excel 4.0 Step by Step book, and one for the Windows Excel 4.0 CBT.

Quattro Pro for Windows received the "best spreadsheet" award from Windows User Magazine, beating both Microsoft Excel 4.0 and Lotus 1-2-3 for Windows. The product also was given the award for "best spreadsheet" from Windows Magazine.

Q93-4

Microsoft Query will be included in Excel 5.0 and other Microsoft Desktop applications, allowing for built-in data access capabilities. Microsoft Query uses the Open Database Connectivity (ODBC) standard to connect applications such as Excel and Word to a variety of databases such as SQL Server, Oracle Server, dBASE and Paradox.

Excel 5.0 shipped a beta release in June.

Lotus Development Corp. shipped 1-2-3 Release 4 for Windows on June 15 along with SmartSuite 2.0. Both products shipped simultaneously in English, French, German and Japanese. Suggested retail price is $495. Upgrades for users of all other releases of 1-2-3 and from competitive spreadsheets are being offered at a suggested retail price of $129.

Lotus 1-2-3 Release 4 for Windows received BYTE Magazine's Best of Spring COMDEX award for application software on May 26.

The Borland Office for Windows shipped, with Quattro Pro for Windows 1.0, WordPerfect 5.2 for Windows and Paradox for Windows 1.0. Introductory pricing is $399.95 (SRP). In addition, there is a 90 day special upgrade price of $299.95 (SRP) for users of any DOS or Windows word processor, database, spreadsheet or presentation package. Later in 1993, the Workgroup Extension Pack is scheduled to be available with electronic mail, scheduling, calendaring, forms and presentation graphics.

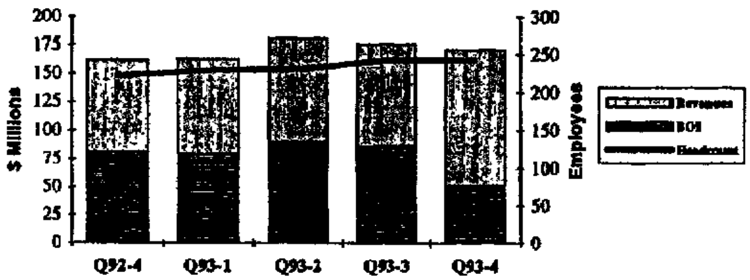
Borland International and Lotus Development Corp. announced July 6, that the two companies will work together to integrate a forthcoming release of Borland's Quattro Pro for Windows with Lotus Notes.

EXCEL

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 691	100.0%	$ 645	100.0%	46
Cost of revenues	95	13.8	87	13.5	(8)
Operating expense	96	13.9	110	17.1	14
Allocations	168	24.2	164	25.4	(4)
Burdened operating income	$ 332	48.1%	$ 284	44.0%	48

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 171	100.0%	$ 168	100.0%	$ 176	100.0%	$ 3	$ (5)
Cost of revenues	25	14.6	23	13.6	24	13.8	(2)	(1)
Operating expense	18	10.6	27	15.8	27	15.2	9	9
Allocations	52	30.5	41	25.0	38	21.7	(11)	(14)
Burdened operating income	$ 76	44.3%	$ 77	45.6%	$ 87	49.3%	$ (1)	$ (11)



Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Excel	2,237	$ 455	$ 203	1,787	$ 426	$ 238	450	$ 29	(35)
Win Excel Upg*	1,110	126	114	728	89	122	382	37	(8)
Mac Excel	509	81	159	445	102	230	64	(21)	(71)
Mac Excel Upg*	299	29	97	245	31	125	54	(2)	(28)
		$ 691			$ 648			$ 43	
Percentage of net revenues		100%			100%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

The positive Win Excel unit variance was a result of very strong sales worldwide of the Win Office bundle which was 471,000 units (105%) over plan for the year. Win Office was 88% over plan in US FG (463,000 units total) and almost triple plan in Europe FG (311,000 units total). The Excel Business Unit recognized an average of $192/unit for each unit of Office sold, which contributed to the negative $/unit variance. Revenue per unit for Office was slightly below plan in every major channel, but was $7 above plan worldwide, due to a mix favoring Europe FG where average revenue was $642/unit ($270/unit of which was allocated to Excel).

Win Excel upgrade unit sales were also well above plan due to strong sales in Europe FG and ICON and Far East FG. Europe FG was 254,000 units and $30.0 million over plan (155,000 units and $13.1 million of this variance was from the Win Office upgrade). In ICON and Far East FG, Win Office upgrades were 59,000 units and $6.0 million over plan for the Excel BU. Offsetting these positive variances was US FG, which was 18,000 units (5%) and $5.8 million below plan for the year.

The positive Mac Excel unit variance was due primarily to strong sales in US FG, which was 83,000 units (34%) over plan. Lower than planned revenues were due to a 26,000 negative unit variance in Europe FG, and a shift in US FG towards the lower priced Academic versions, including the 10-pack for which was recognized $31/unit (license) average.

EXCEL

The Mac Excel upgrade unit sales were 22% over plan for the year despite weak sales in the second half of the year. This was due to strong sales of the Mac Excel 4.0 version upgrade in the first part of the year in US FG and Europe FG.

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Excel	698	$ 122	$ 175	444	$ 110	$ 249	254	$ 12	(74)
Win Excel Upg*	248	27	109	191	23	121	57	4	(12)
Mac Excel	141	19	136	120	27	228	21	(8)	(92)
Mac Excel Upg*	43	5	115	63	8	127	(20)	(3)	(12)
		$ 173			$ 168			$ 5	
Percentage of net revenues		101%			100%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

Win Excel exceeded planned unit sales primarily due to the success of Win Office. Win Office bundle sales were 176,000 units (143%) over plan worldwide, and contributed $33 million to the positive revenue variance in Win Excel. US FG channel sales were strong, contributing $13 million to the revenue variance, with US OEM adding another $5 million. Europe FG was 33,000 units above plan, but $6 million below plan due to a mix favoring the Win Office from which the Excel Business Unit recognized $232/unit vs. the $327/unit planned for Excel overall in Europe FG.

The positive unit variance for the Win Excel upgrade was due to strong sales in Europe FG; 47,000 units above plan. Nearly 54% of Excel Upgrade license sales in Europe FG were from the Win Office upgrade. The Win Office upgrade promotion in US FG contributed 27,000 units to the positive Excel Upgrade variance but was offset by a 40,000 unit shortfall in stand-alone Excel upgrades. The revenue variance was a result of positive variances of $3.1 million in Europe FG and $2.3 million in ICON and Far East FG. The negative $/unit variance was due primarily to a negative $32/unit variance in Europe FG caused by the shift in sales mix to the lower revenue generating Win Office upgrades.

Mac Excel unit sales were above plan almost entirely due to a 20,000 positive variance in Mac Office. The Mac Office variance in US FG was 17,000 units, resulting in a $3 million positive revenue variance. In US FG, the Excel Business Unit recognized $168/unit from sales of the Mac Office, but a mix favoring the lower priced Excel academic product resulted in a lower than planned $/unit overall.

Mac Excel upgrade unit sales were below plan due almost entirely to a 16,000 unit negative variance in US FG. Version upgrades were budgeted at a constant rate throughout the fiscal year, resulting in positive variances in the first part of the year and expected negative variances in the last two quarters. Revenue per unit was below plan in all channels except Far East FG.

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Excel	698	$ 122	$ 175	564	$ 113	$ 201	134	$ 9	$ (26)
Win Excel Upg*	248	27	109	305	37	121	(57)	(10)	(12)
Mac Excel	141	19	136	100	17	173	41	2	(37)
Mac Excel Upg*	43	5	115	37	4	118	6	1	(3)
		$ 173			$ 171			$ 2	
Percentage of net revenues		101%			98%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

The increase in unit sales of Win Excel standard product was a result of strong performance in US FG (91,000 units above Q93-3), US OEM (53,000 units) and ICON and Far East FG (31,000 units). Europe FG was above plan for the quarter, but down from Q93-3 levels, offsetting the increase with sales 39,000 units below last quarter. Win Excel revenues were higher than last quarter due to the significant unit increase in US FG which maintained an average $/unit at $176. US OEM and ICON and Far East FG each grew roughly $2.5 million, but Europe FG was down $11.9 million from last quarter.

EXCEL

Win Excel upgrade sales were also above plan in Europe FG, but down 29,000 units from last quarter. US FG fell below plan, and also decreased 17,000 units from Q93-3. The decrease during the second half of the year was expected as most of the users likely to upgrade from earlier versions of Win Excel purchased product during the six month's following the release of Win Excel 4.0 in the spring of 1992.

Mac Excel sales were up from last quarter in all finished goods channels, particularly US FG (26,000 unit increase). Revenues were up only slightly due to lower $/unit realized in Europe FG ($81/unit lower than Q93-3) and ICON and Far East FG ($86/unit lower than Q93-3). Revenue per unit for US FG was down $7 to $134/unit.

Mac Excel upgrade sales increased from last quarter's low, but still fell below plan. US FG rebounded from the 8,000 unit sales level of Q93-3, to 23,000 in Q93-4. Other finished goods channels were down from Q93-3. Revenue was up slightly as average $/unit held relatively constant at $115/unit.

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
Europe FG	$ 345	$ 313	$ 32
US FG	248	234	14
ICON FG	68	63	5
FE FG	48	43	5
US OEM	10	10	0
Adjustments	(28)	(18)	(10)
Net revenues	$ 691	$ 645	$ 46

All channels finished the year ahead of plan. The revenue mix between channels was very close to plan with Europe FG representing 48% of total revenues followed by US FG with 34%. Worldwide revenue was relatively constant throughout the year, with Europe FG realizing a strong first 3 quarters, and US FG achieving most of its positive variance in Q93-1 and Q93-4.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Europe FG	$ 71	$ 80	$ 90	$ (9)	$ (19)
US FG	73	64	55	9	18
ICON FG	19	18	16	1	3
FE FG	13	9	16	4	(3)
US OEM	5	1	3	4	2
Adjustments	(10)	(4)	(4)	(6)	(6)
Net revenues	$ 171	$ 168	$ 176	$ 3	$ (5)

Europe FG fell below plan and last quarter's level as unit sales for Win Excel standard and upgrade declined along with $/unit for all products. US FG had a good quarter as a result of strong unit sales of Win Excel ($13 million positive variance). US FG Mac Excel unit sales were above plan, but below plan $/unit for all products tempered overall revenue variances.

Cost of Revenues

FY93

Product costs were slightly below plan at 9.3% of gross revenues, (9.5% planned). US FG experienced a slight positive variance with product costs at 10.4% of US FG gross revenues, .2 percentage points below the 10.6% planned. ICON and Far East FG had product costs 0.3 percentage points below planned (12.0% of gross revenues versus 12.3% planned). Europe FG product costs were slightly below plan at 7.9% of gross revenues versus 8.0% planned. Total cost of revenues as a percent of net revenues was higher than plan at 13.8% (13.5% planned) due to higher than planned negative gross revenue adjustments.

EXCEL

Q93-4

Product costs were at plan at 9.6% of gross revenues, (9.5% planned). US FG and ICON and Far East FG experienced slight positive variances while Europe FG product costs were above plan at 8.7% of gross revenues versus 8.0% planned. Total cost of revenues as a percent of net revenues was higher than plan at 14.6% (13.6% planned) due to higher than planned negative gross revenue adjustments.

Operating Expenses (in millions)

	FY93	FY93 Plan	Variance
Marketing	$ 42	$ 51	$ 9
Payroll & Payroll Tax	11	11	--
Product support services	22	28	6
Product development	2	2	0
Other	19	18	(1)
	$ 96	$ 110	$ 14

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 13	$ 11	$ (2)
Marketing accrual	(11)	--	11
Product support services	6	7	1
Mktg fund incentive	2	1	(1)
Other	8	8	0
	$ 18	$ 27	$ 9

Operating expenses for the year were below plan due in part to unspent marketing budget. PSS was also below plan due to lower than planned headcount and operating expenses in PSS departments.

The closing out of marketing purchase orders at year end resulted in a $2 million negative variance in marketing, but not enough to offset the accrual account balance of $11 million. Other operating expenses approximated plan for the quarter.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Prod Groups
June 30, 1993	243	243	--	1	2%	6%
March 31, 1993	242	243	1	11	2	6
December 31, 1992	231	243	12	2	2	6
September 30, 1992	229	243	14	7	2	6
June 30, 1992	222	175	(47)	(13)	2	6

Headcount increased by 1 during the quarter to bring actual heads in line with plan.

Allocations

Total allocations were $10 million higher than planned for the quarter due primarily to variances in Europe FG and ROW FG. Sales and marketing allocations from US FG were $2.8 million below plan for the quarter, and $3.3 million below plan year-to-date. European FG allocations were $8.2 million below plan for the quarter and $7.4 million below plan YTD. ICON and Far East FG sales and marketing allocation was $4.4 million above plan for the quarter, and $1.8 million below plan year to date. R&D allocations from applications were $2.2 million below plan YTD. Worldwide product groups R&D allocations were $1.2 million below plan YTD.

Burdened Operating Income

FY93

Burdened operating income for FY93 was $49 million above plan at $332 million (48.1% of net revenues), versus $284 million (44.0% of net revenues) planned. The positive BOI variance exceeded even the positive net revenue variance due to lower than planned operating expenses ($14 million below plan); a function of underspending on marketing, and lower than planned PSS costs. Offsetting the low operating expenses were cost of revenues slightly higher than planned (as a % of net revenues) and higher than planned allocations from the Europe FG channel.

Q93-4

Burdened operating income for the quarter was $1 million below plan at $76 million (44.3% of net revenues), versus $77 million (45.6% of net revenues) planned. Despite above plan revenues in most finished goods channels, Europe FG revenues were $9 million below plan. Higher than planned gross revenue adjustments and rebates further impacted net revenue. Operating expenses were $8 million below plan, but were offset by higher than planned allocations from ICON and Far East FG and Europe FG which brought total allocations in $10 million higher than planned.

Quarterly Growth

Net revenues were down $5 million from the previous quarter. Operating expenses were $9 million lower than last quarter, but an increase in allocations from the international FG channels resulted in a decrease in BOI of $11 million.

WORD

FY93

Mac Word completed the year with a number of awards: MacWord, World Class Award; MacUser, Eddy Award; MacWEEK, Editor's Choice Diamond Award; BYTE, Award of Distinction and Home Office Computing, Editor's Picks. Win Word was also acknowledged by the press: PC/Computing's top ranking "200 best products"; PC Products, Best Buy; PC World, winning position in the April 1992 comparison review; and Software Publishers Association, Best Business Application.

In the July issue of PC/Computing magazine WordPerfect 5.2 for Windows was cited as the best selling Windows word processor. On the Merisel's Hot list of combined platform sales (DOS, Windows, Macintosh, UNIX), dated May 31, 1993, WordPerfect is cited as the top seller with Microsoft Word (DOS, Windows, Macintosh) being ranked fifth and AmiPro for Windows is ranked 10th.

Q93-4

The first multi-platform (Windows, Mac and Windows NT) version of Word, T-3, is in the fourth and final milestones before code complete. The Word team achieved a goal of 0 bugs by mid July and Word now has a scheduled RTM date of September 30, 1993.

The Word business unit estimated that Win Word accounted for 59% of North American Windows word processor shipments (34% of DOS+Windows word processors), and Mac Word accounted for 77% of Macintosh word processor shipments during calendar year 1992.

InfoWorld and PC Magazine's comparative reviews of word processors are being postponed until after T-3 ships.

PC word 6.0 was released simultaneously for Australia, Canada, Germany, the United Kingdom and the United States in May of this quarter. The release of PC Word 6.0 marks the 10 year anniversary of PC Word 1.0. There have been numerous new features added to the product to give it a look and feel similar to Word for Windows. This is an attempt to make the end users perception of switching from the DOS version to the Windows version seem painless.

WordPerfect released WordPerfect for DOS 6.0, WordPerfect 5.2 for OS/2, and WordPerfect Office 4.0 during this quarter.

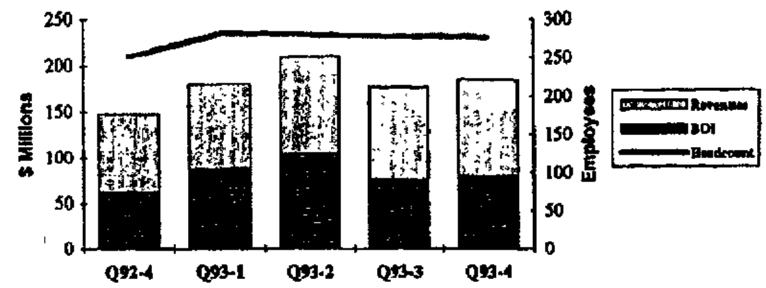
In the May issue of the Computer Shopper there was an article highlighting the strength of the market for DOS word-processing software. The article highlighted the release of MS DOS 6.0 and DOS based word-processing application software packages that are easy to learn, use and customize.

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 749	100.0%	$ 704	100.0%	$ 45
Cost of revenues	112	14.9	100	14.2	(12)
Operating expense	112	14.9	126	17.8	14
Allocations	176	23.5	172	24.4	(4)
Burdened operating income	$ 350	46.7%	$ 307	43.6%	$ 43

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 185	100.0%	$ 192	100.0%	$ 176	100.0%	$ (7)	$ 9
Cost of revenues	28	15.3	27	14.3	28	15.7	(1)	--
Operating expense	21	11.5	30	15.8	32	18.3	9	11
Allocations	55	29.5	45	22.9	40	22.7	(10)	(15)
Burdened operating income	$ 81	43.7%	$ 90	47.0%	$ 76	43.3%	$ (9)	$ 5

WORD



Leading Products (units in thousands, revenues in millions)

FY93 (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Word	2,342	$ 471	$ 201	1,770	$ 423	$ 239	572	$ 48	$ (38)
Win Word Upg*	1,054	116	110	839	89	106	215	27	4
Mac Word	722	88	122	616	99	161	106	(11)	(39)
PC Word	224	53	235	397	89	224	(173)	(36)	11
Mac Word Upg*	458	26	57	79	9	109	379	17	(52)
		$ 754			$ 709			$ 45	
Percentage of net revenues		101%			101%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

Year-to-date Win Word unit sales were above plan in all channels, except for the Far East which was below plan by 14,000 units and $3.8 million dollars. The year-to-date Win Word unit sales were above plan largely due to the success of the Win Office bundle. The Office bundle accounted for 216,000 of the 218,000 positive variance in US FG, 201,000 of the 130,000 positive variance in Europe FG, and 54,000 of the 46,000 positive variance in ICON and Far East FG. Revenue for Win Word was also above plan, but the shift of sales mix towards the Win Office, and licensed product resulted in a lower $/unit than planned.

The Win Word upgrade's positive variance in units and revenue was due primarily to strong sales in Europe FG. Upgrade unit sales in Europe FG were three times planned at 474,000 units, which resulted in a $36.8 million positive revenue variance. ICON and Far East FG was also above plan with positive variances of 143,000 units and $9.5 million. Revenue per unit for Win Word upgrades overall, was higher than planned due to unplanned sales mix within USFG which resulted in $/unit average of $109, $12 above plan.

Mac Word unit sales were above plan due to strong sales in US FG, particularly in Q93-2 as a result of the release of Mac Word 5.1. In spite of a weak third quarter, US FG was 92,000 units above plan for the year, 54,000 of the variance being realized in Q93-4. Overall revenues were $11 million below plan due to the shift towards licensed product and the lower priced academic edition. Mac Word academic edition unit sales represented 40% of all Mac Word unit sales.

Mac Word upgrade sales were significantly above plan, due to sales of the version 5.1 upgrade in US FG during the second quarter. US FG represented 69% of the positive unit variance at 262,000 units and 61% of the revenue variance at $10.7 million above plan. Europe FG also contributed to the positive variance with almost four times budgeted unit sales of 134,000 units. Europe FG revenues exceeded plan by $6.2 million.

PC Word unit sales were below plan for the year in all channels except ICON and Far East which was 4,000 units above plan. US FG was below plan 37,000 units, Europe FG 80,000 units.

WORD

Q93-4

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Word	725	$ 124	$ 171	485	$ 115	$ 238	240	$ 9	$ (67)
Win Word Upg*	256	26	103	243	26	107	13	0	(4)
Mac Word	229	21	93	157	26	162	72	(5)	(69)
PC Word	50	11	221	96	25	256	(46)	(14)	(35)
Mac Word Upg*	79	5	65	15	2	106	64	3	(41)
		$ 187			$ 194			$ (7)	
Percentage of net revenues		101%			101%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

The positive unit variance for Win Word was largely due to OEM US and USFG which accounted for 109,000 and 78,000 of the units respectively. US OEM contributed $5.2 million to the positive revenue variance. ICON and Far East FG also had a positive unit variance for Win Word of 26,000 units. Win Office bundle unit sales were 176,000 above plan worldwide, and contributed $34.1 million to the positive revenue variance in Win Word. US FG was 78,000 units and $11.5 million above plan. All channels were below planned $/unit due in part to a mix favoring the Win Office.

Win Word upgrade unit sales exceeded plan due to strong sales in the international channels. Europe FG unit sales of the Win Word upgrade (including office) were 80,000 over plan with a positive revenue variance of $7.3 million. ICON and Far East FG unit sales of Win Word upgrades were 28,000 over plan. US FG was 95,000 units and $7.9 million below plan.

Mac Word units were above plan primarily due to USFG and ICON and Far East FG which were above plan by 54,000 and 14,000 units respectively. Revenue was below plan on all channels due to lower than planned $/unit of single user product.

Mac Word upgrades sold better than planned due to the unplanned release of version 5.1 in US FG and international channels. The US channel accounted for 42,000 units and $2.5 million of the positive variance. USFG revenue per unit was lower than planned due in part to the number of Mac Word 5.0 users taking advantage of the $14.95 upgrade price. Europe FG was 16,000 units and $.9 million above plan.

PC Word posted a negative unit variance due to a shortfalls in US FG (14,000 units sold against a plan of 20,000), and Europe FG (35,000 unit and $11.5 million negative variance). The quicker than expected shift to Windows in domestic and international channels is thought to be the primary reason for the poor performance, as well as the slippage of PC Word 6.0.

Quarterly Growth (units in thousands, revenues in millions)

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Word	725	$ 124	$ 171	541	$ 110	$ 203	184	$ 14	$ (32)
Win Word Upg*	256	26	103	268	31	114	(12)	(5)	(11)
Mac Word	229	21	93	134	17	127	95	4	(34)
PC Word	50	11	221	49	10	206	1	1	15
Mac Word Upg*	79	5	65	135	5	37	(56)	–	28
		$ 187			$ 173			$ 14	
Percentage of net revenues		101%			98%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

The increase in Win Word unit sales was due to 117,000 unit increase in US FG, along with a $19.5 million increase in revenues. Sales in ICON and Far East were up by 38,000 units and $4.1 million in revenue.

Unit sales of Win Word upgrades decreased this quarter in all finished goods channels, except for ICON. The drop in USFG (23,000 units and $3 million) was offset in units and minimally in revenue by the increase in ICON

(20,000 units and $761,000). The Far East channel experienced a loss from last quarter of 9,000 units and $1.6 million.

Mac Word sales increased 77,000 units and $6.2 million in US FG after a below plan third quarter. Europe FG unit sales increased by 8,000 units, but a $84 decrease in average $/unit resulted in a $1.7 million decrease in revenues. ICON and Far East FG Mac Word shipments were up 9,000 units from last quarter, but a lower $/unit due to academic sales resulted in a drop in revenue of $376,000.

The decrease in Mac Word upgrades was due to a decrease in US FG (22,000 units), and Europe FG (34,000 units). In spite of this decrease in units, the revenue fall off was minimal because of last quarter's mix which favored the $14.95 Mac Word 5.1 upgrade offering.

PC Word sales were relatively flat compared to last quarter. The full impact of the PC Word 6.0 release was not realized in Q93-4 because of its May release. Of the 50,000 units which were sold in Q93-4, 24,000 units were sold in the US FG, 16,000 of those units were sold in June after the release of version 6.0.

Channel Revenues (in millions)

FY93 (in millions)

	FY93	FY93 Plan	Variance
Europe FG	$ 400	$ 366	$ 34
US FG	276	257	19
ICON FG	73	73	--
Far East FG	21	19	2
US OEM	11	7	4
Adjustments	(32)	(18)	(14)
Net revenues	$ 749	$ 704	$ 45

Worldwide Word revenues were 6.4% above plan for the year to date, with Europe FG making the largest contribution with positive variances in Win Word standard product ($17 million above plan) and Win Word upgrades ($36.8 million above plan). These positive variances were a function of higher than planned Win Office sales. Offsetting these positive variances was a $24.4 million negative variance for PC Word in Europe FG. US FG was also above plan for the year, largely due to the $56 million revenue variance resulting from the MS Office. The positive revenue variance for Word products sold as a part of the MS Office worldwide was $138 million.

Q93-4

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Europe FG	$ 86	$ 98	$ 103	$ (12)	$ (17)
US FG	76	69	50	7	26
ICON FG	21	21	17	--	4
Far East FG	7	8	6	(1)	1
US OEM	6	1	3	5	3
Adjustments	(11)	(5)	(3)	(6)	(8)
Net revenues	$ 185	$ 192	$ 176	$ (7)	$ 9

USFG revenues were 41% of Word worldwide revenues, versus 35% planned. Europe FG was 13% below plan due to negative variances for DOS Word ($11.6 million) and Win Word ($6.3 million). USFG revenues surged in the fourth quarter compared to the third quarter due to increased sales of Win Word ($19 million increase). PC Word 6.0 ($1.8 million increase) and Mac Word ($6.2 million increase).

Cost of Revenues

FY93

Product costs as a percent of gross revenues remained relatively constant during all four quarters of FY93. Total cost of revenues were impacted in the first quarter by a $1.8 million negative variance in the manufacturing and distribution allocation, a result of higher than planned shipping costs and a write-off of obsolete inventory.

Q93-4

Product costs were very close to plan at 10.2% of gross revenues, versus 10.3% planned. US FG experienced a positive variance with product costs at 10.9% of US FG gross revenues, 2.9 percentage points below the 13.8% planned. The variance was due to a sales mix weighted towards higher margin single license products. ICON and Far East FG had product costs 1.9 percentage points higher than planned (14.5% of gross revenues versus 12.6% planned). Europe FG product costs were higher than planned at 8.9% of gross revenues versus 7.3% planned.

Operating Expenses (In millions)

FY93

	FY93	FY93 Plan	Variance
Marketing	$ 45	$ 56	$ 11
Marketing fund incentive	6	5	(1)
Product support services	29	34	5
Other	32	31	(1)
	$ 112	$ 126	$ 14

Operating expenses were below plan due primarily to under spending in marketing and low PSS operating costs.

Q93-4

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 16	$ 12	$ (4)
Marketing fund incentive	2	1	(1)
Product support services	8	9	1
Other	(5)	8	13
	$ 21	$ 30	$ 9

Marketing exceeded plan due to the payment of invoices at the end of the year.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Prod Groups
June 30, 1993	260	278	18	(21)	2%	7%
March 31, 1993	281	278	(3)	2	2	7
December 31, 1992	279	275	(4)	(3)	2	7
September 30, 1992	282	282	--	30	3	7
June 30, 1992	252	189	(63)	7	2	7

There was a 21 person decrease in Word headcount this quarter. This was a result of slight decreases in Development, Test, and User Ed, and the movement of 10 heads in Word Marketing to the Office Marketing department.

Allocations

The sales and marketing allocation from US FG was $3 million below plan for the quarter, and year-to-date. Europe FG allocations were $9.6 million above plan this quarter.

Burdened Operating Income

FY93

Burdened operating income for the year was $43 million higher than plan for the year ($350 million and 46.7% of net revenues vs. $307 million and 43.6% of net revenues planned), due to very profitable first and second quarters (1st qtr was $27 million above plan and 2nd qtr was $19 million above plan). Net revenues were $45 million above plan for the year, with operating expenses and sales and marketing allocations below plan by $14 million and $5 million respectively.

Q93-4

The Word Product Unit's BOI for the quarter was $81 million (43.7% of net revenues versus 47% planned). This lower than planned profitability was primarily a result of below plan revenue, higher than planned revenue adjustments and rebates, and increased sales and marketing allocations.

Quarterly Growth

Net revenues were $9 million (5%) higher than last quarter. Total cost of revenues as a percent of revenues decreased marginally from 15.7% to 15.3%. Operating expenses dropped 34% from last quarter due to the year end marketing accrual adjustment. These factors combined to result in a BOI increase of $5 million (6%) higher than last quarter.

Graphics

FY93

Mac PowerPoint 3.0 shipped in Q93-2, followed by French, French Canadian and Swedish versions in Q93-3. French, German, French Canadian, Italian and Swedish versions of Win PowerPoint 3.0 were released during the first quarter of the fiscal year. The Dutch version was released in Q93-3.

Win PowerPoint 4.0 is estimated to RTM during Q94-2, Mac PowerPoint 4.0 is scheduled for Q94-3. German, French, French Canadian, Dutch and Swedish version of both Mac and Win PowerPoint are scheduled to follow the English versions in Q94-3. In addition there will be Danish, Italian, Norwegian, Portuguese and Spanish versions of Win PowerPoint 4.0 released in Q94-3, and a Japanese version is planned for release by the end of the fiscal year.

PowerPoint 3.0 won the PC Magazine Editor's Choice Award for Presentation Graphics and made the Windows Magazine "100 Best Products of 1992" list. Mac PowerPoint won the Mac World World Class Award, the Mac Week Editor's Choice Diamond Award and the MacUser Editor's Choice Eddy Award. Win PowerPoint won the Windows Magazine Readers' Choice Award and the Windows User Magazine Best Buy Award.

The revenue allocated to Graphics Business Unit from the Microsoft Office continues to be a significant portion of total Graphics revenues. Microsoft Office for Windows made the top seller lists of Merisel, Ingram Micro and Corporate Software. Microsoft Office for the Macintosh also made Ingram Micro's list. The Lotus SmartSuite made the top 10 Windows packages at Corporate Software for the first time in December (it ranked tenth while Microsoft Office was third).

Software Publishing began offering a new 1-800 service called the Harvard Graphics Advisor Service which offers free expert guidance for help with any type of presentation.

European Windows-competitor "Graph in a Box" went out of business due to excessive pressure from PowerPoint and Freelance.

Vijay Vashee assumed the role of Business Unit Manager for Graphics in the spring of 1993. Pete Higgins had been acting as BUM since Bob Gaskins left.

Q93-4

The German version of Mac PowerPoint 3.0 was released April 19th, and the Spanish version of Win PowerPoint 3.0 on April 30th.

Lotus' Freelance Graphics for Windows 2.0 shipped in February of 1993, and has already been named best product in its category by InfoWorld, PC/Computing, BYTE and Windows Sources. It was rated top presentation graphics product by Software Digest, with an overall evaluation rating of 9.2 out of a possible ten.

WordPerfect Presentations 2.0 for Windows is scheduled to be released to distributors July 16th. It is being positioned as the industry's most comprehensive presentation graphics product. It contains support for the TWAIN open industry interface, which enables users to scan images directly into WordPerfect Presentations. As an introductory offer, a LOGITECH ScanMan Model 32 hand-held scanner (retails for $199) will be bundled in specially marked packages of WordPerfect Presentations at no extra cost. The suggested retail price is $495.

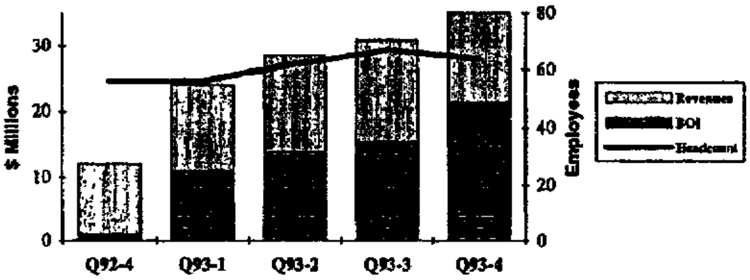
Astound! shipped in Q93-4, which increased competition in the Mac environment, and pressure on PowerPoint for multimedia capabilities.

GRAPHICS

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 118.7	100.0%	$ 84.6	100.0%	$ 34.1
Cost of revenues	17.5	14.7	11.3	13.4	(6.2)
Operating expense	23.3	19.7	26.1	30.9	2.8
Allocations	15.9	13.3	16.7	19.7	0.8
Burdened operating income	$ 62.0	52.3%	$ 30.5	36.0%	$ 31.5

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 35.0	100.0%	$ 23.6	100.0%	$ 30.8	100.0%	$ 11.4	$ 4.2
Cost of revenues	4.2	12.0	3.0	12.7	4.9	15.9	(1.2)	0.7
Operating expense	5.2	14.7	6.1	25.7	6.2	20.1	0.9	1.0
Allocations	4.1	12.0	4.2	17.8	4.2	13.6	0.1	0.1
Burdened operating income	$ 21.5	61.3%	$ 10.3	43.8%	$ 15.5	50.4%	$ 11.2	$ 6.0



Leading Products (units in thousands, revenues in millions)

	FY93 YTD			FY93 YTD Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win PowerPoint	1,206	$ 79.1	$ 66	629	$ 60.3	$ 96	577	$ 18.8	$ (30)
Win PowerPoint Upg	446	19.1	43	61	6.5	107	385	12.6	(64)
Mac PowerPoint	245	14.3	59	162	16.7	103	83	(2.4)	(44)
Mac PowerPoint Upg	61	4.8	78	35	3.2	93	26	1.6	(15)
		$ 117.3			$ 86.7			$ 30.6	
Percentage of net revenues		99%			102%				

** Excludes maintenance*

Note: Figures in this table include allocations from bundled products.

Revenue allocations from MS Office were 56% of total Graphics revenues, versus plan of only 35%.

The large positive variance in unit sales YTD resulted in a positive variance in revenues despite negative variances in $/unit. Win PowerPoint unit sales were above plan in Europe FG (210,000), US FG (209,000), US OEM (96,000) and in ICON and FE FG (61,000). Of the positive variance in the Europe FG channel, 95% was attributable to Win Office sales. The lower $/unit Win Office sales were a larger percentage of shipments than planned, causing a negative variance of $35/unit in the Europe FG channel. In addition, Win Office sold for $39/unit less than planned. Win Office units sold in US FG were 216,000 more than planned and represented 83% of the total Win PowerPoint unit sales versus 71% planned. Overall, Win PowerPoint $/unit were below plan by $40/unit in US FG. The positive unit variance in the US OEM channel caused a shift in sales mix and depressed the average $/unit for Win PowerPoint worldwide despite a positive variance of $21/unit from plan in the US OEM channel ($36/unit versus $15/unit). Win Office represented the majority of the positive unit variance in ICON and FE FG, but sold for a lower $/unit than planned and contributed to the negative $/unit variance in ICON and FE FG of $19/unit.

GRAPHICS

Win PowerPoint upgrade units shipped were above plan in US FG (186,000 versus 16,000 planned) due to the June 1992 release of version 3.0 (the product was originally to ship in January of 1992) and 59,000 more Win Office upgrades sold than planned. This caused a positive revenue variance of $8.2 million despite a negative $/unit variance that resulted from introductory pricing promotions for version 3.0 and the sales of the lower revenue generating Win Office upgrades. Europe FG sold 155,000 more Office upgrades than planned resulting in a positive revenue variance of $3.7 million for Graphics BU. Win Office sold in Europe FG was 98% of total Win PowerPoint units, versus 45% planned, and sold at a negative $/unit variance of $134/unit. In the ICON and FE FG channel 71,000 more units than planned shipped, of which 59,000 were Win Office at $116/unit less than planned. In addition, 17,000 unbudgeted multiple license packs were sold for $15/unit and 13,000 unbudgeted MCD licenses were sold for $11/unit in ICON FG. Overall, ICON and FE FG sold Win PowerPoint upgrades for an average $67/unit less than plan.

In US FG Mac PowerPoint units were 58,000 units above plan, 43,000 of which were Mac Office units and resulted in lower $/unit than planned. In addition 23,000 XLA units were distributed revenue free and another 23,000 MCD units sold at $27/unit (43% of the budgeted price of $63/unit), all of which resulted in a negative revenue variance.

Mac PowerPoint upgrades sold in US FG were above plan by 24,000 units. Negative $/unit variances occurred in Europe FG and ICON and FE FG.

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win PowerPoint	412	$ 24.9	$ 60	170	$ 16.9	$ 100	242	$ 8.0	$ (40)
Win PowerPoint Upg	115	4.5	39	14	1.6	110	101	2.9	(71)
Mac PowerPoint	87	4.3	50	45	5.1	112	42	(0.8)	(62)
Mac PowerPoint Upg	14	1.1	74	7	0.7	98	7	0.4	(24)
		$34.8			$ 24.3			$ 10.5	
Percentage of net revenues		99%			103%				

* *Excludes maintenance*

Note: Figures in this table include allocations from bundled products.

Approximately 62% of Graphics' revenues for the quarter were allocations from sales of Office, versus plan of 34%.

Win PowerPoint sales were above plan by 83,000 units in Europe FG and 70,000 units in US FG due to strong Win Office sales. Win PowerPoint sold 66,000 units more than planned in the US OEM channel with an $22/unit positive variance. Unit variances caused Win PowerPoint revenues to be above plan although revenues per unit were below plan in Europe FG by $50/unit, and in US FG by $40/unit. Europe FG Win PowerPoint unit sales were 95% Win Office (which generates less $/unit for GBU than stand-alone sales of PowerPoint) versus a unit sales plan of 81% Office. In the US FG channel Win Office comprised 83% of unit sales versus a plan of 70%. The shift in sales mix to the lower revenue generating US OEM channel also contributed to the negative overall $/unit variance.

Win PowerPoint upgrades sold were above plan due to a positive variance in Win Office upgrades sold in Europe FG of 55,000 units, in ICON and FE FG of 30,000 units and in US FG of 27,000, resulting in the positive revenue variance despite negative $/unit variances. Higher than planned Win Office upgrade sales as a percent of total product sales in Europe FG caused a negative $/unit variance. In addition, these Office upgrades sold at a negative variance of $145/unit. Sales of unplanned Win Office upgrades in the US FG channel resulted in a negative $/unit variance for US FG of $57/unit.

Total Mac PowerPoint units sold in US FG were above plan by 25,000 units, but sold at a negative $54/unit variance from plan and resulted in a negative revenue variance.

Mac PowerPoint upgrade units sold were 4,000 units more than planned in both US FG and Europe FG. In Europe FG these units sold at a negative variance of $77/unit.

Graphics

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win PowerPoint	412	$ 24.9	$ 60	291	$ 19.5	$ 67	121	$ 5.4	$ (7)
Win PowerPoint Upg	115	4.5	39	144	5.4	37	(29)	(0.9)	2
Mac PowerPoint	87	4.3	50	47	3.2	70	40	1.1	(20)
Mac PowerPoint Upg	14	1.1	74	23	1.8	80	(9)	(0.7)	(6)
		$ 34.8			$ 29.9			$ 4.9	
Percentage of net revenues		99%			97%				

** Excludes maintenance*

Note: Figures in this table include allocations from bundled products.

MS Office revenue as a percent of total Graphics revenue was 62% in Q93-4 and Q93-3, up from 55% in Q93-2 and 44% in Q93-1.

Win PowerPoint units sold increased in all channels, but most significantly by 57,000 (due to Office) in the US FG channel, and by 35,000 units in the US OEM channel. Despite a decrease of $13/unit from last quarter in the Europe FG channel the increase in units sold resulted in revenues above plan.

Unit sales of Win PowerPoint upgrades were down 31,000 over Q93-3 in the US FG channel due to a reduction in sales of Win Office upgrades, which resulted in the decrease in revenues.

Mac PowerPoint units sold through the US FG channel increased by 27,000 units from last quarter. Approximately half of this increase was due to Mac Office. An increase in MCD licenses sold accounted for another 9,000 units of the increase. Revenue per unit decreased in all sales channels.

Sales of Mac PowerPoint upgrades dropped by 10,000 units from last quarter in US FG. In Europe FG Mac Office sold for $67/unit less than last quarter and represented a larger percentage of the sales mix.

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
US FG	$ 61.1	$ 51.4	$ 9.7
Europe FG	42.6	23.8	18.8
ICON FG	12.4	11.5	0.9
US OEM	5.1	0.6	4.5
Far East FG	1.3	0.6	0.7
Adjustments	(3.8)	(3.3)	(0.5)
Net revenues	$ 118.7	$ 84.6	$ 34.1

US FG Win PowerPoint upgrades were above plan (although at a negative $/unit variance) including 84,000 unplanned Win Office upgrades, which resulted in a positive revenue variance. In the Europe FG channel more units of Win Office and Win Office upgrades were sold than planned, resulting in the positive variance. In the US OEM channel Win PowerPoint units sold more than three times as many units as were planned, at $21/unit more than planned.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US FG	$ 17.6	$ 14.8	$ 14.6	$ 2.8	$ 3.0
Europe FG	11.9	6.1	12.3	5.8	(0.4)
ICON FG	3.8	3.3	3.0	0.5	0.8
US OEM	2.6	0.1	1.2	2.5	1.4
Far East FG	0.6	0.2	0.2	0.4	0.4
Adjustments	(1.5)	(0.9)	(0.5)	(0.6)	(1.0)
Net revenues	$ 35.0	$ 23.6	$ 30.8	$ 11.4	$ 4.2

GRAPHICS

Despite negative $/unit variances, revenues in the US FG channel were above plan due to strong unit sales of Win Office and Win Office upgrades. The change in USFG revenues was also due to sales of Win Office.

Europe FG revenues from Win Office were above plan by $5.2 million, and Win Office upgrade revenues by $1.3 million.

In the US OEM channel Win PowerPoint units sold 66,000 more than planned with a $22/unit positive variance, which caused both the variance and the change from last quarter.

Cost of Revenues

FY93

Product costs as a percent of gross revenues approximated plan. A negative manufacturing variance was caused by an actual purchase price of raw materials higher than standard.. A negative inventory adjustment resulted from scrap and provisions for obsolescence.

Q93-4

Product costs as a percent of gross revenues approximated plan, as did non-product costs.

Operating Expenses (in millions)

	FY93	FY93 Plan	Variance
Product development	$ 1.5	$ 3.2	$ 1.7
Payroll & payroll taxes	5.0	5.8	0.8
Marketing	7.6	8.3	0.7
Product Support Services	2.4	1.9	(0.5)
Other	6.8	6.9	0.1
	$ 23.3	$ 26.1	$ 2.8

Documentation, purchased code and other product development were under plan due to timing differences and a shift of some projects to internal development from outsourcing. Headcount remained well under plan, resulting in the positive variance in payroll and payroll taxes. Domestic marketing was slightly above plan in print advertising media and marketing material premiums, but international marketing was below plan.

	Q93-4	Q93-4 Plan	Variance
Marketing accrual	$ (2.3)	$ –	$ 2.3
Marketing	2.9	1.4	(1.5)
Payroll & payroll taxes	1.3	1.6	0.3
Product development	0.5	0.8	0.3
Product Support Services	0.8	0.5	(0.3)
Other	2.0	1.8	(0.2)

The marketing accrual was reduced as timing differences in marketing expenditures reversed. Domestic marketing was above plan in print advertising media, marketing material premiums and allocations from line spending and SMSD marketing. Headcount remained well under plan, resulting in the positive variance in payroll and payroll taxes.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total Operating	As a Percent of Total Prod Groups
June 30, 1993	66	77	11	(1)	1%	2%
March 31, 1993	67	75	8	5	1	2
December 31, 1992	62	71	9	6	1	2
September 30, 1992	56	67	11	–	1	1
June 30, 1992	56	77	21	–	1	1

Allocations

FY93

Allocations for the year approximated plan.

Q93-4

Allocations for the quarter approximated plan.

Burdened Operating Income

FY93

The $34 million positive variance in revenues went straight to the bottom line with additional help from a $3 million positive operating expense variance. As a result BOI was more than twice that planned, at 52.3% of net revenue versus 36.0% planned.

Q93-4

The $11 million positive revenue variance was only partially offset by a negative variance in cost of revenues. As a result BOI was more than twice that planned, at 61.3% of net revenue versus 43.8% planned.

Quarterly Growth

Q93-3 revenues increased $4.2 million (13%) over last quarter. Operating expenses decreased $1.0 million from Q93-3. Cost of revenues, as a percent of net revenues, dropped from 15.9% to 12.0%. The result was an increase in BOI of $6.0 million, 38% above Q93-3.

PROJECT

FY93

Microsoft Project for Windows and Mac won top honors from the National Software Testing Laboratories for the 3rd consecutive year. Microsoft Project was praised for its combination of ease of use and power in the project management category. Project also won the Byte Reader's Choice Awards at WindowsWorld.

Project 4.0 created great interest at WindowsWorld due to its compatibility with Proj/Sched+ and Proj/Access integration. The industry appears to be excited by this development in workgroup enabling extensions.

Project 4.0 will be released with an integrated Visual Basic programming language. The integration of Visual Basic will make the application easier to customize for the consumer.

Q93-4

The French and German WinProject 4.0 localized builds went to testing this month and are on schedule for sim-ship. The Project Product Unit has added 4 weeks of buffer to the 10/27 RTM date. The original 4 weeks of buffer was absorbed in Phase 2.

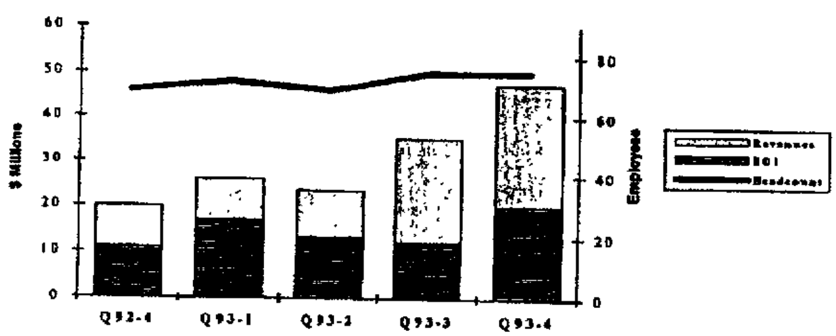
WinProject 4.0 completed the first retail build on the last week of May. Work is being focused on performance issues versus the benchmark and correcting issues as they are realized. Work will continue to focus on performance oriented issues and optimization.

New accounts for WinProject and accounts who have standardized on Project during the quarter included: Koch Industries, Sprint, Colgate (Mac & Win), AT&T, Amereda Hess, Texas State Attorney Generals Office.

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 99.5	100.0%	$ 69.9	100.0%	$ 29.6
Cost of revenues	7.3	7.3%	5.9	8.4%	(1.4)
Operating expense	16.7	16.8%	19.5	27.9%	2.8
Allocations	12.5	12.6%	13.1	18.7%	0.6
Burdened operating income	$ 63.0	63.3%	$ 31.4	44.9%	$ 31.6

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 27.1	100.0%	$ 16.4	100.0%	$ 22.8	1.0%	$ 10.7	$ 4.3
Cost of revenues	1.8	6.6%	1.5	9.2%	1.7	7.5%	(0.3)	(0.1)
Operating expense	1.6	5.9%	4.5	27.4%	5.6	24.6%	2.9	4.0
Allocations	3.5	12.9%	3.3	20.1%	3.2	14.0%	(0.2)	(0.3)
Burdened operating income	$ 20.3	74.9%	$ 7.1	43.3%	$ 12.3	53.9%	$ 13.2	$ 8.0



Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Project	244	$ 80.9	$ 331	140	$ 58.5	$ 419	104	$ 22.4	$ (88)
Mac Project	35	9.4	268	20	7.8	388	15	1.6	(120)
Win Project Upg*	68	8.2	120	30	4.7	156	38	3.5	(36)
PC Project	7	1.6	240	1	0.2	305	6	1.4	(65)
		$ 100.1			$ 71.2			$ 28.9	
Percentage of net revenues		101%			102%				

** Excludes maintenance.*

The positive unit and revenue variances for Win Project year-to-date continued to be a result of strong sales in US FG (53,000 units and $15.6 million above plan) and Europe FG (8,000 units and $4.2 million above plan). US OEM and ICON and Far East FG were also significantly above plan in terms of units, but a $52/unit average price in US OEM and lower than planned $/unit in ICON and Far East FG reduced the revenue impact of these unit variances.

Virtually all of Mac Project's positive volume and revenue variances occurred in US FG. The $/unit in US FG averaged only $247/unit, $130 under plan. Unit sales of low priced licensed (MLP and MCD) product in US FG were disproportionately high compared to plan, further explaining the low $/unit variance in US FG.

Win Project upgrades were above plan year-to-date primarily due to a positive 24,000 unit variance in Q93-1. All finished goods' channels were well above planned volume, but 63% of the revenue variance occurred in Europe FG. The reason for this was the relatively high $/unit obtained in Europe FG for the non-academic single user license upgrades. In contrast, ICON and Far East FG experienced 15,000 unit sales of MCD product at $/unit of $11 which explains the bulk of the overall negative $/unit variance.

The positive unit variance for PC Project was mostly the result of 5,000 unplanned units being sold in US FG.

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Project	80	$ 24.3	$ 303	34	$ 14.2	$ 417	46	$ 10.1	$ (114)
Mac Project	7	2.4	329	5	1.9	389	2	0.5	(60)
Win Project Upg*	11	1.1	108	5	0.8	155	6	0.3	(47)
PC Project	1	0.2	258	–	0.1	301	1	0.1	(43)
		$ 28.0			$ 17.0			$ 11.0	
Percentage of net revenues		103%			104%				

** Excludes maintenance.*

The positive unit variance for Win Project was primarily the result of strong sales in US FG and unplanned sales in US OEM. US FG was 24,000 units above plan. US OEM sold 15,000 units of Win Project at an average price of $53/unit, a major cause of the negative $/unit variance for Win Project. US FG accounted for 81% of the positive revenue variance, though the average price in that channel was $360/unit, $17 under plan.

Mac Project's $/unit variance was the result of lower than planned prices across all channels. ICON and Far East FG's had the lowest average selling price at $196/unit, $188 under plan. The highest average price achieved was $421/unit in Europe FG, still $33 under plan. US FG's average selling price was $330/unit, $47 under plan.

The positive unit variance for Win Project Upgrades was due to the 3,000 units that sold in US FG, all unplanned. That shift in channel mix from the plan, and the fact that the average $/unit in US FG was only $122/unit, $32 below the worldwide planned $/unit, resulted in the unfavorable $/unit variance.

PC Project was also above plan, due primarily to unplanned sales in US FG. The lower $/unit in US FG from the worldwide plan resulted in the $/unit variance.

Project

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Project	80	$ 24.3	$ 303	58	$ 19.0	$ 330	22	$ 5.3	$ (27)
Mac Project	7	2.4	329	6	2.0	331	1	0.4	(2)
Win Project Upg*	11	1.1	108	9	1.2	128	2	(0.1)	(20)
PC Project	1	0.2	258	1	0.4	268	--	(0.2)	(10)
		$ 28.0			$ 22.6			$ 5.4	
Percentage of net revenues		103%			99%				

** Excludes maintenance*

Win Project unit sales increased this quarter primarily due to a 12,000 unit increase in US FG, with the remaining increase split fairly evenly between US OEM and the ICON and Far East FG channels. The decrease in $/unit was caused primarily by lower than planned prices in the ICON and Far East FG channels where the average selling price was $235/unit, $94 below last quarter's $/unit.

The increase in Mac Project unit sales was virtually all attributable to US FG. Revenue/unit was slightly higher in Q93-3 due to the decrease in Q93-4 $/unit in ICON and Far East FG channels of $196/unit, $117 below Q93-3 $/unit.

Sales of Win Project Upgrade units were up in all channels from Q93-3 except for in the US FG channel where there was an 8% decrease. The decrease in $/unit occurred primarily in the international channels which averaged $26/unit below plan.

PC Project's $/unit decreased as a result of lower prices in the international channels.

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
US FG	$ 56.3	$ 35.1	$ 21.2
Europe FG	33.6	26.4	7.2
ICON FG	10.3	10.5	(0.2)
Far East FG	0.7	0.2	0.5
US OEM	1.7	--	1.7
Adjustments	(3.0)	(2.3)	(0.7)
Net revenues	$ 99.6	$ 69.9	$ 29.7

Win Project and related upgrades accounted for 80% of the variance in US FG and 88% of the variance in Europe FG. The majority of the US FG variance was due to single user licenses which were over plan by 63,000 units and $16.6 million dollars.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US FG	$ 17.1	$ 7.6	$ 12.6	$ 9.5	$ 4.5
Europe FG	7.4	6.4	7.5	1.0	(0.1)
ICON FG	3.0	3.1	2.5	(0.1)	0.5
Far East FG	0.0	--	0.1	--	(0.1)
US OEM	0.8	--	0.5	0.8	0.3
Adjustments	(1.1)	(0.7)	(0.4)	(0.4)	(0.7)
Net revenues	$ 27.2	$ 16.4	$ 22.8	$ 10.8	$ 4.4

PROJECT

Win Project contributed the majority of the positive revenue variance in US FG. All other major Project products were also above plan in terms of units and revenues, although average $/unit was lower than plan for all major products.

Cost of Revenues

FY93

Product costs as a percent of gross revenues year-to-date approximated plan at 4.9% vs. 5.0% plan. Total cost of revenues was slightly below plan (7.4% vs. 8.5%) as a percentage of net revenues due primarily to lower than planned allocations from manufacturing and distribution.

Q93-4

Cost of revenues were below plan at 6.7% of net revenues (8.9% planned). Product costs were 0.8 percentage points below plan as a percent of gross revenues.

Operating Expenses (in millions)

	FY93	FY93 Plan	Variance
Marketing	$ 4.6	$ 7.7	$ 3.1
Marketing accrual	–	–	–
Product support services	2.2	1.9	(0.3)
Product development	2.5	2.7	0.2
Other	7.4	7.2	(0.2)
	$ 16.7	$ 19.5	$ 2.8

Operating expenses year to date were below plan. The majority of this variance was based on marketing expenses coming in under budget. Marketing expenses were under budget due to planned programs that were not run during the fiscal year, this left a surplus in the marketing account.

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 1.8	$ 1.6	$ (0.2)
Marketing accrual	(3.2)	–	3.2
Product development	0.3	0.4	0.1
Product support services	0.7	0.5	(0.2)
Other	2.0	2.0	–
	$ 1.6	$ 4.5	$ 2.9

Operating expenses are below plan, due to the end of year adjustment in the marketing accrual account. The end of the year adjustment nets the marketing accrual account to $0.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Prod Groups
June 30, 1993	73	71	(2)	(2)	1%	2%
March 31, 1993	75	71	(4)	6	1	2
December 31, 1992	69	71	2	(3)	1	2
September 30, 1992	72	71	(1)	3	1	2
June 30, 1992	69	40	(29)	2	1	2

Headcount levels in the Project product unit are relatively flat.

Allocations

FY93

Virtually all significant allocation variances on a year-to-date basis have been positive and relatively minor, resulting in an overall allocation variance of less than $1 million.

Q93-4

The small positive allocations variance was due to positive variances in almost every allocation area. In the departments where there were large allocation overages they were mitigated by departments that had large allocation shortages (US FG Sales & Marketing $381,000 below plan/ Europe FG $347,000 above plan).

Burdened Operating Income

FY93

Year-to-date BOI was 101% above plan at $63 million and 63.3% of net revenues. Higher than planned revenues and controlled expenses were the reasons for the variance.

Q93-4

The Project product unit's BOI of $20 million exceeded plan by 184% and was 74.7% of net revenues. The above plan performance was due to net revenues being 65% higher than planned while operating expenses were only 35% of plan, largely due to the year end marketing accrual adjustment.

Quarterly Growth

The 65% quarter-to-quarter increase in BOI was due primarily to a 19% increase in net revenues and a 71% decrease in operating expenses. The large decrease in operating expenses is attributed to the year end marketing accrual adjustment account being netted out to $0 in the 4th quarter.

CONSUMER

FY93

World Wide Win Works revenues were 105% of plan.

Mac Works 3.0 shipped in September. Aggressive pricing and bundling led to slightly above plan domestic revenues, but disappointing revenue overall.

PC Works 3.0 (SRP $149, upgrade $49.95) shipped in Q93-2. The product is in a declining category and posted revenues of 75% of plan.

Publisher Design Pack (SRP $69.95) and the Publisher CD-ROM edition (SRP $199, upgrade $69.95) and Publisher 2.0 (SRP $139 until September 30, $199 thereafter) shipped just after the fiscal year ended. Publisher revenues were 78% of plan.

Golf for Windows (SRP $64.95) shipped in August and by September had exceeded its FY 93 plan. Revenues for the year were $4.7 million or 175% of plan.

Entertainment Pack 4 shipped near the beginning of Q93-3 with seven new games. Overall, Entertainment Pack revenues were 37% below plan.

Money 2.0 shipped in September. The product was well above plan in Europe FG and well below plan in US FG.

MS Profit for Windows shipped in February, with strong sell in, but anemic sales followed. For the year, Profit was 48% of plan. This product was developed with Great Plains Software and features forced registration by telephone and $2.00 per minute support provided by Great Plains.

MMP revenues were 2.6 times plan at $12.7 million. Bookshelf and Encarta comprised 59% of this revenue, but Cinemania, Musical Instruments, SoundBits and Beethoven were each well above plan as well.

Projected Product Release Dates:

Stravinski	8/93	Space Simulator	11/93
Flight Sim 5.0	8/93	Ultimate Robot	11/93
Arcade	8/93	Mac Encarta	12/93
Mozart	9/93	Money 3.0	1/94
Cinemania 94	9/93	Mac Works 4.0	2/94
Flight Sim Scenery Disks	9/93	Mac Cinemania	2/94
Fine Artist/Creative Writer	10/93	Win Baseball	3/94
Encarta 94	10/93	Ancient Empires	3/94
MS Art Gallery (Mac & win)	10/93	Utopia	4/94
MS Business Manager	10/93	Flight Sim A&SD	Spring/94
Win Works 3.0	10/93	Children's Encyclopedia	10/94

Q93-4

Works revenues as a percentage of plan, including upgrades, were 96%, 68% and 69% for Windows, Mac and PC, respectively. In May, Claris entered the Windows integrated category, comprising Win Works' first competitive threat. So far Claris' sales have been unimpressive, but they have made key OEM deals with Toshiba and IBM.

Publisher revenues were 176% of plan.

PC Flight Simulator 5.0 slipped into FY 94, from its planned April introduction, causing a negative variance for the quarter of $4.8 million.

Golf, after a strong fall and winter channel fill, had significant returns, posting negative US FG revenue for the second consecutive quarter. Two new entertainment products, Golf for Windows Multimedia Edition and MS Arcade for Windows were both announced and will ship in August.

Profit for Windows, after a reasonably strong sell-in, has had plummeting sales. Revenues fell from $2.0 million in Q93-3 to $364,000 in Q93-4 and were only $77,000 in June.

CONSUMER

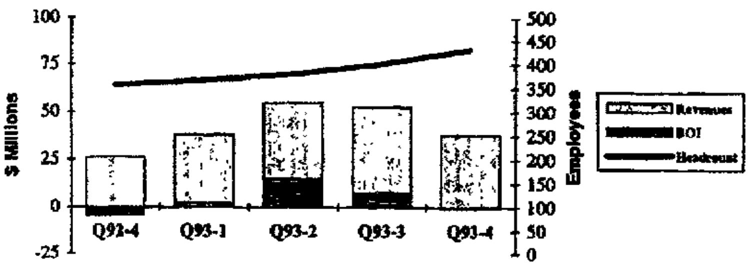
Money continued its aggressive domestic retail and OEM pricing and exceeded its revenue plan by 48% and its unit plan by 425%.

MMP net revenues were 2.6 times plan. MMP's first Macintosh product, Musical Instruments, shipped in June. Encarta (SRP $395, academic version $249, future updates $100) shipped in March and accounted for 37% of MMP's net revenue with 6,969 units sold for $1.5 million..

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 176.5	100.0%	$ 194.1	100.0%	$ (17.6)
Cost of revenues	35.9	20.4	39.9	20.6	4.0
Operating expense	78.5	44.5	86.4	44.5	7.9
Allocations	37.9	21.5	39.3	20.3	1.4
Burdened operating income	$ 24.2	13.7%	$ 28.5	14.7%	$ (4.3)

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 38.0	100.0%	$ 52.9	100.0%	$ 45.4	100.0%	$ (14.9)	$ (7.4)
Cost of revenues	8.3	21.9	11.5	21.7	8.6	19.1	3.2	0.3
Operating expense	18.9	49.7	21.7	41.1	20.1	44.3	2.8	1.2
Allocations	11.4	30.1	10.2	19.2	9.2	20.1	(1.2)	(2.2)
Burdened operating income	$ (0.6)	(1.7)%	$ 9.5	18.0%	$ 7.5	16.5%	$ (10.1)	$ (8.1)



Note: Prior quarters have been restated to include IPG Ireland headcount.

Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Works*	1,625	$ 61.0	$ 38	933	$ 58.2	$ 62	692	$ 2.8	$ (24)
PC Works*	964	32.8	34	1,179	44.8	38	(215)	(12.0)	(4)
Publisher	237	13.4	56	188	17.6	94	49	(4.2)	(38)
Mac Works*	281	12.7	45	168	16.0	95	113	(3.3)	(50)
Win Works Upg	141	8.2	58	135	8.3	62	6	(0.1)	(4)
PC Works Upg	117	6.8	59	154	8.6	56	(37)	(1.8)	3
		$ 134.9			$ 153.5			$ (18.6)	
Percentage of net revenues		76%			79%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

Win Works was 5% above plan in revenues while 74% over plan in units. This is due to the strong performance of the product in the OEM channels (69% of worldwide units). Sales in the retail channels were slightly below plan, however (89% of plan), as OEM sales cannibalized retail sales.

PC Works finished the year with a poor showing relative to plan in all channels except US OEM, which was above plan by 80,000 units and $1.1 million. US FG revenues were $6.2 million versus $8.1 million planned, and combined international finished goods revenues were $20.0 million versus $28.9.

CONSUMER

Domestically, Publisher achieved 98% of planned finished goods revenues and almost six times planned revenues in US OEM. In Europe FG however, revenues were $3.3 million versus plan of $7.6 million.

After a successful introduction in the second quarter, Mac Works sales have suffered from a full channel and from strong competition from Claris. Aggressive promotions and in-store bundling with Macintosh computers has been implemented in order to hold off the competitive threat until the shipment of Mac Works 4.0. These efforts drove the unit volume 67% above plan but hurt revenue per unit, resulting in revenue falling short of plan by 20%. Including update revenue, Mac Works was 86% of plan.

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Works *	519	$ 14.4	$ 28	233	$ 15.2	$ 65	286	$ (0.8)	$ (37)
PC Works *	345	8.0	23	321	11.9	37	24	(3.9)	(14)
Publisher	64	3.0	47	46	4.0	87	18	(1.0)	(40)
Mac Works	55	2.4	43	41	3.7	89	14	(1.3)	(46)
Win Works Upg	38	1.9	49	37	2.3	61	1	(0.4)	(12)
PC Works Upg	29	1.8	61	38	2.3	61	(9)	(0.5)	--
		$ 31.5			$ 39.4			$ (7.9)	
Percentage of net revenues		83%			74%				

** Excludes maintenance*

Note: Figures in this table include allocations from bundled products.

Win Works was significantly ahead of plan in units within the OEM channels, and Europe FG finished the quarter 19,000 units behind plan. These factors caused the negative $/unit variance. The Win Works Upgrade $/unit variance occurred across all channels.

The negative revenue variances for PC Works occurred across all channels except US OEM, which had a positive unit variance of 124,000. The largest share of the revenue came from US OEM, where sales were $2.0 million versus plan of $1.0 million

Publisher's positive variance in units sold occurred in the US OEM channel (39,000 units versus 15,000) and in US FG (14,000 units versus 10,000). Publisher was much less successful in Europe FG where only 8,000 of a planned 15,000 units were sold. The negative $/unit variance was caused by the channel mix being weighted more heavily than planned toward OEM and academic sales. Sales were also slowed by the anticipated release of Publisher 2.0 scheduled for July, 1993.

Money fell off the top products list, although it posted a favorable unit variance of 195,000 and a positive revenue variance of $400,000, primarily due to strong sales in the US OEM channel.

Mac Works moved on to the top products list this quarter primarily due to strong unit volume sales in the US FG channel (36,000 units versus a plan of 21,000). US FG revenue fell short of plan ($1.8M versus a plan of $2.0M) due to a higher than planned mix of bundled units and MLP updates.

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win Works *	519	$ 14.4	$ 28	524	$ 17.3	$ 33	(5)	$ (2.9)	$ (5)
PC Works *	345	8.0	23	211	8.0	38	134	--	(15)
Publisher	64	3.0	47	54	3.2	60	10	(0.2)	(13)
Mac Works	55	2.4	43	8	0.7	94	47	1.7	(51)
Win Works Upg	38	1.9	49	40	2.1	53	(2)	(0.2)	(4)
PC Works Upg	29	1.8	61	36	1.9	53	(7)	(0.1)	8
		$ 31.5			$ 33.2			$ (1.7)	
Percentage of net revenues		83%			73%				

** Excludes maintenance*

Note: Figures in this table include allocations from bundled products.

Win Works continues to remain strong in the OEM channels. OEM units accounted for 402,000 of total units, with 284,000 of those units in the US. Compared with Q93-3, the retail channels shrunk, however, from $11.9 million to $9.1 million in revenue. A sharp increase in academic units contributed to the decline in $/unit. Domestic OEM revenues contributed approximately 50% of total domestic sales.

CONSUMER

PC Works increased unit sales in the domestic market by 125,000 units, with 104,000 of this increase coming from the OEM channel. Revenue was flat primarily due to a 39% decrease in the Europe FG channel and a shift to OEM sales, at a lower $/unit price.

While Publisher revenues fell 33% from Q93-3 in Europe FG, revenues increased in US OEM, from $377,000 to $817,000. US FG sales dropped slightly in anticipation of the release of version 2.0 in July.

Mac Works sales increased in US FG (36,000 versus negative 9,000) with a 33,000 unit increase in academic sales. These sales, in addition to a 10,000 unit order at $10.00 per unit with the Canadian Government, are responsible for the decrease in $/unit. Q93-3 sales were low due to the channel fill in Q92-2.

Flight Simulator 5.0 slipped into FY94 causing it to fall off the top product list and causing an $800,000 negative variance. Version 5.0 had been planned for April.

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
US FG	$ 65.0	$ 72.8	$ (7.8)
Europe FG	61.1	74.7	(13.6)
ICON FG	18.2	23.8	(5.6)
Domestic OEM	19.3	9.5	9.8
Far East FG	10.2	12.3	(2.1)
Europe OEM	7.5	4.5	3.0
ICON & FE OEM	2.6	1.8	0.8
Adjustments	(7.4)	(5.3)	(2.1)
Net revenues	$ 176.5	$ 194.1	$ (17.6)

The negative US FG variance was broadly spread across products including PC Flight Simulator ($3.4 million below plan), Profit ($2.6 million), PC Works ($2.4 million), Entertainment Pack ($2.0 million), Mac Flight Sim ($1.0 million) and Productivity Pack ($1.0 million). The largest positive variances were in revenues of Golf ($1.3 million), Win Bookshelf ($1.1 million), Mac Works Updates ($1.0 million) and Cinemania ($1.0 million)

The negative variance in Europe FG came from Publisher ($3.3 million versus $7.6 million plan), PC Works ($11.4 million versus $15.5 million plan), Win Works ($26.5 million versus $30.2 million plan) and Mac Works ($1.7 million versus $4.4 million plan). Money was 3 times plan at $3.2 million. In ICON FG and Far East FG, the negative variance was primarily Works, with Windows, Mac and PC versions below plan by $1.0 million, $1.4 million and $6.0 million respectively. Publisher was also $1.4 million below plan.

In domestic OEM, Win Bookshelf had $2.5 million in unplanned revenues and Publisher had revenues of $2.0 million versus plan of only $300,000. Also Win Works was $3.8 million above plan at $8.7 million, and PC Works was $1.1M above plan at $4.8 million.

In Europe OEM Win Works exceeded plan by $3.3 million and Win Bookshelf and other Multimedia products had unplanned revenues of $800,000. PC works was only 45% of its $2.7 million plan.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
USFG	$ 11.8	$ 19.4	$ 12.2	$ (7.6)	$ (0.4)
Europe FG	11.1	19.9	18.8	(8.8)	(7.7)
ICON FG	4.3	6.9	4.2	(2.6)	0.1
US OEM	7.2	2.5	5.7	4.7	1.5
Far East FG	3.2	3.9	2.2	(0.7)	1.0
Europe OEM	1.4	1.2	2.6	0.2	(1.2)
ICON & FE OEM	1.2	0.6	0.6	0.6	0.6
Adjustments	(2.2)	(1.5)	(0.9)	(0.7)	(1.3)
Net revenues	$ 38.0	$ 52.9	$ 45.4	$ (14.9)	$ (7.4)

The negative variance in US FG revenues came from PC Flight Sim ($200,000 versus $4.4 million), Profit ($300,000 versus $2.4 million), Entertainment Pack ($300,000 versus $1.0 million) and PC Works ($1.3 million versus $1.9 million). US FG revenue remained relatively unchanged as the drop in revenue from Profit ($2.0

million to $0.4 million) and Flight Sim ($700,000 to $200,000) was mostly offset by increased revenue from Mac Works ($0 to $1.8 million).

In Europe FG, the primary changes from Q93-3 were Win Works declining by $2.8 million in revenue ($7.3 million to $4.5 million), Money decreasing by $800,000 ($1.5 million to $700,000), PC Works declining by $1.3 million ($3.3 million to $2.0 million) and PC Works upgrade decreasing by $900,000 ($1.3 million to $400,000). Win Works was $3.6 million below plan ($4.5 million versus plan of $8.1 million), PC works was $1.9 million below plan ($2.0 million versus plan of $3.9 million), Publisher was $1.3 million below plan and Mac Works was $800,000 below plan.

Win Works ($600,000 below plan), PC Works ($600,000 below plan) and Publisher ($500,000 below plan) were the main sources of the negative variance In ICON FG.

US OEM revenues were well above plan due to Win Works selling 284,000 units versus plan of 83,000 and to Win Bookshelf having $600,000 in unplanned revenue through that channel. Win Works ($700,000 increase over Q93-3), PC Works ($600,000 increase), Publisher ($400,000 increase) and Money ($200,000 increase)were the sources of the positive change in revenues. Late reporting of Christmas revenues was a factor in some of these increases.

Far East FG's negative variance was caused primarily by PC Works, which was $1.0 million below plan. The revenue increase, however, came primarily from the PC Works upgrade.

Europe OEM exceeded plan on the strength of Win Works, which was 2.7 times its plan of $523,000 but down from the prior quarter by 900,000. PC Works was short of plan by $600,000.

Product Unit Revenues (in millions)

	FY93		FY93 Plan		Variance
Works	$ 128.2	72.6%	$ 141.1	72.7%	$ (12.9)
Entry	43.1	24.4%	53.4	27.5%	(10.3)
MMP	12.5	7.1%	4.9	2.5%	7.6
Adjustments	(7.3)	(4.1)%	(5.3)	(2.7)%	(2.0)
	$ 176.5	100.0%	$ 194.1	100.0%	$ (17.6)

PC Works was responsible for the majority of the negative Works variance. Including the upgrade, it was $13.8 million below its $53.4 million plan. Mac Works, including the upgrade, was $3.1 million below its plan of $21.0 million. Win Works and upgrade were $2.7 million above their plan of $64.5 million.

The major negative variances in Entry were Publisher ($4.2 million), Entertainment Pack ($2.6 million), PC Flight Simulator ($3.8 million), Profit ($2.7 million) and Mac Flight Simulator ($1.0 million). The significant positive variances were Golf ($2.0 million) and Money ($2.1 million including upgrades). MMP products did very well against plan across the board with the largest variances coming from Bookshelf ($3.4 million), Cinemania ($1.3 million) and Encarta ($700,000).

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Works	$ 29.2	76.9%	$ 36.1	68.2%	$ 31.6	69.7%	$ (6.9)	$ (2.4)
Entry	7.2	19.0	16.5	31.2	11.1	24.5	(9.3)	(3.9)
MMP	3.9	10.3	1.8	3.4	3.6	7.9	2.1	0.3
Adjustments	(2.3)	(6.2)	(1.5)	(2.8)	(0.9)	(2.1)	(0.8)	(1.4)
	$ 38.0	100.0%	$ 52.9	100.0%	$ 45.4	100.0%	$ (14.9)	$ (7.4)

The drop in Works revenues was primarily related to Win Works which, including the upgrade, declined from $19.4 million to $16.3 million. The Works variance was attributable to PC Works, which was $4.4 million below plan and to Mac Works which was $1.5 million below plan. Both the PC Works and the Mac Works variances were distributed across all channels. Win Works was below plan in the retail channels and over plan in the OEM channels.

Declining products in Entry were Profit, which fell from $2.0 million to $400,000 (in June, only 422 units were shipped), PC Flight Simulator, which fell $1.0 million as the channel waited for Version 5.0 and Money which fell $800,000. The major negative variances were in Flight Simulator ($4.8 million) and Profit ($2.0 million) with Publisher and Entertainment Pack each $1.0 million short of plan.

MMP was up slightly from Q93-3, and revenues were more than double plan due to the strength of Bookshelf, Encarta and Cinemania.

Cost of Revenues

FY93

Finished goods product costs were 14.2% of retail revenues compared to a plan of 15.5%, with US FG slightly above plan and the international channels below plan. There were significant variances among the product units. Entry's product cost of revenues was 18.7% of retail revenues versus plan of 11.9%, while Works, which contributed 70% of revenues, was 4.3% of revenues below plan and MMP was 2.9% of revenues above plan.

Q93-4

Finished goods product costs were 13.2% of retail revenues compared to a plan of 15.6%. FG product costs were below plan in all channels. Entry's product cost increased from 16.6% to 16.8% of retail revenues, and was still well above plan of 12.0%. The variance was caused by lower than anticipated pricing of Money and Entertainment Pack. MMP product costs were 8.9% of retail revenues.

Operating Expenses (in millions)

	FY93	FY93 Plan	Variance
Product development	9.0	14.0	5.0
Marketing	15.3	17.9	2.6
Product support services	13.1	14.8	1.7
Payroll & payroll taxes	19.9	19.8	(0.1)
Other	21.2	19.9	(1.3)
	$ 78.5	$ 86.4	$ 7.9

Product development was well under plan in each product unit. A significant portion of this is due to payments that were budgeted as product development being done as prepaid royalties. In US FG marketing, spending levels as a percentage of plan were: Entry 94%, MMP 92% and Works 106%.

	Q93-4	Q93-4 Plan	Variance
Marketing accrual	$ (6.6)	$ –	$ 6.6
Product Development	3.1	3.4	(0.4)
Marketing	6.0	3.8	(2.2)
Product support services	3.8	3.9	0.1
Payroll & payroll taxes	5.5	5.4	(0.1)
Other	6.4	5.2	(1.2)
	$ 18.9	$ 21.7	$ 2.8

Product development was below plan in Entry by $300,000 and above plan for Works and MMP by $389,000 each. In US FG marketing, much of the variance was attributable to spending having been delayed from earlier in the year. The plan excludes $600,000 in additional marketing spending, which was approved for Money, Golf and Profit.

CONSUMER

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total Operating	Prod Groups
June 30, 1993*	432	419	(13)	30	3%	10%
March 31, 1993	402	416	14	23	3	10
December 31, 1992	379	363	(16)	12	3	9
September 30, 1992	367	337	(30)	11	3	9
June 30, 1992	356	278	(78)	23	3	10

Note: Prior quarters have been restated to include IPG Ireland headcount.

Allocations

FY93

The $1.5 million positive variance consisted of variances in research and development allocations ($1.9 million) and US FG ($1.0 million) which were partially offset by an unfavorable variance in Europe and ROW FG ($1.2 million).

Q93-4

The $1.3 million negative variance consisted primarily of allocations from Europe FG ($3.1 million versus $2.1 million plan) and ICON and Far East FG ($2.2 million versus $1.5 million) which were partially offset by favorable US FG allocations ($1.4 million versus plan of $2.1 million).

Burdened Operating Income

FY93

Net revenues were $17.7 million below plan, but efficiencies in operating expenses and lower than planned allocations, Product Development and Marketing expenses created the BOI of 13.7% versus the planned 14.7%. Works had a BOI of 39.1%, while MMP and Entry had burdened operating losses of 69.0% and 37.0%, respectively.

Q93-4

A negative variance in net revenues was only partially offset by a positive variance in the marketing accrual, leading to a burdened operating loss of 1.7% versus plan of 18.0%. As a percent of net revenues, BOI was 41.2% for Works, negative 140.6% for Entry and negative 73.3% for MMP. Entry was substantially below it's planned BOI of 4.3% due to revenues being only 39.4% of the $16.0 million plan. MMP compared favorably to the planned burdened operating loss of 217.4% due to its $2.5 million favorable variance in net revenues.

Quarterly Growth

BOI shrank 108% quarter-to-quarter as revenues fell by $7.4 million or 16.3% while operating expenses fell by only 6.0% and allocations grew by 23.9%.

Database & Development Tools

FY93

FY93 was a milestone year for Microsoft within the database market. With the acquisition of Fox Software in June, 1992 and the release of Access in Q93-2, Microsoft finished FY93 as a major force in this market. The icing on the cake came on July 29, 1993 when National Software Testing Laboratories (NSTL) announced the results of the 1993 NSTL Windows database showdown. Access topped the list with a rating of 7.7 closely followed by FoxPro at 7.6. Borland's Paradox for Windows was the closest competitor with a rating of 6.9.

During the year, the Database and Development Tools division was reorganized to include what was formerly the Languages group, including the Visual C and FORTRAN line of products. Roger Heinen, Senior Vice President, was brought on board in January, 1993 to head up the division and help develop Microsoft's long term database and development tools strategy.

Gross revenues from the Access Product Unit totaled $98 million, $61 million above plan. This was due to the sheer number of units sold at the $99 introductory price, which exceeded all expectations.

Net revenues from the Visual Basic line of products totaled $57 million, up 85% from FY92.

Q93-4

Visual Basic 3.0 shipped on schedule on May 14th, 1993. In an Info World article about Visual Basic 3.0, Kevin Strehlo stated "It's a must-have product for users charged with developing custom applications that give their organizations a competitive advantage." He also praised Visual Basic for its data access and OLE 2.0 support, making Visual Basic 3.0 the "tool kit in which all the pieces of Microsoft's IAYF vision come together". Visual Basic for Applications (VBA) was announced on June 29, 1993. The first product to ship with VBA will be Excel 5.0. It will also be included in future versions of other Microsoft applications.

Version 1.1 of Access shipped in May, 1993. It provided further ODBC connectivity to other database formats as well as increasing the potential maximum size of an Access database. Version 2.0 is currently scheduled to ship in February, 1994.

Windows and DOS versions of FoxPro 2.5a were released to manufacturing during the quarter. This version addressed international sorting issues. The Mac version of FoxPro 2.5 is scheduled to be released in December, 1993. A campaign, code-named Harvest, concluded with the end of Q93-4. It was an effort to persuade dBase customers to switch to the Fox products. It allowed existing dBase users to purchase a copy of FoxPro 2.5 for $149, discounted from the regular competitive upgrade price of $199.

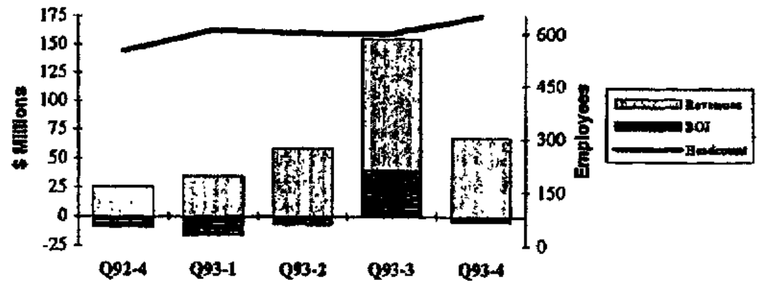
Office Professional was announced on May 4, 1993. The product includes the regular Office bundle in addition to Access.

In late June, 1993 Lotus Development Corp. completed the acquisition of Approach Software and announced a $99 promotion on its end user database. The promotion runs through September 30, 1993.

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 276.2	100.0%	$ 248.8	100.0%	$ 27.4
Cost of revenues	69.7	25.2	49.2	19.8	(20.5)
Operating expense	136.8	50.0	135.7	54.6	(1.1)
Allocations	57.6	20.4	56.3	22.5	(1.3)
Burdened operating income	$ 12.1	4.4%	$ 7.6	3.1%	$ 4.5

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 68.3	100.0%	$ 72.7	100.0%	$ 115.2	100.0%	$ (4.4)	$ (46.9)
Cost of revenues	20.2	29.5	11.5	15.8	24.3	21.1	(8.7)	4.1
Operating expense	36.7	53.7	31.6	43.4	35.7	31.0	(5.1)	(1.0)
Allocations	15.6	22.9	14.4	19.9	15.4	13.3	(1.2)	(0.2)
Burdened operating income	$ (4.2)	(6.1)%	$ 15.2	20.9%	$ 39.8	34.6%	$ (19.4)	$ (44.0)



Note: Prior quarters have been restated to include IPG Ireland headcount.

Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Access	823	$ 85.4	$ 104	61	$ 27.0	$ 440	762	$ 58.4	$ (336)
PC FoxPro	133	23.1	173	158	51.4	325	(25)	(28.3)	(152)
Pro C	74	19.0	259	89	20.5	230	(15)	(1.5)	29
Win Visual Basic Pro	63	13.5	216	11	2.8	259	52	10.7	(43)
PC FoxPro Upgrades	180	13.0	72	126	14.7	117	54	(1.7)	(45)
		$ 154.0			$ 116.4			$ 37.6	
Percentage of net revenues		55.8%			46.8%				

Access' year-to-date variances were the result of demand far exceeding all initial forecasts and the special pricing of $99/unit. The $/unit variance was the result of the plan not reflecting the special pricing and the sheer volume of units sold at the special price. PC FoxPro was below plan primarily due to the delay in shipping version 2.5. PC FoxPro's $/unit variance was due to the changing of the SRP to $495 from the $795 in the plan and shipping more multiple user licenses than originally planned. Pro C revenues were slightly above plan in all the international channels; however, US FG's volume was only 46% of plan and revenues were 56% of plan, resulting in the overall negative revenue variance. It should be noted that the plan for Pro C also includes Visual C++ but at the time the budget was formulated it was not apparent that a separate product family would be set up. Win Visual Basic Pro volume and revenues exceeded plan in all channels, particularly in US FG which accounted for 58% of the total volume. The primary reason for the $/unit variance was that 6,000 units went through US OEM at an average price of $25/unit. PC FoxPro upgrades reflect the continued support for the DOS platform for developing xBase applications. US FG accounted for 77% of the volume and 75% of the revenues for PC FoxPro upgrades since the international version (2.5a) was not released until late in the year on June 9th, 1993.

Database & Development Tools

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Visual C++ Upgrades	57	$ 7.5	$ 131	–	$ –	$ –	57	$ 7.5	$ 131
Access	42	6.2	147	25	11.3	448	17	(5.1)	(301)
Win FoxPro	28	5.8	203	12	3.2	267	16	2.6	(64)
Visual C++	24	4.9	207	–	–	–	24	4.9	207
Win Visual Basic Pro Upgrades	42	4.6	109	2	0.3	154	40	4.3	(45)
		$ 29.0			$ 14.8			$ 14.2	
Percentage of net revenues		42.3%			20.3%				

Sales of Visual C++ upgrades highlight the fact that with this version of C++, Microsoft has recaptured a following in the C development community. Released midway through Q93-3, Visual C++ has received very good press from the trade publications and has caught or surpassed Borland in this market. Borland maintains a very loyal market in the development community however, and is planning on releasing their next version sometime this summer. US FG accounted for 65% of the Visual C++ revenues while Europe FG accounted for 25%. Although the plan is zero, this is largely a function of forecasting Visual C++ along with the Pro C plan at the beginning of FY93 since a product family for Visual C++ had not been decided upon at that time. Access' positive unit variance was isolated to the international channels, with Europe FG being 7,000 units over plan and ICON being 11,000 units over plan. US FG was actually 1,000 units under plan. Access' $99 introductory price was not reflected in the original plan, accounting for the negative revenue and $/unit variances. Win FoxPro's unit variance was primarily attributable to selling 8,000 units in Europe FG, where nothing had been budgeted, and 6,000 more units than planned in US FG. Win FoxPro's revenue variance was the result of greater than planned volume in all channels. The negative $/unit variance for Win FoxPro was primarily due to average prices in the US FG and Europe FG channels being only $209/unit and $198/unit respectively, compared to an overall plan of $267/unit. Visual C++ sales again highlight the fact that not only are existing customers of Pro C upgrading, but there is a significant number of new sales being generated by the acceptance of Microsoft's latest offering to C programmers. Win Visual Basic Pro Upgrade variances were the result of unplanned sales. US FG was the only channel with any forecast for this product with only 2,000 units projected for $300,000 in revenues. The sales achieved were the result of customers upgrading to version 3.0, shipped May 14, 1993. US FG accounted for 78% of the Win Visual Basic Pro upgrades sales volume.

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Visual C++ Upgrades	57	$ 7.5	$ 131	30	$ 3.5	$ 116	27	$ 4.0	$ 15
Access	42	6.2	147	568	59.0	104	(526)	(52.8)	43
Win FoxPro	28	5.8	203	21	4.9	237	7	0.9	(34)
Visual C++	24	4.9	207	9	1.6	174	15	3.3	33
Win Visual Basic Pro Upgrades	42	4.6	109	19	2.7	143	23	1.9	(34)
		$ 29.0			$ 71.7			$ (42.7)	
Percentage of net revenues		42.3%			62.2%				

Q93-4 was the first full quarter of Visual C++ sales since it's release midway through Q93-3. Europe FG showed by far the largest relative increase in upgrades, up 11,000 units and $1.7 million in revenues compared to last quarter's 3,000 units and $200,000 in revenues. The other channels had similar changes, though not as dramatic. The planned $/unit of $84 in Europe FG was low compared to the $136/unit received which was the major factor explaining the positive $/unit variance for the Visual C++ upgrades. Access' unit sales and revenues expectedly were well below last quarters as most of the people purchased the product in Q93-3. The increase in $/unit was due to the termination of the $99 promotion and regular priced product has started shipping. With the exception of US FG where revenues dropped $100,000, Win FoxPro units and revenues were up in all channels, particularly in Europe FG. This was due to the difference in timing between the release of version 2.5 (January, 1993) and version 2.5a (June, 1993). Version 2.5a addressed international sorting issues, so while many domestic customers purchased the new version during Q93-3, international customers had to wait until June, 1993. Generally lower prices and a shift in the relative channel mix caused the lower $/unit. Whereas last quarter 64% of the units were sold in US FG at an average $245/unit and 14% of the units were sold in Europe FG at an average $230/unit, this quarter saw 53% of the units being sold in US FG at an average $209/unit and 27% of the units selling in Europe FG at an average $198/unit. The reasons for the changes in Visual C++ over last quarter were similar to those for

Visual C++ upgrades. Europe FG had the largest unit increase (almost 7 times the previous quarter at 9,000 units), and the planned $/unit was lower than actual in all channels except Far East FG, where the volume was too low to have any significant impact on the overall $/unit variance. Virtually all of the change for Win Visual Basic Pro upgrades occurred in US FG. Over 32,000 units were sold in US FG compared with 9,000 last quarter. The average $/unit was below plan at $108/unit compared with $143/unit last quarter in this channel, which resulted in the overall decrease in $/unit.

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
US FG	$ 142.3	$ 128.4	$ 13.9
Europe FG	85.3	88.6	(3.3)
ICON FG	30.0	17.9	12.1
Far East FG	27.0	22.3	4.7
US OEM	3.2	0.2	3.0
Adjustments	(11.6)	(8.6)	(3.0)
Net revenues	$ 276.2	$ 248.8	$ 27.4

The significant positive variances in US FG were attributable to sales of Access ($34 million above plan), Visual C++ upgrades ($8 million unplanned), Visual Basic Pro standard product and upgrades ($13 million above plan). The only negative variance over $10 million was for PC FoxPro ($11 million) but in total the negative variances for the other products exceeded the positive, resulting in a total US FG positive variance of $14 million. The primary factors for the variance in Europe FG were PC FoxPro sales being $20 million below plan but being largely offset by a positive variance of $15 million from Access. All other variances were under $5 million. Access was also the primary positive variance in ICON FG where it was $9 million above plan. The largest variance in Far East FG was for Visual Basic Pro upgrades, at $3 million over plan.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US FG	$ 35.9	$ 36.9	$ 52.5	$ (1.0)	$ (16.6)
Europe FG	20.0	27.6	39.0	(7.6)	(19.0)
ICON FG	6.6	5.2	14.1	1.4	(7.5)
Far East FG	8.9	5.3	9.9	3.6	(1.0)
US OEM	1.1	0.1	0.6	1.0	0.5
Adjustments	(4.2)	(2.4)	(0.9)	(1.8)	(3.3)
Net revenues	$ 68.3	$ 72.7	$ 115.2	$ (4.4)	$ (46.9)

US FG approximated overall planned revenues for the quarter. The decrease in Access sales from last quarter totaled $23 million. Europe FG's negative variance was due primarily to less than planned sales from PC FoxPro (10% of plan) caused by the delay in shipping version 2.5a, while the decrease over last quarter's revenues also came from Access sales which were $21 million lower. ICON FG had no significant individual product variances and like the other channels, the revenue decrease was attributable to Access sales ($600,000 vs. $9 million in the prior quarter). The only significant revenue variance in Far East FG was for Visual Basic Pro upgrades which were $2.2 million above plan.

DATABASE & DEVELOPMENT TOOLS

Product Unit Revenues (in millions)

	FY93		FY93 Plan		Variance
DBMS	$ 96.4	34.9%	$ 36.7	14.8%	$ 59.7
Languages	64.1	23.2	74.6	30.0	(10.5)
APPU	56.8	20.6	44.1	17.7	12.7
FOX	58.8	21.3	93.4	37.5	(34.6)
Rounding	0.1	–	–	–	0.1
	$ 276.2	100.0%	$ 248.8	100.0%	$ 27.4

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
DBMS	$ 10.2	14.9%	$ 14.2	19.5%	$ 63.7	55.3%	$ (4.0)	$ (53.5)
FOX	20.6	30.2	29.2	40.2	18.4	16.0	(8.6)	2.2
APPU	18.2	26.6	10.4	14.3	17.0	14.8	7.8	1.2
Languages	19.4	28.4	19.0	26.1	16.0	13.9	0.4	3.4
Rounding	(0.1)	(0.1)	(0.1)	(0.1)	0.1	–	–	(0.2)
	$ 68.3	100.0%	$ 72.7	100.0%	$ 115.2	100.0%	$ (4.4)	$ (46.9)

Cost of Revenues

FY93

Product cost of revenues as a percentage of gross revenues were 18.8% versus 15.3% plan. Most of the variance was attributable to the cost of revenues for the Languages product unit, where product costs were 31.8% of gross revenues versus a plan of 21.8%. Total cost of revenues were 24.2% of gross revenues versus 19.1% plan. Higher than planned allocations for manufacturing overheads and inventory adjustments were the primary sources of the non product cost of revenue variance.

Q93-4

Product cost of revenues as a percentage of gross revenues were 18.5% versus 12.2% plan. Both the Languages and Fox Product Units posted cogs significantly above plan; 14.5% versus 10.0% plan for Fox and 30.3% versus 17.5% plan for Languages. Total cost of revenues as a percentage of gross revenues were 27.8%, 12.5% above plan. Higher than planned allocations for manufacturing overheads and inventory adjustments were the primary sources of the non product cost of revenue variance. Steps have been taken to reduce cogs by debundling the SDK from the Visual C++ product (sold separately for $99) and providing the entire product on CD ROM.

Operating Expenses (in millions)

	FY93	FY93 Plan	Variance
Marketing	$ 33.6	$ 33.4	$ (0.2)
Marketing accrual	–	–	--
Payroll & payroll taxes	33.8	39.0	5.2
Product development	6.0	9.9	3.9
Product support services	27.9	24.3	(3.6)
Other	35.5	29.1	(6.4)
	$ 136.8	$ 135.7	$ (1.1)

Operating expenses approximated plan for the year. Marketing was slightly over plan in all product units with the exception of FOX at $3.1 million below plan. The payroll and payroll taxes variance reflects the lag in hiring compared to plan during the year. Product development was below plan across all product units.

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 13.0	$ 5.8	$ (7.2)
Marketing accrual	(6.7)	–	6.7
Product support services	10.1	6.4	(3.7)
Payroll & payroll taxes	8.7	10.0	1.3
Product development	1.8	1.9	0.1
Other	9.8	7.5	(2.3)
	$ 36.7	$ 31.6	$ (5.1)

Total operating expenses were 16% above plan for the quarter. Higher than planned product support costs in the Access and Fox Product Units was the primary reason for the negative variance overall. While the marketing accrual reversed itself on a year-to-date basis, marketing expenditures net of the accrual reversal were still $500,000 above plan for the quarter.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Prod Groups
June 30, 1993	648	695	47	50	5%	15%
March 31, 1993	598	690	92	(2)	5	14
December 31, 1992	600	687	87	(8)	5	15
September 30, 1992	608	637	29	58	6	15
June 30, 1992	550	459	(91)	-	5	15

Note: Prior quarters have been restated to include IPG Ireland headcount.

Hiring lagged behind schedule; headcount was 93% of plan at the end of the quarter.

Allocations

Total allocated expenses for the quarter were $1.3 million above plan year-to-date. Allocations from US FG sales and marketing were $1.5 million below plan, but this was more than offset by higher than planned allocations from R&D, Applications ($2.2 million above plan) and Europe FG sales and marketing ($1.1 million above plan). For the quarter, allocated expenses were $1.2 million above plan, at $15.6 million.

Burdened Operating Income

FY93

The burdened operating income of $12.1 million exceeded plan by 59%. The above plan results were indicative of total gross margins being greater than plan in the Access ($79 million versus $31 million plan) and Basic ($45 million versus $37 million plan) product units. The positive variances in gross margin were largely offset by negative gross margin variances in Fox ($46 million versus $79 million plan) and Languages ($36 million versus $54 million plan). Operating expenses approximated plan.

Q93-4

A burdened operating loss of $4.2 million was primarily the result of losses in the Access and Languages Product Units. Net revenues from Access ($10.2 million) were barely enough to cover operating expenses. Factoring in cogs of $2.0 million and allocations of $3.6 million, the overall loss for Access was $5.6 million in Q93-4. The Languages product unit also had a losing quarter, posting a loss of $6.4 million. Offsetting the losses, was the Basic Product Unit, posting BOI of $3.7 million and the Fox Product Unit, with BOI of $4.1 million.

Database & Development Tools

Quarterly Growth

BOI decreased 111% from last quarters overall BOI of $39.8 million. The decrease in sales of Access, which accounted for $40.0 million in BOI last quarter was the single most significant factor for the decrease, but was not unexpected following the unexpectedly high sales activity during Access' first two quarters of shipping.

WORKGROUP

FY93

The Office bundle contributed $17.4 million of Workgroup's gross revenues (27%), compared to a budget of $7.8 million (13%).

Products introduced during the year include: Microsoft Mail 3.0 (July, 1992), Mail 3.2 (April, 1993), Schedule+ 1.0 (August, 1992) and MS Mail for Apple Talk Networks 3.1 (August, 1992). In addition, PC Mail Gateway to PROFS and Office Vision/VM 3.0 shipped in September, 1992, Microsoft Mail Gateway to X.400 version 3.2 shipped in June, 1993, and Microsoft Electronic Forms Designer 1.0 shipped in June, 1993.

ICL, with operations in more than 70 countries, entered into a long-term strategic relationship with Microsoft to integrate all versions of Microsoft Mail with TeamOFFICE, ICL's office information system for PC LAN's.

Q93-4

Tom Evslin became General Manager of the Workgroup Division effective July 1, 1993. Evslin took over from Vice President Daniel Petre, who has chosen to return to his native Australia for personal reasons.

The Microsoft Electronic Forms Designer (EForms Designer) shipped in June. EForms Designer allows programmers to use the Microsoft Visual Basic programming system to create electronic forms for users of Microsoft Mail for Windows and greatly simplifies the task of developing electronic forms that users can fill out, send and receive across their messaging network. The suggested retail price is $395 with no per-user charge or run-time fee.

Microsoft Mail 3.2 shipped on 4/6/93. This upgrade offers several new features, including support for Novell NetWare and LAN Manager, and the ability to easily move users from one post office to another. Version 3.2 has a suggested retail price of $695, which includes 10 workstation licenses. Users may upgrade from Microsoft Mail 3.0 for $195. Also announced on 4/6/93 was the Microsoft Mail Multitasking Message Transfer Agent (MMTA), which brings the benefit of a multitasking process to key operations within the messaging system. The MMTA has an SRP of $1,995.

The Mail Remote Client for Windows, the industry's first remote e-mail client that takes full advantage of the Microsoft Windows operating system, shipped in early April. The Remote Client also offers connectivity to AT&T EasyLinkSM Services, the largest public e-mail carrier in the world. Microsoft Remote Mail for Windows has an SRP of $195.

Microsoft shipped the Microsoft Mail Gateways to IBM PROFS, FAX and MHS in April, 1993. Microsoft now provides more gateways than any other single Local Area Network (LAN)-based electronic mail vendor, with nine different gateways that allow Microsoft Mail customers to connect to more than 50 major mainframe, minicomputer, LAN and public electronic mail systems. Also, Microsoft shipped version 3.2 of the Microsoft Mail Gateway to X.400 on 6/14/93. Version 3.2 includes a variety of enhancements, easier gateway administration and broader international support.

Licensing agreements were signed with MSL, Beyond and SCC for "Mail Special Edition" (previously known as Mail+). A licensing agreement was also signed for "Schedule/DOS" - an emulation of Schedule+ on DOS to be sold and supported entirely by Powercore (product will ship Q94-3).

The Office bundle contributed $5.7 million of Workgroup's Q93-4 gross revenues (32%), compared to a budget of $2.1 million (12%).

WORKGROUP

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 61.0	100.0%	$ 57.0	100.0%	$ 4.0
Cost of revenues	7.1	11.6	6.2	10.9	(0.9)
Operating expense	51.6	84.6	52.3	91.7	0.7
Allocations	24.0	39.3	21.5	37.7	(2.5)
Burdened operating income	$ (21.7)	(35.5)%	$ (23.0)	(40.3)%	$ 1.3

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 17.2	100.0%	$ 16.7	100.0%	$ 14.2	100.0%	$ 0.5	$ 3.0
Cost of revenues	2.4	13.9	1.7	10.2	1.7	11.9	(0.7)	(0.7)
Operating expense	14.0	81.2	12.2	73.0	12.8	90.1	(1.8)	(1.2)
Allocations	6.8	39.9	5.5	32.7	6.7	47.0	(1.3)	(0.1)
Burdened operating income	$ (6.0)	(35.0)%	$ (2.7)	(15.9)%	$ (7.0)	(49.0)%	$ (3.3)	$ 1.0

Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
PC Mail Server	785	$ 16.3	$ 21	379	$ 13.0	$ 34	406	$ 3.3	$ (13)
PC Mail Client*	1,407	15.8	11	1,315	25.4	19	92	(9.6)	(8)
Win Schedule +	756	7.4	10	607	4.7	8	149	2.7	2
PC Gateway	13	7.3	586	9	7.8	847	4	(0.5)	(261)
Mail Remote *	203	4.2	21	35	2.3	65	168	1.9	(44)
		$ 51.0			$ 53.2			($ 2.2)	
Percentage of net revenues		84%			93%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

PC Mail Server's YTD positive unit variance was isolated to US FG (171,000), Europe FG (188,000) and ROW FG (46,000). Each channel had a negative $/unit variance, particularly Europe FG, which was 57% below plan ($22/unit vs. $51/unit). PC Mail Client unit sales were higher than budgeted in ROW FG (99,000), Europe OEM (91,000), US OEM (86,000) and lower in Europe FG (11,000) and US FG (174,000). PC Mail Client's $/unit variance was due to a combination of mix, selling proportionately more licenses in lower priced US FG and obtaining less than planned $/unit in each channel. Unit sales of Win Schedule+ were lower than plan in US FG (96,000), primarily as a result of shifting 83,000 units to the unbudgeted OEM channel. Unit sales were above plan in ROW FG (49,000), Europe FG (22,000) and the unbudgeted Europe OEM channel (91,000). All channels had $/unit revenues above plan, particularly US FG, where $/unit revenues were 100% above plan ($14/unit versus $7/unit). PC Gateway's positive unit variance was due to strong US FG sales. Similarly, the negative $/unit variance was also attributable to selling 71% of the units in US FG where the $/unit was 48% below plan. The Mail Remote positive unit variance was due to US FG (29,000), Europe FG (89,000) and ROW FG (49,000). The negative $/unit variance was attributable to all channels, but particularly to Europe FG, which accounted for 46% of the units sold and realized a price of only $16/unit, versus plan of $96/unit.

WORKGROUP

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
PC Mail Server	276	$ 5.1	$ 19	104	$ 3.6	$ 34	172	$ 1.5	$ (15)
PC Mail Client*	492	3.7	8	417	7.6	18	75	(3.9)	(10)
PC Gateway	4	2.1	544	3	2.2	846	1	(0.1)	(302)
Win Schedule +	199	1.8	9	217	1.7	8	(18)	0.1	1
Mail Remote	67	1.0	14	10	0.7	67	57	0.3	(53)
		$ 13.7			$ 15.8			($ 2.1)	
Percentage of net revenues		80%			95%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

PC Mail Server's positive unit variance was the result of US FG (79,000), Europe FG (65,000) and ROW FG (27,000). The negative $/unit variance was across the board, but occurred particularly in Europe FG, which was $28/unit below plan. PC Mail Client unit sales in US FG were 91,000 below plan, offset by US & Europe OEM, which were each 68,000 units above plan. ROW FG was 31,000 units above plan. Every channel had a negative $/unit variance, especially ROW FG, which was $15/unit below plan. PC Gateway's $/unit negative variance was attributable to the US FG channel, which reported a $432/unit negative variance. The negative Schedule+ unit variance was isolated to US FG, which was 160,000 below plan. This was partially offset by positive unit variances in Europe and US OEM channels of 68,000 and 52,000, respectively. Higher than planned sales of the higher $/unit Win Schedule+ Multiple User Licenses resulted in the positive $/unit variance. The Mail Remote positive variances were due to 41% of the units and 27% of the revenues occurring in Europe FG, which was minimally planned. The negative $/unit variance was attributable to all channels.

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
PC Mail Server	275	$ 5.1	$ 19	202	$ 4.1	$ 20	73	$ 1.0	$ (1)
PC Mail Client*	492	3.7	8	242	3.3	14	250	0.4	(6)
PC Gateway	4	2.1	544	3	1.9	580	1	0.2	(36)
Win Schedule +	199	1.8	9	146	1.4	10	53	0.4	(1)
Mail Remote	67	1.0	14	56	1.2	22	11	(0.2)	(8)
		$ 13.7			$ 13.1			$ 1.8	
Percentage of net revenues		80%			92%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

Mail products Q93-4 $/unit changes were once again impacted by a shift toward Office unit sales versus stand-alone products. PC Mail Server unit sales were up versus Q93-3 as a result of gains in US FG (67,000) and ROW FG (18,000), offsetting declines in Europe FG (13,000). PC Mail Client sales were up in US FG (159,000), US OEM (25,000), Europe OEM (45,000) and ROW FG (36,000). Unit sales declined only in Europe FG (15,000). Unit sales of Win Schedule+ increased in both the US (23,000) and Europe (45,000) OEM channels and in ROW FG (16,000). Sales declined in US FG (13,000) and Europe FG (18,000). The unit growth in Mail Remote was equally due to stronger sales in US FG and ROW FG. The negative $/unit change can primarily be attributed to US FG.

Channel Revenues (In millions)

	FY93	FY93 Plan	Variance
US FG	$ 32.9	$ 32.5	$ 0.4
Europe FG	20.2	18.6	1.6
ICON FG	9.1	7.5	1.6
Far East FG	0.4	--	0.4
US OEM	0.7	0.2	0.5
Adjustments	(2.3)	(1.8)	(0.5)
Net revenues	$ 61.0	$ 57.0	$ 4.0

The positive variance in Europe FG resulted primarily from Mail Server ($1.6 million), Mail Remote ($1.1 million) and Schedule+ ($0.6 million), offset somewhat by Mail Client (-$2.5 million). ICON and Far East FG were above plan due to stronger sales across all major products.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US FG	$ 9.4	$ 10.2	$ 5.8	$ (0.8)	$ 3.6
Europe FG	5.6	4.8	6.2	0.8	(0.6)
ICON FG	2.6	2.2	2.3	0.4	0.3
Far East FG	0.1	--	0.1	0.1	--
US OEM	--	--	--	--	--
Adjustments	(0.5)	(0.5)	(0.2)	--	(0.3)
Net revenues	$ 17.2	$ 16.7	$ 14.2	$ 0.5	$ 3.0

The Q93-4 negative variance versus plan in US FG was due to lower than planned sales of PC Mail Client ($2.9 million). US FG's increase from Q93-3 was due to stronger sales of all major products. Europe FG's positive variance versus plan was the result of strong sales of PC Mail Server, PC Mail Remote and Win Schedule+, which offset the lower than planned across-the-board $/unit revenues. The decrease from Q93-3 was due to weaker sales of all major products.

Cost of Revenues

FY93

Both product and non-product cost of revenues were slightly above plan, due to higher product costs in Europe FG and unbudgeted inventory adjustments.

Q93-4

Product costs were 8.4% of net revenues, compared to a planned 6.4%, primarily due to higher product costs in Europe FG. Non-product cost of revenues were also above plan, mainly due to unbudgeted inventory adjustments.

Operating Expenses (In millions)

	FY93	FY93 Plan	Variance
Payroll & payroll taxes	$ 16.6	$ 17.6	$ 1.0
Marketing	9.0	7.7	(1.3)
Product Development	7.3	7.1	(0.2)
Product support services	4.6	6.3	1.7
Travel & Entertainment	1.1	1.2	0.1
Other	13.0	12.4	(0.6)
	$ 51.6	$ 52.3	$ 0.7

	Q93-4	Q93-4 Plan	Variance
Payroll & payroll taxes	$ 4.4	$ 4.6	$ 0.2
Marketing	3.5	1.1	(2.4)
Product Development	1.9	1.5	(0.4)
Product support services	1.9	1.6	(0.3)
Marketing accrual	(1.8)	–	1.8
Other	4.1	3.4	(0.7)
	$ 14.0	$ 12.2	$ (1.8)

The marketing variance resulted from the Mail 3.2 release.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Prod Groups
June 30, 1993	375	381	6	23	3%	9%
March 31, 1993	352	381	29	(8)	3	8
December 31, 1992	360	381	21	31	3	9
September 30, 1992	329	332	3	5	3	8
June 30, 1992	324	262	(62)	-	3	9

Note: Prior quarters have been restated to include IPG Ireland headcount.

Allocations

FY93

Allocated expenses were 39.3% of Net Revenues, compared to a plan of 37.7%, due mainly to higher than budgeted R&D allocations.

Q93-4

Allocated expenses were 39.9% of Net Revenues, compared to a plan of 32.7%, due mainly to higher than budgeted R&D allocations.

Burdened Operating Income

FY93

The $1.3 million positive variance in burdened operating loss was the result of higher than planned revenues (7%), offset by higher than planned cost of revenues and allocations.

Q93-4

The $3.3 million negative variance in burdened operating loss resulted from higher than planned cost of revenues, operating expenses and allocations, which more than offset the 3% positive variance in net revenue.

Quarterly Growth

Burdened operating loss decreased by $1.0 million from Q93-3. The decrease was mostly due to a 21% increase in net revenues, resulting from higher sales of all major products. The increased revenues were offset somewhat by a 41% growth in cost of revenues and a 9% growth in operating expenses.

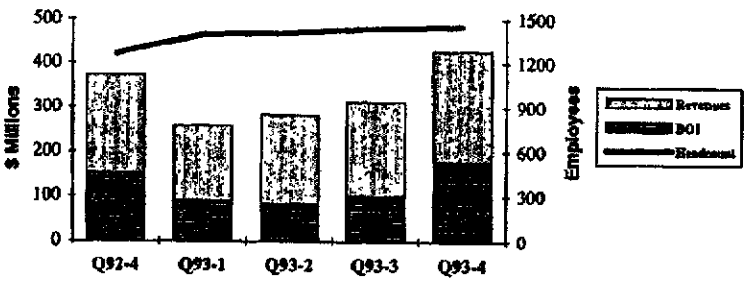
SYSTEMS SUMMARY

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 1,280	100.0%	$ 1,173	100.0%	$ 107
Cost of revenues	161	12.6	166	14.2	5
Operating expense	406	31.7	421	35.9	15
Allocations	260	20.3	273	23.2	13
Burdened operating income	$ 453	35.4	$ 313	26.7	$ 140

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 426	100.0%	$ 339	100.0%	$ 313	100.0%	$ 87	$ 113
Cost of revenues	57	13.4	50	14.7	40	12.8	(7)	(17)
Operating expense	115	27.0	99	29.2	105	33.5	(16)	(10)
Allocations	75	17.6	70	20.7	66	21.1	(5)	(9)
Burdened operating income	$ 179	42.0%	$ 120	35.4%	$ 102	32.6%	$ 59	$ 77

Note: Numbers in the table include systems support.



Note: Prior quarters have been restated to include IPG Ireland headcount.

Systems Summary

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
US OEM	$ 309	$ 240	$ 69
Europe FG	266	282	(16)
US FG	295	342	(47)
Far East OEM	129	111	18
Europe OEM	117	75	42
ICON FG	113	92	21
Far East FG	38	29	9
ICON OEM	21	24	(3)
Adjustments	(8)	(22)	14
Net revenues	$ 1,280	$ 1,173	$ 107

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US OEM	$ 97	$ 66	$ 84	$ 31	$ 13
US FG	122	103	70	19	52
Europe FG	85	75	53	10	32
Europe OEM	34	22	36	12	(2)
Far East OEM	34	33	32	1	2
ICON FG	38	29	30	9	8
ICON OEM	8	8	6	–	2
Far East FG	23	9	6	14	17
Adjustments	(15)	(6)	(4)	(9)	(11)
Net revenues	$ 426	$ 339	$ 313	$ 87	$ 113

Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Windows 3.1	15,580	$ 429	$ 28	10,486	$ 350	$ 34	5,094	$ 79	$ (6)
MS-DOS/GW Basic Std	18,099	323	18	17,703	339	19	396	(16)	(1)
MS-DOS 6 Upg*	5,016	216	43	1,541	86	56	3,475	130	(13)
Windows 3.1 Upg*	1,131	51	45	1,150	59	51	(19)	(8)	(6)
MS-DOS 5 Upg*	1,104	47	42	833	46	55	271	1	(13)
LAN Manager	215	30	141	482	38	79	(267)	(8)	62
LAN Manager Client	567	20	36	2	–	277	565	20	(241)
WFW 3.1 Upg S/W	348	18	51	219	16	73	129	2	(22)
WFW 3.1 Std S/W	263	10	39	529	36	69	(266)	(26)	(30)
WFW 3.1 Upg H/W	56	8	146	89	13	147	(33)	(5)	(1)
		$ 1,152			$ 983			$ 169	
Percentage of net revenues		90%			84%				

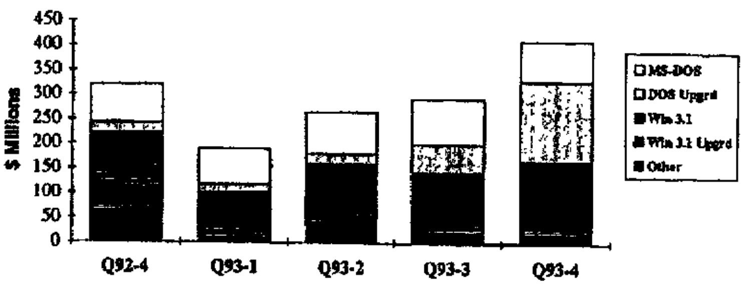
** Excludes maintenance*

Note: Figures in this table include allocations from bundled products.

SYSTEMS SUMMARY

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
MS-DOS/GW Basic Upg	3,676	$ 161	$ 44	548	$ 30	$ 55	3,128	$ 131	$ (11)
Windows 3.1	4,719	138	29	2,788	92	33	1,931	46	(4)
MS-DOS/GW Basic Std	4,860	81	17	4,973	93	19	(113)	(12)	(2)
Windows 3.1 Upg*	244	10	41	262	14	52	(18)	(4)	(11)
Lan Manager	51	7	128	129	10	78	(78)	(3)	50
Lan Manager Client	139	5	38	–	–	312	139	5	(274)
WFW 3.1Std S/W	128	3	20	283	14	50	(155)	(11)	(30)
Windows Printer System	16	2	116	44	6	140	(28)	(4)	(24)
Windows Pre-Release	30	2	51	–	–	–	30	2	51
SQL Server - Unlimited	–	1	5,237	–	2	4,127	–	(1)	1,110
		$ 410			$ 261			$ 149	
Percentage of net revenues		96%			77%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.



	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
MS-DOS/GW Basic Upg	3,676	$ 161	$ 44	1,340	$ 55	$ 41	2,336	$ 106	$ 3
Windows 3.1	4,719	138	29	4,506	112	25	213	26	4
MS-DOS/GW Basic Std	4,860	81	17	4,849	85	18	11	(4)	(1)
Win 3.1 Upg*	244	10	41	185	8	46	59	2	(5)
Lan Manager	51	7	128	63	9	138	(12)	(2)	(10)
Lan Manager Client	139	5	38	146	7	45	(7)	(2)	(7)
WFW 3.1 Std S/W	128	3	20	55	1	23	73	2	(3)
Windows Printer System	16	2	116	11	1	110	5	1	6
Windows Pre-Release	30	2	51	55	2	32	(25)	0	19
SQL Server - Unlimited	–	1	5,237	–	1	5,534	–	0	(297)
		$ 410			$ 281			$ 129	
Percentage of net revenues		96%			90%				

** Excludes maintenance*
Note: Figures in this table include allocations from bundled products.

Systems Summary

Business Unit Results (in millions)

Net Revenues

	FY93		FY93 Plan		Variance
MS-DOS	$ 584	45.6%	$ 467	39.8%	$ 117
Windows	530	41.4	590	50.3	(60)
OOS	96	7.5	100	8.5	(4)
Other	71	5.5	15	1.3	56
Rounding	(1)	--	1	0.1	(2)
	$ 1,280	100.0%	$ 1,173	100.0%	$ 107

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
MS-DOS	$ 243	57.0%	$ 122	36.0%	$ 151	48.2%	$ 121	$ 92
Windows	148	34.7	182	53.7	126	40.3	(34)	22
OOS	21	4.9	26	7.7	26	8.3	(5)	(5)
Other	14	3.3	8	2.4	11	3.5	6	3
Rounding	--	0.1	1	0.2	(1)	(0.3)	(1)	1
	$ 426	100.0%	$ 339	100.0%	$ 313	100.0%	$ 87	$ 113

Operating Income (Loss)

	FY93		FY93 Plan		Variance
MS-DOS	$ 384	84.8%	$ 273	87.2%	$ 111
Windows	(29)	(6.4)	1	0.3	(30)
OOS	34	7.5	28	8.9	6
Other	64	14.1	11	3.5	53
Rounding	--	--	--	0.1	--
	$ 453	100.0%	$ 313	100.0%	$ 140

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
MS-DOS	$ 168	93.9%	$ 74	61.7%	$ 100	98.0%	$ 94	$ 68
Windows	(10)	(5.6)	31	25.8	(17)	(16.7)	(41)	7
OOS	8	4.5	7	5.8	9	8.9	1	(1)
Other	13	7.3	7	5.8	11	10.8	6	2
Rounding	--	(0.1)	1	0.9	(1)	(1.0)	(1)	1
	$ 179	100.0%	$ 120	100.0%	$ 102	100.0%	$ 59	$ 77

Headcount (percent is of Product Groups' total)

	June 30, 1993		March 31, 1993		December 31, 1992		September 30, 1992		June 30, 1992	
DOS	168	4%	171	4%	164	4%	145	4%	109	3%
Windows	1,116	26	1,091	26	1,072	26	1,028	26	1,018	27
OOS	52	1	54	1	52	1	49	1	50	1
Systems Support	110	3	120	3	114	3	167	4	81	3
	1,446	34%	1,436	34%	1,402	34%	1,389	35%	1,258	34%

Note: Prior quarters have been restated to include IPG Ireland headcount.

MS-DOS

FY93

Based upon internal Microsoft estimates, MS-DOS (including IBM's PC-DOS) was forecasted to ship on 78% of Intel processors in FY93, with DR-DOS shipments projected at 4%. The remaining processors are expected to run pirated MS-DOS.

On March 17, 1993 Microsoft shipped MS-DOS 6.0. MS-DOS 6.0 features include Double-Space (a disk compression utility), MemMaker (a memory manager utility), a disk defragmentation utility, the Central Point Anti-Virus program, and enhanced backup capabilities. Double Space, one of the more significant enhancements, can increase the hard drive disk space availability by as much as 100%. The actual percentage increase depends on the types of files compressed. MemMaker, another significant enhancement, automatically determines the optimal memory configuration based upon drivers installed and memory space availability. PC Week reported MS-DOS 6.0 functionality was not "ground-breaking" but users could benefit from some "solid improvements".

Plans for MS-DOS 7.0, part of the Chicago effort, were released at the MS-DOS 6.0 announcement. Chicago will deliver 32-bit processing and preemptive multitasking capabilities. Product release is expected in the second half of 1994.

Q93-4

Worldwide, more than 5 million MS-DOS 6.0 Upgrade units were shipped in a little over 15 weeks. MS-DOS 6.0 upgrade units shipped has already surpassed the 4.6 million MS-DOS V5.0 lifetime upgrades.

MS-DOS V6.2 is being planned for October. The update will include the new Smartdrive for CD-ROM caching, a disk surface scanner, and some safety improvements to Doublespace. The update will be available to MS-DOS V6.0 customers for a nominal fee.

IBM announced PC-DOS 6.1, based on the MS-DOS kernel, on June 29. PC-DOS contains many features similar to MS-DOS 6.0 (data compression, enhanced backup, improved memory management, and anti-virus technology). PC-DOS will also be the first DOS to deliver pen interface capabilities. Conspicuously missing from PC-DOS 6.1 is BASIC, which IBM decided not to include due to license fees required by Microsoft. PC Week rated PC DOS a 2.5 on 5.0 scale as compared to MS-DOS V6.0's rating of 3.7. PC DOS was available July 26 at a list price of $189 ($109 for upgrade version). IBM is offering a 90-day promotional offering at $59.99.

Novell DOS 7.0, formerly referred to as DR DOS, was announced in April. Novell DOS 7.0 is the first version to be released since Novell acquired Digital Research in 1991. Novell DOS 7.0 will include integrated NetWare client support, peer-to-peer networking, a network management agent, pre-emptive multitasking, enhanced memory management, and desktop security. Novell DOS 7.0 is expected to ship this fall.

IBM plans to release Workplace DOS later this year which will overlay the OS/2 Workplace Shell on top of PC-DOS. IBM believes customers will benefit from a common drag-and-drop environment on PC-DOS, OS/2, and UNIX.

MS-DOS

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 584	100.0%	$ 467	100.0%	$ 117
Cost of revenues	56	9.6	47	10.0	(9)
Operating expense	69	11.9	65	14.0	(4)
Allocations	75	12.7	82	17.6	7
Burdened operating income	$ 384	65.8%	$ 273	58.4%	$ 111

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 243	100.0%	$ 122	100.0%	$ 151	100.0%	$ 121	$ 92
Cost of revenues	29	11.9	12	9.4	13	8.9	(17)	(16)
Operating expense	24	9.9	16	13.1	19	12.7	(8)	(5)
Allocations	22	9.0	20	16.7	19	12.4	(2)	(3)
Burdened operating income	$ 168	69.2%	$ 74	60.8%	$ 100	66.0%	$ 94	$ 68

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
US OEM	$ 149	$ 133	$ 16
US FG	144	73	71
Europe FG	97	94	3
Far East OEM	66	82	(16)
Europe OEM	63	45	18
ICON FG	54	29	25
ICON OEM	14	15	(1)
Far East FG	7	3	4
Adjustments	(10)	(7)	(3)
Net revenues	$ 584	$ 467	$ 117

US OEM's positive 12% revenue variance was due to a 1.4 million positive MS-DOS Standard unit variance. USFG exceeded its revenue plan by 97% due to a combined positive $68 million MS-DOS V5.0 and V6.0 Upgrade revenue variance. Far East OEM posted a negative 23% MS-DOS Standard unit variance (1.4 million units), which generated a negative $16 million revenue variance. Europe OEM reported a 40% positive revenue variance, the result of a 800,000 positive MS-DOS Standard unit variance. ICON FG reported a 86% positive revenue variance due to a combined MS-DOS V5.0 and V6.0 upgrade positive 800,000 unit variance.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US FG	$ 82	$ 14	$ 42	$ 68	$ 40
Europe FG	56	25	14	31	42
US OEM	42	35	38	7	4
ICON FG	24	8	15	16	9
Europe OEM	17	13	20	4	(3)
Far East OEM	16	22	18	(6)	(2)
ICON OEM	5	5	3	--	2
Far East FG	4	1	2	3	2
Adjustments	(3)	(1)	(1)	(2)	(2)
Net revenues	$ 243	$ 122	$ 151	$ 121	$ 92

MS-DOS V6.0 Upgrades drove the USFG positive 485% variance by exceeding unit plan by 1.7 million units, which was partially offset by a negative 24% $/unit variance. Europe FG revenues exceeded plan by 124% due to

MS-DOS

a MS-DOS V6.0 Upgrade positive unit variance of 900,000 units partially offset by a negative 16% $/unit variance, and a negative $12 million MS-DOS Std revenue variance. US OEM's favorable revenue variance was the result of a positive 31% unit variance combined with a negative 12% $/unit variance. ICON FG actual revenue tripled plan due to MS-DOS V6.0 Upgrade units exceeding plan by $18 million, slightly offset by a negative $2 million MS-DOS Standard revenue variance. Quarter-to-quarter change in the Finished Goods channels can be explained by MS-DOS V6.0 Upgrade performance. USFG shipped an incremental 1.1 million units relative to Q93-3 while Europe FG shipped an additional 900,000 units.

Top 15 Worldwide OEM Customers (in millions)

	FY93	FY93 Plan	FY92	Variance	Change
Compaq	$ 27.8	$ 16.4	$ 14.7	$ 11.4	$ 13.1
Dell	13.7	6.9	6.0	6.8	7.7
NEC	12.0	11.5	11.9	0.5	0.1
AST Research	11.2	6.7	7.1	4.5	4.1
Packard Bell	10.2	9.2	8.1	1.0	2.1
Gateway	8.9	7.7	5.6	1.2	3.3
Ing. C. Olivetti	8.9	5.6	6.9	3.3	2.0
Siemens Nixdorf	7.6	5.0	3.2	2.6	4.4
Toshiba	7.5	5.3	6.1	2.2	1.4
NCR	5.9	3.6	4.4	2.3	1.5
ESCOM	5.0	1.6	0.8	3.4	4.2
Zenith Data Systems	4.7	5.0	4.2	(0.3)	0.5
Acer	4.1	5.3	5.6	(1.2)	(1.5)
Tandy	4.1	5.9	5.4	(1.8)	(1.3)
Digital Equipment	3.8	3.1	0.1	0.7	3.7
Other Customers	156.6	176.2	145.1	(19.6)	11.5
	$ 292.0	$ 275.0	$ 235.2	$ 17.0	$ 56.8

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Compaq	$ 8.1	$ 4.5	$ 7.4	$ 3.6	$ 0.7
NEC Corp	4.5	4.1	2.0	0.4	2.5
Dell	3.8	2.0	3.1	1.8	0.7
AST Research	3.4	1.8	3.1	1.6	0.3
Gateway	2.7	2.1	2.5	0.6	0.2
Toshiba	2.7	1.3	1.9	1.4	0.8
Siemens Nixdorf	2.6	1.3	2.5	1.3	0.1
Packard Bell	2.3	2.7	3.2	(0.4)	(0.9)
Ing. C. Olivetti	1.9	1.4	3.6	0.5	(1.7)
Digital Equipment	1.5	0.9	0.7	0.6	0.8
NCR	1.3	1.1	1.7	0.2	(0.4)
Zenith Data Systems	1.2	1.2	1.8	--	(0.6)
Hewlett Packard	1.2	0.8	1.4	0.4	(0.2)
Escom	1.1	0.4	2.7	0.7	(1.6)
Tandy	1.0	1.4	1.2	(0.4)	(0.2)
Other Customers	40.7	48.0	40.4	(7.3)	0.3
	$ 80.0	$ 75.0	$ 79.2	$ 5.0	$ 0.8

Cost of Revenues

FY93

MS-DOS cost of revenues were below plan as a percentage of revenues (9.6% versus 10.0%) although absolute product cost of revenues exceeded plan by $9 million, which coincides with higher than planned MS-DOS revenues. USFG accounted for $6 million of the negative variance while Europe FG was responsible for $4 million. These variances can be explained by the large positive MS-DOS Upgrade Unit variances realized in USFG (2 million units) and Europe FG (800,000).

Q93-4

As a percentage of net revenues, product costs exceeded plan (10.9% versus 7.8%) resulting in a negative variance of $17 million. Lower than planned MS-DOS V6.0 Upgrade SRPs in the WW finished goods channels accounted for $11 million while manufacturing efficiencies accounted for the remainder.

Operating Expenses (in millions)

	FY93	FY93 Plan	Variance
PSS	$ 15	$ 20	$ 5
Marketing	14	13	(1)
Payroll & payroll taxes	8	8	--
Other	32	24	(8)
	$ 69	$ 65	$ (4)

The positive PSS variance is the result of below plan operating costs and headcount. The negative variance in Other expenses stems from greater than planned Bad Debt charges ($14 million versus plan of $6 million).

	Q93-4	Q93-4 Plan	Variance
PSS	$ 7	$ 5	$ (2)
Marketing Accrual	(4)	–	4
Marketing	7	2	(5)
Payroll & payroll taxes	2	2	--
Other	12	7	(5)
	$ 24	$ 16	$ (8)

The negative PSS variance is the result of ramping up headcount for the March 1993 MS-DOS 6.0 introduction. Q93-4 operating expenses were 9.9% of net revenues as compared to plan of 13.1%. This favorable variance was due to a positive $121 million revenue variance offset by a negative operating expense variance of $8 million.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Prod Groups
June 30, 1993	168	145	(23)	(3)	1%	4%
March 31, 1993	171	145	(26)	7	1	4
December 31, 1992	164	144	(20)	19	1	4
September 30, 1992	145	137	(8)	36	1	4
June 30, 1992	109	73	(36)	-	1	3

Note: Prior quarters have been restated to include IPG Ireland headcount.

Allocations

FY93

FY93 allocations are 12.7% of net revenues compared to a plan of 17.6%. This favorable variance is a result of a positive $117 million net revenue variance coupled with a positive $8 million allocation variance. The Systems Division research and development allocation generated a positive $7 million variance.

MS-DOS

Q93-4

Allocations were 9.0% of net revenues as compared to plan of 16.7%. The decrease in allocations as a percent of net revenues is due to increased Q93-4 net revenues.

Burdened Operating Income

FY93

Actual BOI of 65.8% exceeded planned BOI of 58.5%. This generated a positive $111 million BOI variance, resulting from higher than planned net revenues and lower than planned allocations, combined with increased cost of revenues and operating expenses.

Q93-4

BOI was 127% above plan, as a result of a 99% increase in net revenues relative to plan, offset by a negative 154% cost of revenue variance and a negative 50% operating expense variance.

Quarterly Growth

MS-DOS experienced a 68% increase in BOI over Q93-3, largely driven by net revenue growth of 61%. The revenue growth, when combined with negative expense variances versus Q93-3, resulted in an increase in BOI of $68 million and an increase in BOI as a percent of revenues (69.2% in Q93-4 compared to 66.0% in Q93-3).

WINDOWS

FY93

The number of life-to-date Windows 3.1 licensed users grew to more than 30 million this quarter.

Windows for Workgroups 3.1 (WFW 3.1), released in October 1992, continues to collect prestigious industry honors, bringing the total number of such awards to 11. National Software Testing Laboratories/Software Digest Ratings Report gave WFW 3.1 the highest overall ratings for Windows-based peer-to-peer products while Computerworld's Brand Preference Study anointed WFW 3.1 with top honors in all six peer-to-peer operating system categories. 65% of survey respondents said they intended to purchase WFW over the upcoming year.

Windows 3.1 penetration is approximately 60% of currently shipping Windows-compatible machines. Penetration continues to increase as additional OEMs ship Windows 3.1 with their PC hardware. Seventy-eight percent of Q93-4 Windows 3.1 standard units were reported through the OEM channel as compared to approximately 57% in Q92-4.

Q93-4

Windows NT released to manufacturing July 26. Channel shipments are expected by the second week in August. Current agreements exist to port Windows NT to the Alpha AXP, Intel Pentium, Mips 4400, and Integraph's Clipper architectures. Non-public agreements exist with IBM (PowerPC), Hewlett-Packard (Precision Architecture), and Intergraph (port Windows NT to Sun's SPARC). Windows NT has received commitment from such software leaders as Dun and Bradstreet Software, Ross Systems, Computer Associates, Oracle, SAP AG, Digital Equipment, and IBM to deliver high-end, mission-critical applications.

The Japanese-language variant of Windows 3.1 was announced May 17. At announcement, 24 OEMs committed to delivering Windows 3.1 preinstalled and preconfigured as part of the Windows Ready-to-Run program. Additionally, more than 1,650 applications are available which run on Japanese Windows 3.1. Japanese Windows 3.1 includes standard features, in addition to enhanced support for two Japanese TrueType Fonts and special print drivers.

Insignia Solutions has licensed the Windows source code and plans to engineer a software layer which will enable users to run Windows applications natively on top of Unix workstations.

IBM introduced OS/2 2.1 on May 18. This upgrade eliminated V2.0 bugs and improved performance and support for Windows 3.1 applications, super VGA graphics, and multimedia capabilities. OS/2 2.1 has a list price of $249, although the promotional upgrade price will be $119 for 90 days. More than 200,000 copies of OS/2 2.1 have been shipped since its May 18 introduction.

Sun announced Windows Applications Binary Interface (WABI), which will allow a Windows application to run on other vendor's operating system. Sun's goal with WABI is to make inroads into Microsoft's Windows installed base by allowing users to run their Windows-based applications on top of non-Windows based operating systems.

Apple and Novell have announced joint development of a 32-bit operating system called Star Trek, which will run on Intel-based systems. Star Trek will combine Apple's ease-of-use features with Novell's integrated networking capabilities. Star Trek is expected to become available in the first half of 1994.

WFW 3.11, code named Snowball, is expected to be released in October 1993. Snowball will address key selling issues such as improved I/O and network access, improved support for NetWare networks, and secure peer networking.

WINDOWS

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 530	100.0%	$ 590	100.0%	$ (60)
Cost of revenues	88	16.7	101	17.1	13
Operating expense	292	55.1	304	51.5	12
Allocations	179	33.8	184	31.2	5
Burdened operating income (loss)	$ (29)	(5.5)	$ 1	0.2	$ (30)

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 148	100.0%	$ 182	100.0%	$ 126	100.0%	$ (34)	$ 22
Cost of revenues	23	15.8	33	18.3	23	18.4	10	--
Operating expense	83	56.1	69	38.1	75	59.6	(14)	(8)
Allocations	51	34.7	48	26.3	45	35.8	(3)	(6)
Burdened operating income (loss)	$ (10)	(6.7%)	$ 31	17.3	$ (17)	(13.8)	$ (41)	$ 8

Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win 3.1	15,580	$ 429	$ 28	10,486	$ 350	$ 33	5,094	$ 79	$ (5)
Win 3.1 Upg*	1,131	51	45	1,150	59	51	(19)	(8)	(6)
WFW 3.1 Upg S/W	348	18	51	219	16	73	129	2	(22)
WFW 3.1 Std S/W	263	10	39	529	36	69	(266)	(26)	(30)
WFW Upg HW	56	8	146	89	13	147	(33)	(5)	(1)
		$ 516			$ 474			$ 42	
Percentage of net revenues		97%			80%				

** Excludes maintenance.*
Note: Figures in this table include allocations from bundled products.

Windows 3.1 Std's 49% positive unit variance was led by US OEM (107% over plan; 4.2 million units) and Europe OEM (52% over plan; 843,000 units). The Win 3.1 negative 15% $/unit variance was driven by a negative $/unit variance in USFG ($4) and an increase in units shipping through the WW OEM channels (78% of Win 3.1 Std units versus plan of 74%). Windows 3.1 Upgrades experienced stronger than planned unit performance in ROW FG (89,000) and Europe FG (40,000) while USFG underperformed its unit plan by 35% (149,000) and generated a negative 27% $/unit variance. WFW 3.1 Upg S/W posted a positive 58% unit variance, the result of 57,000 unplanned ROW FG units and a positive 100,000 Europe FG unit variance, partially offset by a 14% USFG unit deficit and a negative 30% $/unit variance. The negative 72% WFW 3.1 Std S/W revenue variance resulted from an USFG negative 75% unit variance and negative 33% $/unit variance combined with a negative 65% Europe FG unit variance and a negative 15% $/unit variance. WFW Upg HW generated a negative 38% revenue variance, the result of a negative 62% USFG unit variance (55,000 units; $8 million), which was partially offset by unplanned Europe FG (14,000 units; $2 million) and ROW FG (7,000 units; $1 million) shipments.

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win 3.1	4,719	$ 138	$ 29	2,788	$ 92	$ 33	1,931	46	(4)
Win 3.1 Upg*	244	10	41	262	14	52	(18)	(4)	(11)
WFW 3.1 Std S/W	128	3	20	283	14	50	(155)	(11)	(30)
Win Printer Systems	16	2	116	44	6	140	(28)	(4)	(24)
Win Pre-release Program	30	2	51	--	--	--	30	2	51
		$ 155			$ 126			$ 29	
Percentage of net revenues		105%			69%				

** Excludes maintenance.*
Notes: 1. Figures in this table include allocations from bundled products.
2. Win Pre-release Programs is part of the Win NT SDK program.
3. WFW 3.1 S/W Standard = S/W only for users without Windows.

WINDOWS

Windows 3.1 *Std* posted a positive 69% unit variance in Q93-4 due to strong unit sales in US OEM (1.6 million units), Europe OEM (209,000), USFG (158,000), and ROW FG (165,000). The ROW FG unit variance was due to the successful launch of Win 3.1J on May 17. The Win 3.1 Upg negative unit and revenue variances occurred as a result of negative Europe FG performance (57,000 units; 25% $/unit variance) and ROW FG (14,000 units; 9% $/unit variance) performance. USFG outperformed its Win 3.1 Upgrade plan, posting a favorable 54,000 unit variance, a positive $1 million revenue variance, but experienced a negative 20% $/unit variance. The WFW 3.1 Std. S/W negative 82% revenue variance and negative 55% unit variance was the result of USFG (negative 61,000 units and $8 million revenue variance), ROW FG (favorable 36% unit variance combined with a negative 68% $/unit variance), and Europe FG (negative 19,000 unit variance and $3 million revenue variance). WFW 3.1 continues to underperform its revenue plan, which can be attributed to excessive inventory levels in the channel and high product returns. An $8 million adjustment was made in Q93-4 to account for product returns and obsolete stock. Win Printer Systems underperformed its USFG plan posting a negative 70% unit variance and a $4 million revenue deficit. The Pre-Release Program shipped 30,000 unplanned units in Q93-4, generating a positive revenue variance of $2 million.

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Win 3.1	4,719	$ 138	$ 29	4,506	$ 112	$ 25	213	$ 26	$ 4
Win 3.1 Upg*	244	10	41	185	8	46	59	2	(5)
WFW 3.1 Std S/W	128	3	20	55	1	23	73	2	(3)
Win Printer Systems	16	2	116	11	1	110	5	1	6
Win Pre-release Program	30	2	51	55	2	32	(25)	–	19
		$ 155			$ 124			$ 31	
Percentage of net revenues		105%			101%				

** Excludes maintenance.*
Note: Figures in this table include allocations from bundled products.

Windows 3.1 units grew 5% over Q93-3 shipments, with unit growth in ROW FG (192,000), USFG (178,000), and US OEM (116,000) offset by unit declines in Europe OEM (197,000). Strong worldwide FG performance and a 19% $/unit US OEM increase resulted in a 16% increase in $/unit from Q93-3. A 45% Win 3.1 Upgrade Europe FG shipment decline and a 9% $/unit decrease partially offset a 106,000 unit USFG Win 3.1 Upgrade unit shipment increase and a 61% $/unit gain. WFW 3.1 Std S/W revenue increased 96% due to increased shipments in Europe OEM (45,000), US OEM (22,000), and ROW FG (14,000). Win Printers Systems combined a positive 41% unit growth with a 5% positive $/unit increase to report a 47% revenue increase over Q93-3.

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
Europe FG	$ 142	$ 155	$ (13)
US OEM	136	73	63
US FG	126	246	(120)
ICON FG	53	49	4
Europe OEM	49	26	23
Far East OEM	30	30	-
Far East FG	26	20	6
ICON OEM	7	6	1
Adjustments	(39)	(15)	(24)
Net revenues	$ 530	$ 590	$ (60)

WFW Std S/W and Font Pack contributed $10 million and $2 million, respectively, to the Europe FG negative revenue variance while the delay in Windows NT and SQL Server resulted in an additional $6 million negative revenue variance. These shortfalls were offset by a WFW S/W Upgrade $5 million positive revenue variance. US

WINDOWS

OEM and Europe OEM positive revenue variances were exclusively the result of a 107% and 52% Win 3.1 Std positive unit variance, respectively. USFG fell short of its revenue plan due to negative variances in Windows 3.1 Upgrades ($10 million), WFW 3.1 H/W Standard ($18 million) and H/W Upgrade ($8 million), WFW S/W Standard ($13 million) and S/W Upgrade ($5 million), Windows Printing ($16 million), and Font Pack ($19 million). Additionally, the delay in Windows NT, SQL Server, and SNA Server accounted for an additional negative $13 million USFG revenue variance.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US OEM	$ 50	$ 20	$ 41	$ 30	$ 9
US FG	35	83	22	(48)	13
Europe FG	23	42	32	(19)	(9)
Far East FG	17	7	6	10	11
ICON FG	14	17	10	(3)	4
Europe OEM	14	7	17	7	(3)
Far East OEM	8	10	9	(2)	(1)
ICON OEM	3	2	2	1	1
Adjustments	(16)	(6)	(13)	(10)	(3)
Net revenues	$ 148	$ 182	$ 126	$ (34)	$ 22

US OEM and Europe OEM exceeded their Q93-4 revenue plans due to a positive US OEM Win 3.1 Std 156% unit variance and a positive Europe OEM Win 3.1 Std 50% unit variance. US FG revenues were 58% below plan in Q93-4. The WFW product families accounted for $33 million in negative revenue variance while the delay of Windows NT contributed an additional $13 million negative revenue and Font Pack and Win Printer Systems each reported a $4 million negative variance. Win 3.1 Std USFG positive revenue variance of $10 million (positive 46% unit variance) helped to offset channel performance. Europe FG's negative $19 million revenue variance was due to $12 million Windows 3.1 Std variance, an additional negative $4 million in Windows 3.1 Upgrade variance, and a delay in Windows NT, resulting in a $2 million negative revenue variance. ROW FG posted a 85% positive unit variance, the result of Win 3.1J shipping. An $8 million amount appears in the Adjustment category for projected WFW 3.1 product returns. Windows 3.1 Std performance in Far East and ICON FG (favorable 192,000 shipment variance), in US OEM (116,000 units) and in USFG (178,000) over Q93-3 shipments drove the 17% revenue increase.

Product Unit Revenues (in millions)

FY93

	Win 3.x	Win NT	Printer Systems	Multimedia Systems	Mobile Windows	Windows Support	Windows Bus. Unit
Net revenues	$ 509	$ 7	$ 7	$ 6	$ 1	$ –	$ 530
Cost of revenues	80	3	4	1	–	–	88
Operating expenses	141	82	13	12	6	38	292
Allocations	105	46	10	8	7	3	179
Burdened operating income	$ 183	$ (124)	$ (20)	$ (15)	$ (12)	$ (41)	$ (29)

Q93-4

	Win 3.x	Win NT	Printer Systems	Multimedia Systems	Mobile Windows	Windows Support	Windows Bus. Unit
Net revenues	$ 142	$ 2	$ 3	$ 1	$ 0	$ –	$ 148
Cost of revenues	20	1	2	0	–	–	23
Operating expenses	34	30	3	2	1	12	83
Allocations	31	13	3	3	2	1	52
Burdened operating income	$ 57	$ (42)	$ (5)	$ (4)	$ (3)	$ (13)	$ (10)

Cost of Revenues

FY93

Cost of revenues were 16.7% of net revenues as compared to plan of 17.1%. The favorable variance can be attributed to product cost of revenues savings for Win 3.x PU ($13 million), the Windows NT delay ($5 million), Printer Systems ($6 million), and MM Systems ($1 million). Non-product cost of revenues posted a negative variance due to a WFW 3.1 obsolescence provision and rework charges.

Q93-4

Cost of revenues were 15.8% of net revenues compared to plan of 18.3%. The positive variance can be isolated to product cost savings in Windows 3.x PU ($7 million), the Windows NT delay ($4 million), and Printer Systems ($1 million), which was slightly offset by a $3 million negative variance in non-product cost of revenues.

Operating Expenses (in millions)

	FY93	FY93 Plan	Variance
Marketing	$ 73	$ 56	$ (17)
Payroll & payroll taxes	60	61	1
Product support services	50	65	15
Product development	23	28	5
Other	86	94	8
	$ 292	$ 304	$ 12

The negative 30% marketing spending variance was driven by Window 3.x and Windows NT campaigns. The positive product development variance is a result of a decrease in purchased code. The positive variance in PSS resulted from lower than planned operating expense and headcount.

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 33	$ 8	$ (25)
Payroll & payroll taxes	16	16	--
Product support services	12	17	5
Product development	10	5	(5)
Marketing accrual	(14)	--	14
Other	26	23	(3)
	$ 83	$ 69	$ (14)

The negative marketing variance was driven by above plan marketing spending in ICON FG, USFG, and US OEM. The PSS positive variance resulted from lower than expected PSS spending and headcount ($5 million savings). Product development posted a 100% negative variance due to timing differences in plan versus actual spend. Product development for the year came in 18% below plan. The marketing accrual, arising from timing differences, was booked to reverse the prior quarter's balance.

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Prod Groups
June 30, 1993	1,091	1,079	(12)	--	9%	26%
March 31, 1993	1,091	1,079	(12)	19	9	26
December 31, 1992	1,072	1,057	(15)	44	9	26
September 30, 1992	1,028	1,008	(20)	10	9	26
June 30, 1992	1,018	1,059	41	-	10	27

Note: Prior quarters have been restated to include IPG Ireland headcount.

Allocations

FY93

Allocations as a percentage of net revenues were 3% greater than plan, driven by a 10% negative net revenue variance. Actual allocated expenses posted a positive variance of $5 million, the result of a $9 million favorable USFG sales and marketing (S&M) allocation variance offset by a $3 million negative Europe FG S&M allocation variance. Allocations were 33.8% of net revenues as compared to plan of 31.2%.

Q93-4

Allocations as a percentage of net revenues were 7% over plan due to negative 19% net revenue variance and a $3 million negative allocated expenses variance. A positive $5 million USFG S&M allocation variance was offset by a negative $4 million Europe FG S&M allocation variance, a negative $3 million ROW FG S&M variance, and a negative $1 million Finance and Administration allocation variance. Allocations were 34.7% of net revenues as compared to plan of 26.3%.

Burdened Operating Income

FY93

The negative 10% net revenue variance offset positive variances in product cost of revenues, operating expenses, and allocations to result in a negative BOI variance of $31 million. Actual FY93 BOI was -6% of net revenues compared to a plan of 0%.

Q93-4

The negative $41 million BOI variance was due to a 19% negative net revenue variance, a negative $14 million operating expense variance, and a $3 million negative allocation variance. These negative variances were partially offset by a $ 10 million positive variance in cost of revenues. Actual Q93-4 BOI was -7% of net revenues versus planned BOI of 17.3%.

Quarterly Growth

The $7 million BOI improvement from Q93-3 resulted from a 17% net revenue increase offset by minor increases in operating expenses ($8 million) and allocations ($6 million). Q93-4 BOI was -7% of net revenues as compared to -14% in Q93-3.

Other Operating Systems

FY93

An English version of LAN Manager for OS/2 2.2 shipped in December. French, German, Italian and Swedish versions were released in Q93-4. LAN Manager version 2.2 marked a change from server-based pricing to client-based pricing, whereby customers pay only for their installed clients instead of each available connection. The shift in pricing strategy is designed to compliment Windows for Workgroups and Windows NT, both of which have built-in networking, and provide client capabilities.

LAN Manager 2.1a for Unix and a finished goods version of LAN Manager 2.2 for SCO Unix shipped during Q93-2. Remote Access Services (RAS) version 1.1, which also shipped in Q93-2, allows a client to have access to a server by modem and treats the user's phone line as a network connection.

DLC for Windows for Workgroups shipped in March 93.

Q93-4

TCP/IP for Windows for Workgroups shipped in June 93. TCP/IP for Windows for Workgroups is a protocol which allows different computers to communicate.

LAN Manager for 3Com Servers v2.2 shipped in April 93. This product is targeted towards migrating 3Com customers and keeping existing MS customers happy.

Bloodhound, a Windows-based protocol analyzer, is in beta test. The tentative launch date is October 93. Bloodhound will detect and correct network problems by monitoring and searching data packets for problems. This product will be a useful tool for: a) internal network product development/test; b) ITG usage in maintaining the MS corporate net: c) PSS support of networking customers: and d) customer support of their own large networks.

In Q93-4, Hermes was released to the User's Council, a group of 16 large customers who will provide input on product functionality. Hermes is a server-based suite of Windows NT tools which performs inventory of hardware and software, remote software installation across a network, and has the ability to store configuration information in an SQL database. Hermes is expected to be released in the first quarter of calendar year 1994.

Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 104.1	100.0%	$ 107.7	100.0%	$ (3.6)
Cost of revenues	16.9	16.2	18.6	17.3	1.7
Operating expense	21.6	20.7	29.2	27.1	7.6
Allocations	27.4	26.4	28.2	26.2	0.8
Burdened operating income	$ 38.2	36.7%	$ 31.7	29.4%	$ 6.5

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 22.2	100.0%	$ 27.9	100.0%	$ 27.3	100.0%	$ (5.7)	$ (5.1)
Cost of revenues	4.5	20.4	5.0	17.8	3.9	14.2	0.5	(0.6)
Operating expense	2.1	9.4	7.7	27.6	6.0	22.0	5.6	3.9
Allocations	7.3	32.8	7.1	25.5	7.4	27.0	(0.2)	0.1
Burdened operating income	$ 8.3	37.4%	$ 8.1	29.1%	$ 10.0	36.8%	$ 0.2	$ (1.7)

Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
LAN Manager	215	$ 30	$ 141	482	$ 38	$ 79	(267)	$ (8)	$ 62
LAN Manager Client	567	20	36	2	–	277	565	20	(241)
Xenix V/386	320	7	23	219	7	33	101	–	(10)
SQL Server-Workgroup	35	6	164	22	6	281	13	–	(117)
SQL Server-Unlimited	1	6	7,343	2	8	4,025	(1)	(2)	3,318
		$ 69			$ 59			10	
Percentage of net revenues		66%			62%				

The negative revenue variance for LAN Manager reflects a 307,000 unit shortfall in US OEM, partially offset by a $49/unit positive variance. The LAN Manager Client unit and revenue variances occurred in US OEM and Europe OEM where 456,000 and 85,000 units shipped, respectively, against virtually no plan (1,400 units in Europe OEM). All Xenix V/386 sales were in the US OEM channel, where royalty rates decreased resulting in the negative $/unit variance. The positive $/unit variance for SQL Server Unlimited resulted primarily in US FG with a $4,528 variance.

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
LAN Manager	51	$ 7	$ 128	129	$ 10	$ 78	(78)	$ (3)	$ 50
LAN Manager Client	139	5	38	–	–	312	139	5	(274)
Xenix V/386	86	2	19	54	2	30	32	–	(11)
SQL Server-Unlimited	–	1	5,237	–	2	4,127	–	(1)	1,110
OS/2	–	1	44	–	2	12	–	(1)	32
		$ 16			$ 16			–	
Percentage of net revenues		72%			56%				

The negative revenue variance for LAN Manager resulted primarily from a 79,000 unit shortfall in US OEM, partially offset by a $23/unit favorable variance. The LAN Manager Client unit and revenue variances occurred in the US OEM channel (121,000 units & $4.4 million). All Xenix V/386 sales were in the US OEM channel. However, decreasing royalty rates created the negative $/unit variance, offsetting the strength in units.

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
LAN Manager	51	$ 7	$ 128	63	$ 9	$ 138	(12)	$ (2)	$ (10)
LAN Manager Client	138	5	38	146	7	45	(8)	(2)	(7)
Xenix V/386	86	2	19	82	2	18	4	–	1
SQL Server-Unlimited	–	1	5,237	–	1	5,534	–	–	(297)
OS/2	–	1	44	–	1	38	–	–	6
		$ 16			$ 20			$ (4)	
Percentage of net revenues		72%			70%				

Lower revenues for LAN Manager resulted from a combination of a significant unit decrease (17,000 units) in Europe OEM and a decrease in unit pricing in the Europe IFG and US OEM channels, (where prices were lower by $194/unit and $24/unit, respectively). Lower revenues for LAN Manager Client reflect a drop in sales in US OEM units (5,000) and lower per unit pricing ($7/unit).

Other Operating Systems

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
US OEM	$ 33.2	$ 27.2	$ 6.0
Europe FG	27.0	32.8	(5.8)
US FG	25.2	23.6	1.6
Europe OEM	7.1	4.4	2.7
ICON FG	6.8	13.6	(6.8)
Far East FG	4.3	5.4	(1.1)
Far East OEM	3.3	2.3	1.0
ICON OEM	0.3	0.3	--
Adjustments	(3.1)	(1.9)	(1.2)
Net revenues	$ 104.1	$ 107.7	$ (3.6)

US OEM was above plan primarily due to LAN Manager Client ($15.3 million), partially offset by LAN Manager ($6.6 million). The below plan performance in Europe FG was due to LAN Manager Unlimited ($3.2 million), SQL Server-Unlimited ($3.2 million) and SQL Server-Workgroup ($1.7 million). The below plan results in Far East and ICON FG were primarily due to LAN Manager Unlimited ($2.1 million), LAN Manager ($1.6 million) and SQL Server-Unlimited ($1.9 million).

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US OEM	$ 8.4	$ 6.9	$ 9.6	$ 1.5	$ (1.2)
Europe FG	5.7	9.1	6.8	(3.4)	(1.1)
US FG	5.1	5.3	5.3	(0.2)	(0.2)
ICON FG	1.2	4.0	1.9	(2.8)	(0.7)
Far East FG	1.1	1.5	1.3	(0.4)	(0.2)
Europe OEM	0.9	1.0	1.7	(0.1)	(0.8)
Far East OEM	0.8	0.6	0.9	0.2	(0.1)
ICON OEM	--	0.1	0.1	(0.1)	(0.1)
Adjustments	(1.0)	(0.6)	(0.3)	(0.4)	(0.7)
Net revenues	$ 22.2	$ 27.9	$ 27.3	$ (5.7)	$ (5.1)

US OEM was above plan primarily due to LAN Manager Client ($4.4 million), partially offset by LAN Manager ($2.0 million) and OS/2 ($1.2 million). LAN Manager Client accounted for the quarter-to-quarter revenue decrease in that channel. Europe FG results reflect across-the-board below plan units. The below plan results in Far East and ICON FG were primarily due to LAN Manager Unlimited ($0.9 million), LAN Manager ($0.8 million) and SQL Server-Unlimited ($0.6 million).

OTHER OPERATING SYSTEMS

Product Unit Revenues (In millions)

	FY93		FY93 Plan		Variance
OOS	$ 96.2	92.5%	$ 99.7	92.6%	$ (3.5)
Unix	7.9	7.5	8.0	7.4	(0.1)
Rounding	–	–	–	–	–
	$ 104.1	100.0%	$ 107.7	100.0%	$ (3.6)

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
OOS	$ 20.5	92.6%	$ 26.0	93.3%	$ 25.7	94.3%	$ (5.5)	$ (5.2)
Unix	1.7	7.4	1.9	6.7	1.6	5.7	(0.2)	0.1
Rounding	–	–	–	–	–	–	–	–
	$ 22.2	100.0%	$ 27.9	100.0%	$ 27.3	100.0%	$ (5.7)	$ (5.1)

Cost of Revenues

FY93

The positive variance in cost of revenues reflects below plan sales ($3.6 million) and below plan product costs as a percent of net revenue (5.7% versus 7.3%). The shift toward OEM, where revenues exceeded plan by 28%, was also a factor. Unix royalties averaged 36.9% of net revenues versus a plan of 40.0%. Non-product cost of revenues were 10.6% versus a plan of 10.0%.

Q93-4

The positive variance in cost of revenues reflects below plan sales ($5.7 million) and below plan product costs as a percent of net revenue (6.4% versus 7.5%). The shift toward OEM, where revenues exceeded plan by 18%, was also a factor. Unix royalties averaged 48.8% of net revenues versus a plan of 40%. Non-product cost of revenues approximated plan.

Operating Expenses (In millions)

	FY93	FY93 Plan	Variance
Marketing	$ 4.1	$ 8.4	$ 4.3
Marketing accrual	--	–	--
Payroll & payroll taxes	1.8	1.9	0.1
Product support services	9.9	11.9	2.0
Other	5.8	7.0	1.2
	$ 21.6	$ 29.2	$ 7.6

OOS marketing spend was about 50% below plan, reflecting, in part, the delayed release to manufacturing of Windows NT. The PSS variance reflects overall PSS below plan expenses. The Other variance is largely a result of product development ($1.6 million).

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 1.2	$ 1.8	$ 0.6
Marketing accrual	(3.8)	–	3.8
Payroll & payroll taxes	0.5	0.5	–
Product support services	3.0	3.6	0.6
Other	1.2	1.8	0.6
	$ 2.1	$ 7.7	$ 5.6

Two-thirds of the operating expense variance in Q93-4 was a result of the reversal of the marketing accrual.

OTHER OPERATING SYSTEMS

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total	
					Operating	Prod Groups
June 30, 1993	52	35	(17)	(2)	--%	1%
March 31, 1993	54	35	(19)	2	--	1
December 31, 1992	52	35	(17)	3	--	1
September 30, 1992	49	35	(14)	(1)	--	1
June 30, 1992	50	41	(9)	-	--	1

Note: Prior quarters have been restated to include IPG Ireland headcount.

Allocations

FY93

Allocations were 3% below plan.

Q93-4

Allocations were 2% above plan.

Burdened Operating Income

FY93

Slightly below plan revenues were more than offset by below plan cost of revenues, operating expenses and allocations, accounting for the positive variance in actual BOI (36.7%) versus plan (29.4%).

Q93-4

Below plan revenues were more than offset by below plan cost of revenues, operating expenses and allocations, accounting for the positive variance in actual BOI (37.4%) versus plan (29.1%).

Quarterly Growth

Lower operating expenses drove BOI higher than Q93-3, despite lower revenues.

Hardware

FY93

For the year Mouse revenues came in at $219 million, 7% below plan. Mouse sales through the OEM channel accounted for 64% of Mouse units shipped (3.9 million units OEM) and contributed 25% of Mouse revenues $54.7 million OEM), as compared to a budget of 26% for units and 9% for revenue.

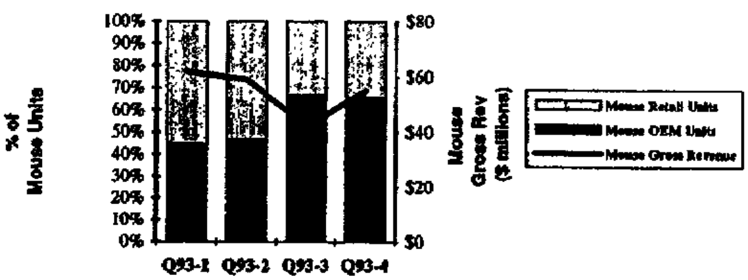
Version 2.0, which shipped in Q93-4, was the result of two years of usability testing and is the first redesign of the Microsoft Mouse in six years. It has been widely praised for its new ergonomic design. Several leading hardware vendors such as Dell Computer Corporation and Gateway 2000 as well as other hardware providers, including Computer Access and Micron Computer, Inc. selected the new Microsoft Mouse as the standard input device sold with their desktop systems.

The first nine month's shipments of Microsoft's Windows Sound System were $3.1 million below plan ($5.1M versus $8.2M), due to the rapid shift from an add-in retail business to one where PC manufacturers incorporate audio boards on their PC's. This has resulted in a shift in both products (Microsoft released an OEM Windows Sound System software only product in March 1993) and in sales channels (retail to OEM). Dell Computer, DFI Inc., Gateway 2000 and Tri-Star Computer announced in Q93-3 that they would incorporate Windows Sound System in their computers. Compaq began shipping Windows Sound System audio capability with their PC hardware in Q93-2. Game support for Windows Sound System increased by building in Soundblaster capability. In order to boost sales and generate excitement among resellers and consumers, a new SKU was introduced in Q93-3 that bundled WSS with Wolfenstein, a popular MS-DOS game.

Q93-4

Version 2.0 of the Microsoft Mouse, which features a sophisticated new ergonomic design for maximum comfort, combined with software and hardware features to improve productivity, shipped on 4/27/93. The Microsoft Mouse 2.0 includes the enhanced-performance driver software, version 9.0, which ensures full compatibility and reliability with Windows 3.1 and MS-DOS, as well as related software applications.

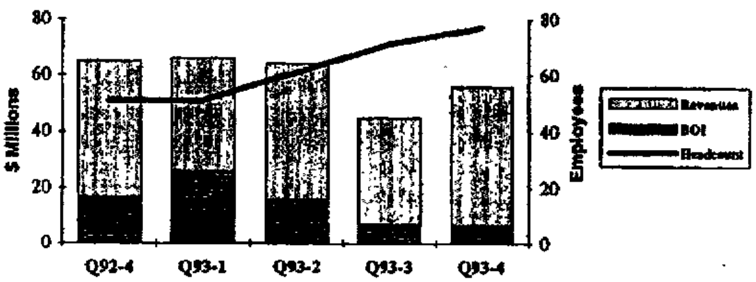
The shift in Mouse product from retail to an OEM business continued in Q93-4, with unit sales through the OEM channel accounting for 66% of total Q93-4 Mouse units shipped.



Results of Operations (in millions)

	FY93		FY93 Plan		Variance
Net revenues	$ 231.7	100.0%	$ 253.3	100.0%	$ (21.6)
Cost of revenues	112.7	48.7	116.7	46.1	4.0
Operating expense	29.5	12.7	29.6	11.7	0.1
Allocations	34.1	14.7	33.5	13.2	(0.6)
Burdened operating income	$ 55.4	23.9%	$ 73.5	29.0%	$ (18.1)

	Q93-4		Q93-4 Plan		Q93-3		Variance	Change
Net revenues	$ 56.4	100.0%	$ 65.5	100.0%	$ 45.4	100.0%	$ (9.1)	$ 11.0
Cost of revenues	29.8	52.8	30.2	46.0	23.2	51.0	0.4	(6.6)
Operating expense	9.5	16.9	8.2	12.5	7.4	16.2	(1.3)	(2.1)
Allocations	10.4	18.3	8.5	13.1	8.0	17.8	(1.9)	(2.4)
Burdened operating income	$ 6.7	12.0%	$ 18.6	28.4%	$ 6.8	15.0%	$ (11.9)	$ (0.1)



Leading Products (units in thousands, revenues in millions)

	FY93			FY93 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Serial/PS-2 Mouse (Naked)	838	$ 58.9	$ 70	1,086	$ 76.4	$ 70	(248)	$ (17.5)	$ --
OEM Mouse	2,691	51.2	19	891	20.7	23	1,800	30.5	(4)
Ser Mouse/Paintbrush	503	50.6	101	960	94.7	99	(457)	(44.1)	2
Bus Mouse (Naked)	371	23.9	64	132	9.2	70	239	14.7	(6)
Mouse 5-Pack	301	18.7	62	302	19.9	66	(1)	(1.2)	(4)
		$ 203.3			$220.9			$ (17.6)	
Percentage of net revenues		88%			87%				

Note: Figures in this table include allocations from bundled products.

Unit sales of the Naked Serial Mouse were below plan in US FG (30,000), Europe FG (120,000) and ROW FG (99,000). OEM Mouse sales continue to benefit from the shift away from a retail business. OEM Mouse unit sales exceeded plan in all channels. Specifically, gains occurred in US FG (30,000), US OEM (1,376,000), Europe FG (68,000), Europe OEM (157,000), ROW FG (71,000) and ROW OEM (98,000). Lower prices in Europe FG accounted for the entire $/unit variance. Serial Mouse/Paintbrush sales continued their decline, with negative unit variances occurring in the US FG channel (211,000), Europe FG (175,000) and ROW FG (76,000). US FG and Europe FG were each $6 above plan, offsetting the $14/unit negative variance in ROW FG. Above plan unit sales in US FG (197,000), Europe FG (24,000) and ROW FG (18,000) accounted for the Naked Bus Mouse variance. Per unit revenues were lower in all channels with Europe FG representing the largest variance ($11 below plan). Unit sales of the Mouse 5-Pack approximated plan, but revenues were below plan due to lower $/unit revenues in Europe FG ($8) and ROW FG ($7).

HARDWARE

	Q93-4			Q93-4 Plan			Variance		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Serial/PS-2 Mouse (Naked)	247	$ 17.1	$ 69	302	$ 21.3	$ 71	(55)	$ (4.2)	$ (2)
OEM Mouse	765	13.1	17	234	5.5	24	531	7.6	(7)
Bus Mouse (Naked)	159	9.9	62	38	2.6	68	121	7.3	(6)
Bus Mouse/Paintbrush	66	5.8	88	16	1.5	94	50	4.3	(6)
Mouse 5-Pack	73	4.1	56	77	5.1	66	(4)	(1.0)	(10)
		$ 50.0			$ 36.0			$ 14.0	
Percentage of net revenues		89%			55%				

Unit sales of Naked Serial Mouse were mixed in the fourth quarter. Sales exceeded plan in US FG (27,000), but was more than offset by negative variances in Europe FG (49,000) and ROW FG (33,000). A $7/unit positive variance in US FG partially offset the $20/unit negative variance in Europe FG. The shift away from a retail hardware business continued in the fourth quarter. OEM Mouse sales exceeded plan in all OEM channels. Specifically, the US OEM channel (405,000), the unbudgeted Europe OEM (55,000) and the ROW OEM (62,000) channels were all above plan. Sales of OEM Mouse through FG channels were mixed, with positive variances in US FG (6,000) and ROW FG (15,000), offset somewhat by a negative variance in Europe FG (13,000). The OEM Mouse was budgeted conservatively as the Dell and Gateway contracts were up for re-negotiation. We have since lost the Dell contract to Logitech, but retained the Gateway contract. The Gateway contract was conservatively budgeted at about half of the units expected. Europe FG accounted for the OEM Mouse negative $/unit variance. This was partially offset by a negative variance of $1.3 million in the Europe FG channel. Naked Bus Mouse unit sales were higher than budgeted in all channels. US FG accounted for an 82,000 positive unit variance, with Europe FG (25,000) and ROW FG (14,000) also coming in above plan. A negative variance of $5/unit in US FG accounted for the majority of the $/unit variance. Although the Bus Mouse/Paintbrush bundle exceeded budgeted unit sales in Europe FG (11,000) and ROW FG (44,000), the gradual elimination of the bundle was evident in the lack of Serial Mouse/Paintbrush units sold (not in table). Sales of this bundle in Q93-4 only contributed $2.6 million versus a budget of $21.7 million. Negative $/unit variance in Europe FG ($19/unit) accounted for the $/unit variance in the Mouse 5 Pack.

	Q93-4			Q93-3			Change		
	Units	Revs	$/Unit	Units	Revs	$/Unit	Units	Revs	$/Unit
Serial/PS-2 Mouse (Naked)	247	$ 17.1	$ 69	164	$ 10.6	$ 65	83	$ 6.5	$ 4
OEM Mouse	765	13.1	17	736	14.3	19	29	(1.2)	(2)
Bus Mouse (Naked)	159	9.9	62	49	3.1	63	110	6.8	(1)
Bus Mouse/Paintbrush	66	5.8	88	13	0.8	62	53	5.0	26
Mouse 5-Pack	73	4.1	56	70	4.1	59	3	–	(3)
		$ 50.0			$ 32.9			$ 17.1	
Percentage of net revenues		89%			72%				

Note: Figures in this table include allocations from bundled products.

The positive change in the Naked Serial Mouse was concentrated in the US FG channel, which grew by 84,000 units. The US FG channel also accounted for the $/unit increase. OEM Mouse unit sales increased by 20,000 in Europe FG, 16,000 in ROW FG and 33,000 in ROW OEM. This was partially offset by a 42,000 unit decline in the Europe OEM channel. Unit sales of the Naked Bus Mouse increased in all channels, with US FG accounting for 67% of the unit growth (74,000). Europe FG and ROW FG accounted for the remaining 25% and 8%, respectively. The price cuts in Europe resulted in a $15 decline in $/unit in the Europe FG channel. Bus Mouse/Paintbrush unit sales increased in Europe FG (11,000) and ROW FG (42,000). Each channel also contributed to the higher $/unit.

Channel Revenues (in millions)

	FY93	FY93 Plan	Variance
US FG	$ 98	$ 111	$ (13)
Europe FG	65	98	(33)
US OEM	42	11	31
ICON FG	25	35	(10)
Far East FG	8	7	1
Europe OEM	4	--	4
ROW OEM	2	–	2
Adjustments	(12)	(9)	(3)
Net revenues	$ 232	$ 253	$ (21)

Most of the leading products under performed in the US FG channel, except for the Naked Bus Mouse, which was $12 million above plan. The same is true of Europe FG, where the naked Bus Mouse exceeded planned revenues, by $1 million. The negative variances in both channels were primarily the result of lower sales of all Mouse/Paintbrush bundles ($21 million in US FG and $17 million in Europe FG). Europe FG was also negatively impacted by 30% lower than planned sales of Naked Serial Mouse ($10 million) and the shift of 157,000 units of OEM Mouse to the unbudgeted Europe OEM channel. Higher sales of the OEM Mouse accounted for the higher US OEM revenues. Similarly, the shift of 98,000 OEM Mouse units to the unbudgeted ROW OEM channel and lower sales of the Mouse/Paintbrush bundle caused the negative ICON FG revenue variance.

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
US FG	$ 25	$ 27	$ 14	$ (2)	$ 11
Europe FG	12	26	10	(14)	2
US OEM	11	3	13	8	(2)
ICON FG	6	10	5	(4)	1
Far East FG	5	2	1	3	4
ROW OEM	1	–	3	1	(2)
Europe OEM	1	–	3	1	(2)
Adjustments	(5)	(3)	(4)	(2)	(1)
Net revenues	$ 56	$ 66	$ 45	$ (9)	$ 11

US FG revenues were below plan due to lower than expected sales of Serial Mouse/Paintbrush units (9,000 versus 77,000). US FG's increase in sales versus last quarter was the result of a 227% unit increase ($4.7 million) in Naked Bus Mouse and a 114% unit increase ($7.2 million) in sales of Naked Serial Mouse. The negative variance in Europe FG resulted from a combination of a shortfall in Serial Mouse/Paintbrush units (11,000 versus 90,000) and in Naked Serial Mouse units (67,000 versus 116,000). Europe FG was also impacted by the sale of 55,000 OEM Mouse units through the unbudgeted Europe OEM channel. Europe FG's increase in sales over last quarter was due to a 27,000 unit increase in the Naked Bus Mouse and a 11,000 unit increase in sales of the Bus Mouse/Paintbrush bundle. US OEM revenue increase versus plan was entirely caused by higher than planned OEM Mouse sales. Lower sales of Mouse/Paintbrush bundle accounted for the Far East and ICON FG variances versus plan, whereas higher sales of Mouse/Paintbrush bundle resulted in the increase from Q93-3. Rebates exceeded plan by 50%, resulting in a higher revenue adjustment.

Cost of Revenues

FY93

Total cost of revenues was above plan as a percentage of net revenues, primarily due to lower than budgeted $/unit revenues and higher rebates. Product costs, as a percentage of net revenues were also above plan. Product costs in the US OEM channel were significantly higher then planned (10.6% of net revenues vs. budget of 2.2%).

while product costs in Europe FG were below plan. Freight and Shipping and Inventory Adjustments were significantly above plan as a percent of net revenues (3.0% versus 1.4%).

Q93-4

Total cost of revenues was above plan as a percentage of net revenues, primarily due to lower than budgeted $/unit revenues and higher rebates. Product costs, as a percentage of net revenues approximated plan. Once again, product costs in the US OEM channel were significantly higher then planned, while product costs in Europe FG were below plan. Freight and Shipping was significantly above plan as a percent of net revenues (6.1% versus 0.7%).

Operating Expenses (in millions)

	FY93	FY93 Plan	Variance
Marketing	$ 10.5	$ 10.1	$ (0.4)
Product development	4.3	5.2	0.9
Payroll and payroll tax	3.7	4.0	0.3
Product support services	1.5	1.7	0.2
Administrative Services	1.2	0.7	(0.5)
Other	8.3	7.9	(0.4)
	$ 29.5	$ 29.6	$ 0.1

	Q93-4	Q93-4 Plan	Variance
Marketing	$ 3.9	$ 3.6	$ (0.3)
Product development	1.6	0.9	(0.7)
Payroll and payroll tax	1.1	1.0	(0.1)
Product support services	0.4	0.5	0.1
Marketing accrual	(0.5)	--	0.5
Other	3.0	2.2	(0.8)
	$ 9.5	$ 8.2	$ (1.3)

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Prod Groups
June 30, 1993	77	65	(12)	6	1%	2%
March 31, 1993	71	65	(6)	10	1	2
December 31, 1992	61	64	3	10	1	1
September 30, 1992	51	59	8	--	--	1
June 30, 1992	51	54	3	4	--	1

Headcount increased 8% over Q93-3, mainly due to the additional hires in the New Product Development department. Year-end headcount was 18% above plan, due mainly to Q93-4 hires.

Allocations

FY93

Allocations were 14.7% of net revenues, versus a budget of 13.2%. Actual allocated dollars were only $0.4 million higher than budgeted, solely due to a higher Sales & Marketing allocation.

Q93-4

Allocations were 18.3% of net revenues, versus a budget of 13.1%, due mainly to higher Europe FG Sales & Marketing allocation.

Burdened Operating Income

FY93

Lower than planned revenues resulted from lower than budgeted unit sales of all the leading products, with the exception of the OEM Mouse. This revenue decrease was primarily the result of the continued shift in sales volume from retail to the lower $/unit OEM channel. Operating expenses and allocations approximated plan. BOI, as a result, was $18 million below plan, and was 24% of net revenues versus 29% planned.

Q93-4

Lower than planned revenues in the retail channel, offset somewhat by higher sales in the OEM channel, caused a 14% net revenue shortfall versus plan. Operating expenses and allocations were both above plan. BOI, as a result, was $12 million below plan.

Quarterly Growth

Net revenues were up $11 million from last quarter. However, higher cost of revenues, operating expenses and allocations resulted in a BOI decline of $0.1 million.

Other Product Groups

Net Revenues (in millions)

	FY93	FY93 Plan	Variance
Books	$ 24.3	$ 25.4	$ (1.1)
Services	30.9	25.5	5.4
MSU	24.8	23.9	0.9
Rounding	--	--	--
	$ 80.0	$ 74.8	$ 5.2

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Books	$ 8.3	$ 6.8	$ 5.2	$ 1.5	$ 3.1
Services	11.6	8.2	7.8	3.4	3.8
MSU	7.0	6.7	5.6	0.3	1.4
Rounding	--	--	--	--	--
	$ 26.9	$ 21.7	$ 18.6	$ 5.2	$ 8.3

Operating Income (Loss) (in millions)

	FY93	FY93 Plan	Variance
Books	$ 0.6	$ 0.5	$ 0.1
Services	--	(2.3)	2.3
MSU	(4.9)	(5.2)	0.3
Other	--	--	--
	$ (4.3)	$ (7.0)	$ 2.7

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Books	$ 0.4	$ 0.3	$ (0.1)	$ 0.1	$ 0.5
Services	0.5	0.6	0.5	(0.1)	--
MSU	(1.5)	(0.7)	(1.7)	(0.8)	0.2
Rounding	--	--	--	--	--
	$ (0.6)	$ 0.2	$ (1.3)	$ (0.8)	$ 0.7

Headcount

	Actual	Plan	Variance	Change	As a Percent of Total: Operating	As a Percent of Total: Prod Groups
MSU	42	43	(1)	(1)	--	1%
Books	42	39	3	1	--	1
	84	82	2	--	1%	2%

For Books, Services and MSU, see comments in the "Other Channels" section of this report.

The headcount shown for MSU and Books were only for employees involved in development activities.

MS-PCAIA2 000000320
CONFIDENTIAL

Tax Matters

TAX MATTERS

Domestic

IRS Examination

As reported last quarter, Microsoft and the Internal Revenue Service finalized an audit of FY88 and 89. The IRS is currently examining FY 90 and 91. In the opening conference for the FY90 and 91 examination, the IRS indicated that it would review Microsoft Corp.'s research and development credits, and Puerto Rican operations thoroughly. The IRS is also conducting a "payroll" exam for calendar years 1990-92. These examinations are scheduled to last approximately 18 months.

Federal Legislation

A detailed analysis of the new tax law and its impact on Microsoft is provided in a separate document.

During April, Microsoft testified before the Senate Finance Committee in opposition to a proposal contained in President Clinton's tax bill. This proposal would have severely limited the amount of foreign tax credits Microsoft could claim on royalty income. This provision was expected to cost Microsoft an additional $31 million in taxes for FY94. Microsoft, along with other corporate taxpayers, convinced the Committee to drop this proposal effectively eliminating any legislative support for this provision.

At Microsoft's request, Congressman McDermott contacted Congressman Rostenkowski (Chairman of the Ways and Means Committee), and Senator Murray contacted Senator Moynihan (Chairman of the Senate Finance Committee) supporting a research and development provision favorable to Microsoft. The final bill should provide Microsoft approximately $50 million more in research and development credits than the previously proposed Senate bill.

Regulations

The IRS issued new research and development regulations which are generally favorable to the software industry. Microsoft testified before the Justice Department and the IRS commending them for the favorable regulations, and seeking additional clarification for product localization, and technical writers. The positive impact from these regulations for Microsoft is estimated at $10 million in taxes annually.

Accumulated Earnings Tax

An analysis of Microsoft Corporation's need for all of its working capital has been prepared and is available separately.

SFAS No. 109

We have performed an analysis of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109), which is required to be implemented during Q94-1. The implementation of SFAS No. 109 is not expected to have a material impact upon the financial statements.

"Spread" From Stock Plans

The "spread" from stock option exercises is deductible and reduces both federal and state taxes. The amounts of the spread and approximate tax benefits are (in millions):

	FY93		FY92	
	Spread	Tax Benefit	Spread	Tax Benefit
Q1	$ 137	$ 47	$ 101	$ 34
Q2	396	135	126	43
Q3	114	39	202	69
Q4	166	56	80	27
	$ 813	$ 277	$ 509	$ 173

B&O Litigation

Microsoft is suing the State of Washington for a refund of B&O taxes on OEM revenues. Possible settlement options are being discussed separately.

Washington Legislation

The Washington State Legislature imposed a 6.5% surcharge on most B&O taxes rather than levying a general sales tax on services. The additional B&O tax will cost Microsoft an estimated additional $1.5 - $2 million annually.

State Tax Examinations

Microsoft was questioned or audited during Q93-4 by a number of states. No material adjustments are anticipated from these exams. A status of open exams follows:

State/City	Tax	Years Under Audit	Status
AZ	Sales	86-92	Appeal filed
CA	Sales	89-92	Ongoing
CA	Franchise	88-90	Ongoing
CO	Income	88-90	Ongoing
CT	Income	88-90	Appeal filed
Denver	Sales	90-93	Begins 10/93
FL	Sales	86-91	Ongoing
GA	Sales	89-92	Ongoing
KY	Sales	90-92	Begins 12/93
KY	Income	91-92	Begins 11/93
MA	Sales	90-92	Ongoing
MD	Sales	88-91	Begins 8/93
MD	Income	88-91	Settled
MI	Sales	90-93	Begins 10/93
MI	Income	90-92	Begins 10/93
MN	Sales	89-92	Ongoing
MS	Sales	91-93	Complete
NC	Sales	90-93	Ongoing
NC	Income	87-89	Settled
NJ	Sales	90-93	Begins 1/94
NJ	Income	90-92	Begins 1/94
NJ	Payroll	91-93	Begins 1/94
NM	Income	90-91	Settled
NY	Sales	88-91	Settled
NY	Income	88-90	Settled
NY City	Income	86-90	Ongoing
OH	Income	87-90	Appeal filed
Phoenix	Sales	90-92	Ongoing
TN	Sales	90-93	Ongoing
TN	Income	88-91	Begins 11/93
VA	Sales	90-93	Begins 8/93
VA	Income	89-91	Appeal filed

International

Tax Audits

The Dutch tax audit of MS International BV, MS Manufacturing BV and MS BV continued during the quarter. Some immaterial adjustments have been proposed for MS BV. No material adjustments are anticipated for either MS International BV or MS Manufacturing BV. The tax audits of MS INC and MS GMBH were concluded with no material adjustments. The tax audit of MS France continued during the quarter. No material adjustments are anticipated. The Australian tax audit of MS Pty continued during the quarter. A few immaterial adjustments have been proposed for MS Pty. The transfer prices paid by MS Pty to MS Corp. are also being reviewed. MS CH is being reviewed by the Korean tax authorities. Their focus is on income tax withholding on software imported into Korea.

Commissionaire

A commissionaire is an "agent for an undisclosed principal". In operation, the customer maintains the perception that he is dealing with local MS operations. This structure effectively limits profits subject to relatively high tax rates. MS LTD and MS INC were successfully converted to commission basis effective July 1. Conversion of MS Austria, MS Switzerland, MS Poland, MS Czechoslovakia and MS Hungary to commissionaire are now tentatively scheduled for October 1.

New Subsidiaries

Tax planning for new subsidiary operations continued during Q93-4 with reviews of tax laws in Morocco, Turkey, Thailand, India, Jordan and Puerto Rico. These operations became operational during Q93-4.

Repatriation Planning

Approximately $138 million was repatriated to MS Corp. from MS IBV, MS AB, MS CH, MS FRANCE, MS GMBH, and MS LTD during Q93-4. The repatriations were completed in a tax advantageous manner to MS.

Subsidiary Operations

Tax planning and compliance continued during the quarter. Issues included:

Australia:	The Australian Tax Office issued a very favorable tax ruling characterizing most software revenues as sales income as opposed to royalties. We are pursuing tax refund opportunities created by this ruling which MS actively sought. Tax planning was performed with respect to the establishment of an APAC regional headquarters in Australia during Q93-4
Canada:	Review of Canadian and US tax implications of conversion of MS INC to commission agent.
France:	Assisted subsidiary personnel in addressing issues raised by the French tax authorities related to transfer pricing and stock options.
Germany:	Assisted subsidiary personnel in addressing various issues raised by the German tax authorities.
Hong Kong:	Review impact of local revenues from subscriptions and fulfillment on cost plus revenue model.
India:	Analyzed alternative structures to source product including local manufacturing and importation.
Ireland:	Irish Revenue issued a favorable ruling to MS allowing the taxation of MLP revenues at the favorable 10% Irish tax rate for manufactured goods. This should result in significant tax savings to MS. Negotiations continued with Irish Revenue regarding a correlative adjustment reflecting IRS audit results.
Italy:	Reviewed the VAT implications relating to the characterization of software as either the sale of a product or the sale of a service.
Korea:	We are active participants in a coalition urging the NTA to eliminate the withholding of income taxes on software imported into Korea.
Mexico:	Adjusted commission rate after review of cash flow model and transfer pricing considerations.
PRC:	Obtained favorable determination of tax exempt status for representative office.
South Africa:	Review of tax issues related to grant of stock options to MS S. Africa employees and employee participation in ESPP program.
Taiwan:	Planning regarding efficient repatriation of excess cash.
U.K.:	Tax planning related to conversion to commissionaire status.

Corporate Risk
Management and Audit

Corporate Risk Management and Audit

Insurance and Risk Management

Insurance Renewals

Most insurance was renewed on July 1. Coverage remains comparable to the expiring program with some improvement under various liability policies (broader coverage language) and property policies (increased limits of liability). FY94 premiums increased approximately 20% to $2.8 million due to increases in ratable exposures but mitigated by modest rate reductions, elimination of directors and officers liability coverage and assumption of higher deductibles for cargo insurance. The rate savings reflect deteriorating loss experience, our near minimum rate levels, and general firming of commercial insurance market pricing. Rates are predicted to climb significantly for FY95.

Risk Funding Strategy Analysis

Recently, a risk funding strategy analysis report draft was completed. It assesses MS risk profiles across a broad range of identified risks, reviews the concept of risk funding and available alternatives, recommends optimal risk funding strategies for MS and requests management approval of a proposed overall risk funding strategy.

Insurance Coverage for Apple Dispute

Chubb management reviewed their position on the case and recently proposed a meeting with MS to negotiate a conclusion and payment of its coverage obligations.

Corporate Audit

Ireland Manufacturing

An audit in May recommended changing the method of determining cost for Ireland's many low volume SKU's. Refined cost analysis would help to identify SKU's that may not be profitable and should be considered for discontinuance or alternative production methods. Key Performance Indicators were suggested to evaluate manufacturing results. Suggestions were also made to improve purchasing practices and reduce costs through worldwide or multi-country volume purchases in participation with Canyon Park and other MS units.

Company Store

In this May audit, suggestions were made to change the organization structure, reconsider some of the products and services, improve purchasing and to address a number of financial considerations.

U.S. Marketing Operations and Procurement

An audit of CorpCom, Corp Events, Marketing Accounting and Marketing Distribution was completed in July. It identified a need to reduce the time to complete projects and recommended a number of practices and organizational changes. It also identified the need for more cooperation and understanding of project processes and costs by the marketing service groups and their clients to streamline projects and reduce costs. Contractual and financial arrangements with Ogilvy & Mather and Waggener/Edstrom were reviewed and accounting data was examined in their offices. Cost saving suggestions were made and discussed with Marketing management for their follow up. The report covers many other cost saving and efficiency matters.

Worldwide Procurement--Strategic Recommendations

This report focused on the overall results of auditing most major MS purchasing functions the past 16 months. It summarizes many immediate improvements that can be made and suggests major changes to lay part of the strategic foundation for our future business model. The re-engineered procurement infrastructure it describes is directed toward maximizing supplier leverage while maintaining quality and service at the least total cost. The report suggests how MS procurement can move toward a model focusing on our strategic strengths, outsourcing to others the processes that have limited financial return to MS.

FY94 Plan

FY94 PLAN

The FY94 plan reflects revenue growth of 10%, with 21% profitability.

The Q94-1 plan reflects financial performance substantially below Q93-4 results. It includes net revenues of $827 million, net income of $104 million and EPS of $.34 Our current estimate is that net revenue will be about $978, million with net income of $237 million and EPS of about $.78, reasonably close to the current street estimate.

Revenues

	Actual	Plan	Variance
FY94		$4,127	
FY93	$3,753	3,505	7.1%
FY92	2,759	2,409	14.5%

FY94 revenues are planned to grow 10% to $4.1 billion, down from planned growth of 27% and 31% in FY93 and FY92, and down from the 36% and 50% actual annual growth in FY 93 and FY92.

Planned FY94 finished goods revenue growth is 13% for North America Finished Goods, 6% for Europe Finished Goods, and 29% for ROW Finished Goods. Planned FY94 WW OEM revenue growth is 8%, compared with 54% actual annual growth in FY93.

From a business unit perspective, Desktop (Word, Excel, Graphics and Project) is planned to grow 14%, Database and Development tools (DDT) 45%, Consumer 32%, and Workgroup 38%. Systems is planned to grow 5% whereas SPAG is planned to decline 24%.

Cost of Revenues as a Percent of Sales

	Actual	Plan	Variance
FY94		16.7%	
FY93	16.9%	17.0%	(0.1%)
FY92	16.9%	18.0%	(1.1%)

FY94 COGS plan is essentially flat at 16.7% of revenue, compared to actual performance of 16.9% for FY93.

Operating Expenses

	Actual	Plan	Variance
FY94		$2,241	
FY93	$1,794	1,862	(3.7%)
FY92	1,296	1,279	1.3%

FY94 research and development expenditures are projected to increase 47% to be 16.7% of revenues, up from 12.5% in FY93. Sales and marketing is projected to increase 11% representing 32.4% of revenues, up from 32.1% in FY93. General and administrative expenses are planned to be 5.2% of net revenues, up from 3.2% in FY93.

Net Income as a Percent of Sales

	Actual	Plan	Variance
FY94		20.7%	
FY93	25.4%	21.6%	3.8%
FY92	25.7%	20.4%	5.3%

FY94 net income is planned at 20.7% of net revenues, compared to the FY93 plan of 21.6% and FY93 actual performance of 25.4%. The planned decline in profitability is due primarily to increased research and development investments coupled with a decline in revenue growth.

FY94 PLAN

FY94 Plan

	Plan FY 94		Actual FY 93		Actual FY 92		Growth 94/93	Growth 93/92
Net Revenues	$4,127	100.0%	$3,753	100.0%	$2,759	100.0%	10%	36%
Cost of Revenues	691	16.8	633	16.9	466	16.9	9%	36%
Gross Profit	3,436	83.2	3,120	83.1	2,292	83.1	10%	36%
Operating Expenses:								
Research and development	690	16.7	470	12.5	352	12.8	47%	34%
Sales and marketing	1,335	32.4	1,205	32.1	855	31.0	11%	41%
General and administrative	216	5.2	119	3.2	90	3.2	82%	32%
Total Operating expenses	2,241	54.3	1,794	47.8	1,296	47.0	25%	38%
Operating income	1,195	29.0	1,326	35.3	996	36.1	-10%	33%
Nonoperating income	100	2.4	75	2.0	45	1.6	33%	67%
Income before income taxes	1,295	31.4	1,401	37.3	1,041	37.7	-8%	35%
Provision for income taxes	439	10.6	448	11.9	333	12.1	-2%	35%
Net income	$855	20.7%	$953	25.4%	$708	25.7%		
Average shares outstanding	309		303		294			
Net income per share	$2.77		$3.15		$2.41			

Quarters

	Q94-1		Q94-2		Q94-3		Q94-4		FY 94	
Net Revenues	$827	100.0%	$1,106	100.0%	$1,091	100.0%	$1,103	100.0%	$4,127	100.0%
Cost of Revenues	135	16.3	193	17.5	186	17.0	176	16.0	690	16.7
Gross Profit	692	83.7	913	82.5	905	83.0	927	84.0	3,437	83.3
Operating Expenses:										
Research and development	171	20.6	172	15.5	170	15.6	178	16.1	690	16.7
Sales and marketing	330	39.9	351	31.8	330	30.2	324	29.4	1,335	32.9
General and administrative	56	6.8	55	5.0	52	4.8	52	4.8	216	4.5
Total Operating expenses	557	67.3	578	52.3	552	50.6	554	50.2	2,241	54.3
Operating income	135	16.4	335	30.3	353	32.3	373	33.8	1,195	29.0
Nonoperating income	20	2.4	22	2.0	26	2.4	31	2.8	99	2.4
Income before income taxes	155	18.8	357	32.3	379	34.7	404	36.6	1,295	31.4
Provision for income taxes	51	6.2	122	11.0	129	11.8	137	12.5	440	10.7
Net income	$104	12.6%	$235	21.3%	$250	22.9%	$266	24.1%	$855	20.7%
Average shares outstanding	307		308		310		311		309	
Net income per share	$0.34		$0.76		$0.81		$0.86		$2.77	

FY94 Plan

Channels

FY94	MS N.A. FG	ROW FG	Europe FG	WWOEM	Other	Total
Net revenue	$1,479	$501	$1,331	$790	$26	$4,127
Cost of revenues	289	125	235	31	11	691
Operating expenses	583	189	403	71	7	1,254
Corporate allocations	261	97	256	327	45	987
Contribution margin	$345	$89	$437	$361	($37)	$1,195
Net revenue	100%	100%	100%	100%	100%	100%
Cost of revenues	19	25	16	4	42	17
Operating expenses	40	37	30	7	28	30
Corporate allocations	18	19	19	43	172	23
Contribution margin	23	18	33	46	-142	29
Growth/FY93						
Net revenue	13%	29%	6%	8%	-65%	10%
Cost of revenues	13%	1%	15%	-17%	-31%	9%
Operating expenses	39%	37%	12%	-16%	-86%	19%
Corporate allocations	33%	-5%	22%	97%	248%	44%
Contribution margin	-22%	-17%	-10%	-19%	835%	-14%

Product Groups

FY94	Applications	Systems	SPAG	Other	FY94 Plan
Net revenue	$2,617	$1,285	$187	$38	$4,127
Cost of revenues	471	105	102	$13	691
Operating expenses	781	496	45	$66	1,388
Corporate allocations	588	286	31	($50)	853
Contribution margin	$777	$398	$9	$9	$1,195
Net revenue	100%	100%	100%	100%	100%
Cost of revenues	18	8	55	34	17
Operating expenses	30	39	24	174	34
Corporate allocations	23	22	17	-132	21
Contribution margin	30	31	5	24	29
Growth/FY93					
Net revenue	20%	6%	-19%	-73%	10%
Cost of revenues	37%	-35%	-10%	-21%	9%
Operating expenses	46%	23%	53%	-22%	32%
Corporate allocations	24%	10%	-9%	244%	13%
Contribution margin	-5%	1%	-84%	-84%	-11%

Other Product Groups

	Books	MSU	UPB	Other	Total
Net revenue	$30	$10	($1)	$0	$39
Cost of revenues	13	0	0	0	$13
Operating expenses	10	0	0	56	$66
Corporate allocations	7	0	0	($56)	($49)
Contribution margin	$0	$10	($1)	$0	$9

Net revenue	100%	100%	100%	N/A	100%
Cost of revenues	43	0	0	N/A	33
Operating expenses	33	0	0	N/A	169
Corporate allocations	23	0	0	N/A	-126
Contribution margin	N/A	100	100	N/A	23

Applications Business Units

	Desktop	Workgroup	Database	Consumer	Total
Net revenue	$1,900	$84	$399	$234	$2,617
Cost of revenues	336	13	75	46	$470
Operating expenses	402	66	190	123	$781
Corporate allocations	430	22	87	50	$589
Contribution margin	$732	($17)	$47	$15	$777

Net revenue	100%	100%	100%	100%	100%
Cost of revenues	18	16	19	20	18
Operating expenses	21	79	48	53	30
Corporate allocations	23	26	22	21	22
Contribution margin	39	-20	12	6	30

Desktop Applications Units

	Excel	Word	Graphics	Project	Desktop Mgmt	Total Desktop
Net revenue	$761	$890	$145	$104	$0	$1,900
Cost of revenues	146	151	31	8	0	336
Operating expenses	143	161	40	22	36	402
Corporate allocations	195	226	27	18	(36)	430
Contribution margin	$277	$352	$47	$56	$0	$732

Net revenue	100%	100%	100%	100%	N/A	100%
Cost of revenues	19	17	22	8	N/A	18
Operating expenses	19	18	28	21	N/A	21
Corporate allocations	26	25	19	17	N/A	23
Contribution margin	36	40	33	53	N/A	39

Database & Development Tools Product Units

	DBMS	FoxPro	APPU	C++/SET	DBDT Mgmt	Database & Dev Tools
Net revenue	$162	$104	$61	$73	$0	$400
Cost of revenues	24	18	11	23	0	76
Operating expenses	62	36	26	46	20	190
Corporate allocations	47	28	11	21	(20)	87
Contribution margin	$29	$22	$13	($17)	$0	$47

Net revenue	100%	100%	100%	100%	N/A	100%
Cost of revenues	15	17	18	32	N/A	19
Operating expenses	39	35	43	62	N/A	48
Corporate allocations	29	27	18	29	N/A	22
Contribution margin	18	22	20	-23	N/A	12

Systems Business Units

	MS-DOS	Windows	Advanced Systems	Other Systems	Systems
Net revenue	$499	$444	$315	$27	$1,285
Cost of revenues	19	39	39	8	105
Operating expenses	44	144	175	133	496
Corporate allocations	84	103	117	(18)	286
Contribution margin	$352	$158	($16)	($96)	$398

Net revenue	100%	100%	100%	100%	100%
Cost of revenues	4	9	12	2	8
Operating expenses	9	32	56	493	37
Corporate allocations	16	23	37	-67	22
Contribution margin	71	36	-5	-356	28

Other Systems

	Digital Office	Adv. Tech. Group	System Marketing/ Mgmt	Other Systems
Net revenue	$11	$14	$2	$27
Cost of revenues	5	2	1	8
Operating expenses	26	74	33	133
Corporate allocations	6	8	(32)	(18)
Contribution margin	($26)	($70)	$0	($96)

Headcount

	Planned FY94	Actual FY93	Growth Percentage 94/93
Channel/Product Group			
Europe	2,794	2,389	17%
FE	796	434	83%
ICON	948	774	22%
US-Raikes	4,014	3,800	6%
Press	34	29	17%
OEM	90	81	11%
Total Channels	8,676	7,507	16%
Applications			
Database	727	648	12%
Desktop	877	869	1%
Workgroup	417	375	11%
Consumer	531	432	23%
Total Applications	2,552	2,324	10%
Systems	1,577	1,523	4%
Worldwide PG/Strategy	349	205	70%
WW Product Group	4,478	4,052	11%
International R&D	66	225	-71%
Other Product Groups			
Adv. Prod Devlp	531	N/A	N/A
Books	51	42	21%
Total Other PG	582	42	1286%
Total PG	5,126	4,319	19%
G&A	1,445	1,205	20%
Total Operating	15,247	13,031	17%
Domestic	587	567	4%
IPF	264	252	5%
Puerto Rico	204	177	15%
Ireland	433	403	7%
Total Mfg & Distribution	1,488	1,399	6%
Total Operating HC	16,735	14,430	16%

Manufacturing

MANUFACTURING

Throughput

Campus North Component Pieces (In thousands)

	Q93-4		Q93-3	
	Total CP	CP/Build Day	Total CP	CP/Build Day
In-house	95,089	1,486	92,430	1,541
Off-site	23,832	373	19,750	329
	118,921	1,859	112,180	1,870

Component production increased 6% quarter to quarter. Off-site production continued to increase as a percentage of total units produced during Q93-4, from 18% in Q93-3 to 20% in Q93-4. Manufacturing increased the off-site production capacity through extensive use of local vendors and the implementation of distributed manufacturing in Singapore.

Canyon Park made extensive contingency plans to accommodate production and distribution for Windows NT. Windows NT was released to manufacturing on July 27, 1993 with SQL for Windows NT to follow soon thereafter.

Many significant operational improvements were planned and implemented in FY93. For example, Canyon Park worked closely with the US Sales group to out-source a large percentage of the fulfillment business, which accounts for the majority of individual orders but only 6% of revenue. During Q93-4, Canyon Park also made significant progress in the implementation of ISO 9000 and the Career Path Development for M&D employees through skill block training. These changes, along with the realignment of manufacturing units and other organizational changes, made FY93 a year of large scale operational improvements. In FY94, Canyon Park plans to leverage these changes to achieve significant improvements in quality, cost, and responsiveness.

Microsoft Ireland manufacturing (Ireland), which provides the majority of the packaged products sold by our European subsidiaries, measures production in terms of the gross number of packages built. Ireland produced 2.2 million units, a 10% increase over the packages built in Q93-3.

Backlog

Campus North plans production based on Product Marketing's forecast of demand and rate based demand received from customers. Buildable backlogs occur when customer demand exceeds forecast or when the plant fails to build to forecasted demand. Non-buildable backlog occurs when orders have been placed for products that have not yet been released to manufacturing.

Domestic backlog was $11 million at June 25, 1993, a 59% decrease from $27 million at March 26, 1993. The non-buildable backlog was $3.8 million at quarter-end and was almost entirely due to Windows NT ($3.4 million) demand. MS-DOS constituted 51% of the $7.1 million buildable backlog at quarter-end. The backlog from Q93-3 was almost entirely due to MS-DOS and was satisfied via off-site production.

MS Ireland

	Q93-4	Q93-3
Buildable backlog	137,741	420,000
Non-buildable backlog	--	--
	137,741	420,000

Ireland's manufacturing demand is created by orders from the European subsidiaries. The backlog definition is consistent with that used domestically, however, since transactions are valued at transfer price, backlog is tracked in units rather than dollars. At quarter end, the cause of the buildable backlog was high demand for the new releases of PC Word 6.0 and FoxPro 2.50. The backlog from Q93-3 was almost entirely due to MS-DOS.

International

The RR Donnelley operation in Singapore continues to grow in importance to the International Focus Factory (IFF). Improved technology links enable real time communication of demand to Singapore and as a result, IFF has increased the number of product families that the Singapore operation can build as new versions are released. In this same vein, IFF has begun the process of selecting a supplier for the duplication and assembly of all MS-DOS and Windows for IFF. By outsourcing these low cost, high volume products, IFF anticipates a reduction in the cost of outsourcing and improvements in product quality. This strategy will also release capacity to build other products in house, reducing total lead times and improving our ability to respond to unforecasted demand. During the quarter, IFF implemented off-site warehousing for the majority of raw materials. The change allows IFF to utilize space better , improve inventory management and to move towards just in time manufacturing.

As of June 30th, the Canadian warehouse was officially closed, with excess inventories being returned to Canyon Park.

During Q93-4, Puerto Rico duplicated approximately 9.5 million disks, which was 37% of Campus North's total duplication requirement.

Headcount

	Q93-4	Q93-4 Plan	Q93-3	Variance	Change
Campus North	567	618	551	51	16
Ireland	403	395	395	(8)	8
IFF	252	182	225	(70)	27
Puerto Rico	177	180	180	3	(3)
	1,399	1,375	1,351	(24)	48

Facilities

FACILITIES

Microsoft's worldwide portfolio of occupied office and manufacturing and distribution (M&D) space increased 15% during FY93, and 6% during Q93-4. Most of the growth was in international during FY93. In FY94, most growth will take place in the U.S., primarily at the Corporate Campus.

As the growth of Microsoft's real estate portfolio slows in both relative and absolute terms, there is increasing emphasis on measuring, reporting and managing "occupancy costs." The important metric is occupancy cost per person by location; this metric in turn is a product of occupancy cost per square foot (sf) and sf per person. The former factor can be viewed as cost efficiency, and the latter as space efficiency. Quantifying these performance metrics will be an objective for Facilities and Finance throughout FY94

Worldwide Facility Distribution

	June 30, 1993		June 30, 1992	
Location	Square Feet	% of Total	Square Feet	% of Total
Corporate Campus	1,700,000	35%	1,600,000	38%
Other Domestic	1,400,000	29%	1,300,000	31%
International	1,770,000	36%	1,331,000	31%
	4,870,000	100%	4,231,000	100%

As mentioned above, most of the growth during FY93 was outside the U.S. Most of the international increases in property were in Europe. While sf is one indicator of real estate activity, it does not fairly reflect the high number of lease transactions for smaller offices, which require significant staff resources despite their relatively small impact in financial terms on Microsoft's portfolio.

Ownership Trends

	June 30, 1993		June 30, 1992	
Location	Own	Lease	Own	Lease
US	62%	38%	64%	36%
International	16%	84%	13%	87%
	45%	55%	48%	52%

More property was leased than purchased during FY93, but the balance will change less in the future as the size of the portfolio increases. In FY94, additions to Corporate Campus will add to the owned portion of Microsoft's property.

Property Type Trends

	June 30, 1993		June 30, 1992	
Location	Office	M&D	Office	M&D
US	91%	9%	90%	10%
International	83%	17%	77%	23%
	88%	12%	86%	14%

All additions to the portfolio in FY93 were in office space; as of FYE93, only 12% of Microsoft's property commitments were for M&D space; this ratio will skew more towards office space in FY94 because of Corporate Campus additions and reductions in European M&D space. However, there will be an M&D addition in Q94-1 in Ireland.

Domestic Facilities

Domestic Facility Distribution

	June 30, 1993		June 30, 1992	
Location	Square Feet	% of Total	Square Feet	% of Total
Corporate Campus	1,700,000	55%	1,600,000	55%
Domestic Field	700,000	23%	600,000	21%
Washington State	400,000	13%	400,000	14%
M&D	300,000	10%	300,000	10%
	3,100,000	100%	2,900,000	100%

Microsoft occupied more than 3.1 million sf in the United States as of June 30, 1993, a 200,000 sf increase from June 30, 1992. By the end of FY94, Microsoft is projected to occupy approximately 3.7 million square feet nationwide, or 19% more than is currently occupied.

Corporate Campus

Fletcher Wright Construction Company received a Certificate of Occupancy for Building 24 (88,000 sf) on April 16,1993. Human Resources and ITG employees occupied the building by May 3.

Fletcher Wright began construction of Building 25 on April 8, 1993. Work on the 223,000 square foot building is proceeding on an accelerated schedule. Fletcher Wright estimates completion of the south office tower, the cafeteria and a garage area by February 1994, followed by completion of the north office tower one month later.

Approval has been obtained from the Redmond Planning Commission for re-zone of the 36 acre Redmond West site located on 148th Street, allowing 685,000 sf of office space. The next stage is review and consideration by the Redmond City Council and application for annexation to the City of Redmond. A decision by Council is expected in August 1993. Master planning of the site for use by Microsoft will begin following Council approval. Microsoft will purchase the property once annexation to the City is complete. This is anticipated for Q94-4.

Agreement between the City of Redmond and Microsoft has included calling for mutual support of the SR 520 interchange at NE 40th Street. Bellevue Council action is expected in late August 1993 to enter into a parallel agreement with Redmond which provides their support for the interchanges. The State Department of Transportation issued their final environmental review documents in June 1993. A public hearing is scheduled for late July 1993, followed by a 45 day public comment period. A final decision on the location is expected at the end of September 1993. Once the location is decided, the project will be shelved due to lack of State funding. Completion of the interchange location study is crucial to completing campus site master planning. The earliest the interchange would be completed is 1998.

Washington State

In FY93, 132,600 sf of new offices were occupied in Washington, 74% of which was related to the completion of Building 24 (88,700 sf) and vacant space in Buildings 12 and 22 (9,900 sf). An additional 34,000 square feet of leased space was occupied in Bellevue by PSS at Lincoln Plaza and Bellevue Place.

Minimal leasing activity is anticipated in Washington during FY94. Two groups may be moved off Campus to new leased space. ITG (PC Repair/Help Desk and other personnel) will relocate to approximately 20,000 sf located near Building 23 by mid-September. A second group of approximately 100 people will be identified to relocate during Q2.

Domestic Field Locations

During FY93, six new offices were opened throughout the domestic field in downtown Chicago, Cincinnati, Houston, Pittsburgh, Rochester and Tampa Bay, Florida. Six existing sales offices were expanded and/or relocated in Denver, Detroit, Hartford, Minneapolis, Portland and St. Louis. PSS facilities in Texas and North Carolina expanded, WorkGroup Canada's Vancouver facility increased in size, a development office for Integrated Software Vendors was opened in Foster City, California, and a storage facility for confiscated pirated software was leased in San Raphael, California.

FACILITIES

The above activity reflects a square footage growth rate of approximately 5% in the domestic field during Q93-4. Also during FY93, a lease was executed for an additional PSS Dallas site to be developed in FY94 and construction activities have begun for an expansion of the Dallas regional/district sales office.

Planned FY94 activity will be reevaluated and presented to US Sales and MCS management based on approved FYE94 headcount, but current planning for the domestic field anticipates five new office start-ups, five lease renewals and 17 expansion and remodel projects in FY94 (includes two FY93 approved expantions currently under development). The new regional Customer Briefing Center design is planned for implementation in the Dallas, New York and Washington, D.C., regional sites as part of the FY94 planned expansion/remodel activity at these locations.

International Facilities

During FY93, the total amount of property occupied by Microsoft outside the United States increased by 33%, to 1.8 million sf. Most of this growth took place in Europe, as significant additions to the portfolio were acquired in France, Holland, England and Germany. In financial terms, the most significant commitment of FY93 was the lease of new offices in Tokyo, Japan.

International Facility Distribution

	June 30, 1993		June 30, 1992	
Location	Square Feet	% of Total	Square Feet	% of Total
Europe	1,031,000	58%	704,000	53%
ROW	509,000	29%	397,000	30%
Other	230,000	13%	230,000	17%
	1,770,000	100%	1,331,000	100%

Europe

The European property portfolio increased by 327,000 sf, or 46%, during FY93. There were 17 new leases and one purchase commitment executed in 17 European locations during the past fiscal year. The most significant leases were in Amsterdam (50,000 sf), Reading (69,000 sf) and Munich (68,000 sf). In Les Ulis, MS France proceeded with the development of a new, owned office facility of 108,000 sf.

Although less significant in absolute terms, a number of new leases were executed for offices in Eastern Europe and in regional areas of France in FY93. Microsoft opened offices in Moscow, Budapest, Prague and Warsaw, and in France, office commitments were made or renewed in Bordeaux, Lyon, Toulouse and Aix-en-Provence.

In FY94, property acquisition activity will be significantly slower than in FY93. The primary projects in FY94 will be a new, expanded office in Madrid and a move to new premises in Milan. No additional new offices are planned in Europe during the coming year.

ROW and Other

Property occupied in ROW and "other" locations (Ireland M&D and WPG, Israel WPG, England WPG and Puerto Rico M&D) increased 18% during FY93, with most of the increase taking place in ROW.

There were 17 lease transactions in ROW during the past year: nine of these were to establish new subsidiaries or sales offices, and eight were expansions of existing offices. The most significant transactions were in Tokyo (90,000 sf), Mexico City (15,000 sf) and Auckland (12,000 sf). New offices were established in Osaka (Japan), Athens (Greece), Monterrey (Mexico), Bogota (Colombia), Rio de Janiero (Brazil), Quito (Ecuador), Bangkok (Thailand), San Juan (Puerto Rico) and Istanbul (Turkey).

Activity for the coming fiscal year will include new offices in Casablanca (Morocco), Wellington (New Zealand) and Brazilia (Brazil). In Ireland, a new M&D facility (80,000 sf) will soon be occupied. Compared with FY93, there will be relatively little activity in ROW and "other" locations during FY94.

Investor Relations/
Stack Activity

INVESTOR RELATIONS / STOCK ACTIVITY

FY93 Earnings Release

On July 28, 1993, financial results for Q93-4 and FY93 were released. Earnings per share were $0.87 and $3.15 for the quarter and year, respectively. Analysts' earnings projections for upcoming quarters are summarized in the table below.

Selected Earnings per Share Estimates, FY94 - FY95

Analyst	Q94-1	Q94-2	Q94-3	Q94-4	FY94	FY95
Alex. Brown	$0.76	$0.92	$0.97	$1.00	$3.65	-
Cowen & Co.	-	-	-	-	3.65	4.40
Dean Witter	0.77	-	-	-	3.70	4.50
DLJ Securities	0.78	0.95	0.96	0.96	3.65	4.60
Goldman, Sachs	0.78	0.92	0.95	0.95	3.60	5.00
Lehman Brothers	0.80	1.01	1.00	0.99	3.80	-
Merrill Lynch	0.75	0.95	-	-	3.60	-
Montgomery	0.77	0.94	0.96	0.98	3.65	4.35
Paine Webber	0.79	1.00	1.01	0.98	3.80	-
Piper Jaffray	-	-	-	-	3.65	
UBS Securities	-	-	-	-	3.70	4.60
Average	$0.78	$0.96	$0.98	$0.98	$3.68	$4.58

Ownership of Microsoft Stock

Microsoft officers and directors held 47% of outstanding Microsoft stock on June 30, 1993, unchanged from the prior quarter.

Stock Ownership Profile, Q93-4

	Number of Shares	Percent of Total
Officers, directors and 10% shareholders		
William H. Gates	79,237,044	29%
Paul Allen	33,166,750	12
Steve Ballmer	14,976,382	5
	127,380,176	46
Other officers and directors	2,897,582	1
Total officers and directors	130,277,758	47
Other holders (float)	152,394,520	53
Total shares outstanding	282,672,278	100%

Institutional Shareholders

The 15 largest institutional owners of Microsoft stock held 14.1% of outstanding shares at March 31, 1993 (the latest date for which information is available). These same 15 institutions held 17.1% of outstanding shares the prior year. As of March 31, 1992, the top 15 institutional shareholders, which were not the same 15 as at March 31, 1993, held 22.3% of Microsoft's outstanding shares on March 31, 1992.

Fifteen Largest Institutional Shareholders

	March 31, 1993		March 31, 1992		
Institution	Shares Held (000)	Percent of Total Outstanding	Shares Held (000)	Percent of Total Outstanding	Change (000)
Alliance Capital	6,904	2.5	4,793	2.7	2,111
Fidelity Management	3,616	1.3	4,494	2.5	(878)
Provident Investment Counsel	3,619	1.3	3,282	1.8	337
IDS Financial Corp.	2,515	0.9	1,388	0.8	1,127
Jennison Associates Capital	2,444	0.9	2,945	1.6	(501)
College Retire Equities	2,217	0.8	1,319	0.7	898
Cal Pers	1,474	0.5	1,464	0.8	10
Thomson Advisory Group	1,451	0.5	2,781	1.5	(1,330)
Miller Anderson & Sherrerd	1,784	0.6	2,097	1.2	(313)
J.P. Morgan	2,436	0.9	1,512	0.8	924
Scudder Stevens & Clark	1,353	0.5	752	0.4	601
Janus Capital Corp.	4,846	1.7	141	0.1	4,705
Shearson Lehman Bros.	1,505	0.5	611	0.3	894
Bankers Trust NY Corp	1,768	0.6	1,691	0.9	77
Massachusetts Financial Ser	1,718	0.6	1,460	0.8	258
	39,650	14.1	30,730	17.1	8,920

Microsoft Market Capitalization

At the end of FY93, Microsoft was the 26th largest company (measured by total market capitalization based on actual shares outstanding) traded on United States stock exchanges. Microsoft's market capitalization decreased by $4.4 billion during Q93-4.

Largest United States - Public Companies

Rank	Company	Market Capitalization (in billions)
1	American Telephone & Telegraph	$85.1
2	General Electric	84.1
3	Exxon	81.5
4	Wal Mart Stores	58.4
5	Coca Cola	56.4
6	General Motors	49.4
7	Phillip Morris	41.6
8	Merck	34.9
9	GTE	33.9
10	Procter & Gamble	33.2
11	Shell Transport & Trading	31.6
12	Mobil	30.1
13	Pepsico	29.9
14	Bellsouth	29.1
15	Chevron	28.7
16	Bristol-Myers Squibb	28.3
17	Amoco	27.2
18	Ford Motor	25.9
19	Bell Atlantic	25.8
20	IBM	25.4
21	Motorola	24.6
22	Southwestern Bell	24.3
23	Johnson & Johnson	23.9
24	Minnesota Mining & Mfg	23.0
25	Federal Natl. Mortgage Assn.	22.8
26	Microsoft	22.5
27	Intel Corporation	21.7

Q93-4 Stock Market Activity Summary

Microsoft share prices closed 5% lower at the end of Q93-4 compared with the previous quarter. By comparison, the S&P 500 closed at a level comparable to the prior quarter and the Nasdaq Industrial Index gained 2%.

Market Performance Comparison

	Microsoft Prices	S & P 500	Nasdaq Industrial Index
Quarter High	98	455.63	742.06
Quarter Low	79 3/4	432.31	647.21
Quarter Close	88	450.53	729.52
Previous Quarter Close	92 1/2	451.66	713.55
Change	-5%	0%	2%

Total Trades	93,778
Total Volume	119,802,915
Total Block Trades	2,235
Total Block Volume	38,779,631

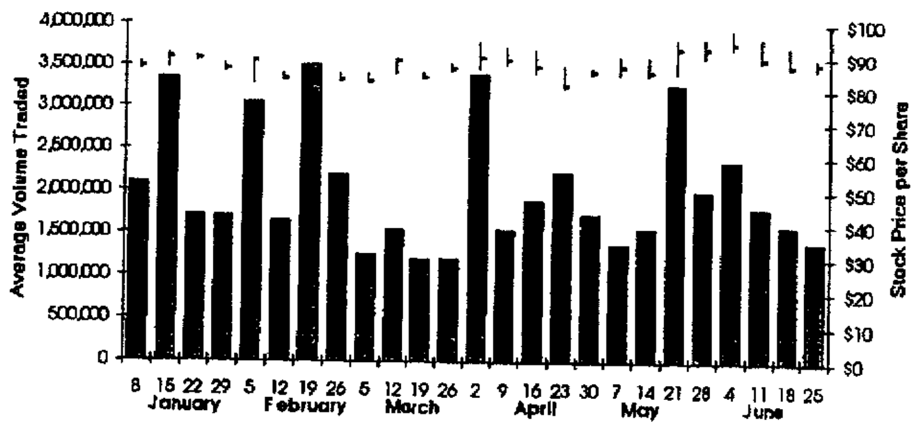
There were 1.9 million short positions in Microsoft stock on June 15, 1993, equivalent to just one day's average trading volume in the shares.

Short Interest of Microsoft Shares

	Short Position	Days to Cover
March 15, 1993	2,916,113	2
June 15, 1993	1,886,005	1

The chart below shows the average daily volume and the high, low, and closing prices for Microsoft stock on a weekly basis for the most recent six months.

Volume Traded and Stock Price



Human Resources

HUMAN RESOURCES

Q93-4 Headcount Report

Worldwide headcount was 14,430 on June 30, 1993, which is 98% of plan. Worldwide Sales & Support Group was 98% of plan, Worldwide Product Group was 93% of plan and Worldwide Operations Group was 105% of plan. Headcount totals and turnover rates are summarized in the table below.

Worldwide Headcount Summary

	June 30, 1993 Headcount	% of Total	Turnover Rate
Sales and Support			
U.S., Non-PSS	2,143	15%	7%
U.S., PSS	1,787	12	5%
Europe	3,085	21	7%
ICON & FE	1,670	12	7%
Subtotal	8,685	60%	7%
Product Group	3,344	23%	5%
Operations Group	1,988	14	9%
LCA & Executive	108	1	4%
Adv. Tech. Business Development	275	2	0%
Subtotal	14,400	100%	6%
Non-permanent Employees	30		
Total	14,430		

Temporary Employees

In addition to the regular Microsoft employees discussed above, the use of temporary (agency) employees at Microsoft in the U.S. increased during FY93. In FY92, a total of 1.0 million hours were logged by "temps," while in FY93 this figure increased to 1.6 million hours. The direct cost of these temporary employees is estimated to be $15.4 million in FY92 and $24.3 million in FY93. These cost estimates do not include the indirect costs incurred by Microsoft in providing facilities, computer equipment and supplies for the "temps."

Summary of Temporary Employee Hours and Cost

	Q93-1	Q93-2	Q93-3	Q93-4	FY93
Temporary Hours Worked	304,468	367,373	408,530	540,415	1,620,786
Estimated Cost	$4,567,020	$5,510,595	$6,127,950	$8,106,225	$24,311,790

Profile of Domestic Employees

The table below summarizes Microsoft's U.S. employee demographics with respect to age, tenure and affirmative action metrics. These statistics have remained relatively constant over FY93, with the average age of domestic employees slowly starting to increase. The average tenure for domestics employees also increased during FY93.

U.S. Employee Statistics

	No. of Employees	% of Total
Sex:		
Male	6,110	63%
Female	3,565	37%
	9,675	100%
Ethnicity:		
White	8,332	86%
Asian Pacific/Islander	775	8%
Black	257	3%
Hispanic	229	2%
American Indian/Alaska Native	46	0%
Other	36	0%
	9,675	100%
Age:		
Under 20	51	1%
20-29	3,674	38%
30-39	4,459	46%
40 and Over	1,491	15%
	9,675	100%
Average Age:	32 years	
Average Tenure:		
United States	2.76 years	
Subsidiaries	2.11 years	
Worldwide	2.54 years	

Stock Administration

Over the past quarter there was a total of 2,351,370 shares exercised by 2,660 individuals, a 43% increase in shares exercised over Q92-4. Microsoft stock reached an all-time high share price of $98.00 on June 1, 1993, when it also posted an all time high closing share price of $96.25. In total, FY93 shares exercised increased 28% over FY92.

Effective April 1, 1993, a new policy was adopted for federal income tax withholding rates on stock option exercises. The new policy provides employees the option to withhold federal income tax at a rate of 20, 28 or 31%.

Stock Option Exercise Summary

	Q93-1	Q93-2	Q93-3	Q93-4	FY93
Shares Exercised	2,478,606	5,624,900	2,628,758	2,351,370	13,083,634
No. of Optionees	2,112	2,554	3,272	2,660	10,598
Share Option Exercise Price					
High	$81.75	$95.00	$92.50	$96.25	$96.25
Average	$75.64	$88.52	$86.02	$89.23	$84.32
Low	$68.00	$73.88	$76.75	$80.38	$68.00

During FY93, shares available for grant decreased by 11.2 million shares to 17.0 million at June 30, 1993. A total of 11.6 million shares were granted in FY93, the lowest amount since FY87.

Shares Available for Grant

Fiscal Year	Beginning Balance	Additions: New Approvals	Additions: Forfeited Shares (1)	Reductions: Net Shares Granted	Reductions: Plan Shares Expired	Ending Balance
1982	0	27,180,000	0	(7,713,000)		19,467,000
1983	19,467,000	0	936,450	(8,364,600)		12,038,850
1984	12,038,850	0	3,520,809	(6,823,035)		8,736,624
1985	8,736,624	0	2,110,887	(5,910,435)		4,937,076
1986	4,937,076	12,600,000	1,874,201	(11,111,211)		8,300,066
1987	8,300,066	18,000,000	1,765,220	(10,827,900)		17,237,386
1988	17,237,386	0	2,148,533	(17,494,740)		1,891,179
1989	1,891,179	22,500,000	2,644,149	(22,735,486)		4,299,842
1990	4,299,842	28,125,000	2,217,967	(19,280,846)		15,361,963
1991	15,361,963	11,250,000	2,085,976	(13,813,546)		14,884,393
1992	14,884,393	30,150,000	1,487,100	(14,782,769)	(3,462,133)	28,276,591
1993	28,276,591	0	2,220,001	(11,602,759)	(1,850,351)	17,043,482
Cumulative		149,805,000	23,011,293	(150,460,327)	(5,312,484)	17,043,482

(1) Represents option grants that did not vest.

After a steady upward trend from FY82 through FY92, the number of shares outstanding declined in FY93, as detailed in the table below.

Outstanding Stock Options

Fiscal Year	Beginning Balance	Additions: Net Shares Granted	Reductions: Shares Exercised	Reductions: Forfeited Shares	Ending Balance
1982	0	7,713,000	0	0	7,713,000
1983	7,713,000	8,364,600	(17,100)	(936,450)	15,124,050
1984	15,124,050	6,823,035	(646,128)	(3,520,809)	17,780,148
1985	17,780,148	5,910,435	(1,934,127)	(2,110,887)	19,645,569
1986	19,645,569	11,111,211	(5,436,144)	(1,874,201)	23,446,435
1987	23,446,435	10,827,900	(7,572,744)	(1,765,220)	24,936,371
1988	24,936,371	17,494,740	(4,167,949)	(2,148,533)	36,114,629
1989	36,114,629	22,735,486	(4,605,969)	(2,644,149)	51,599,997
1990	51,599,997	19,280,846	(11,767,722)	(2,217,967)	56,895,154
1991	56,895,154	13,813,546	(10,823,537)	(2,085,976)	57,799,187
1992	57,799,187	14,782,769	(10,366,022)	(1,487,100)	60,728,834
1993	60,728,834	11,602,759	(13,083,634)	(2,220,001)	57,027,958
Cumulative		150,460,327	(70,421,076)	(23,011,293)	57,027,958

401(k) Savings Plus Plan

The fair market value of Microsoft's 401(k) Savings Plus Plan was $131.2 million at June 30, 1993. This represents a 56% increase from June 30, 1992. The Microsoft Stock Fund continues to represent the majority of the Plan's assets at 45% total assets. Seventy nine percent of eligible employees participate in the Savings Plus Plan at an average contribution rate of 7%. Microsoft contributed $6.9 million to domestic employees' Savings Plus Plans during FY93, a 41% increase over the FY92 employer match. A summary of employees' Savings Plus Plan portfolio is presented in the table below.

401(k) Investment Allocation

	June 30, 1993		June 30, 1992	
	Amount	% of Total	Amount	% of Total
Investment Option				
Retirement Money Market Fund	$15,810,017	12%	$12,817,606	15%
Intermediate Bond Fund	13,180,215	10	9,021,969	11
US. Equity Index Fund	18,888,659	14	13,072,508	16
Growth Company Fund	8,078,584	6	2,966,217	4
Magellan Fund	12,948,020	10	4,969,231	6
Overseas Fund	2,882,589	2	1,291,623	2
Microsoft Stock Fund	59,372,505	45	40,113,901	48
	$131,160,589	100%	$84,253,055	100%

ESPP Administration

The fifth offering of the 1991 Employee Stock Purchase Plan (ESPP) ended on June 30, 1993 The beginning share price for the period was $85.12, and the closing price of the period of $88.00. The purchase price for the period (85% of the lower price of either the beginning or ending price) was $72.36.

The participation rate for domestic employees increased by approximately 6% from 6,577 in the previous period to 6,992 for the period ending June 30, 1993. A total of 182,367 ESPP shares were issued to domestic employees showing an 11% decrease in shares issued from the previous period which ended December 31, 1992. This decrease in overall shares purchased can be attributed to the higher purchase price. The sixth offering of the 1991 ESPP began on July 1, 1993, with a closing share price of $87.12.

Employee Severance Policy

A new Severance Plan was approved for the U.S. during Q93-4. The Plan would be used primarily in down-sizing and reduction in workforce situations. The Plan has two parts. The first part allows an employee whose job has been eliminated six weeks to search for another internal position. At the end of the six week paid search, the employee is terminated if a position has not been found. Upon termination, the employee receives a lump sum severance payment equal to one or two weeks pay (depending on the employee's level) for every six months of service at Microsoft (not to exceed 26 weeks pay as severance). Any stock options that vest within this six week search period and the following six weeks will vest at the termination date. Employees who choose not to conduct the six week search and to terminate immediately will receive a single payment of six weeks paid salary plus one or two weeks paid for every six months of service. Any stock options that would have vested during the 12 weeks following termination will vest at the termination date.

The second part of the Severance Plan is designed for major layoffs. It provides (i) a fixed sum of two or four weeks pay and (ii) a variable sum of one or two weeks base pay for every six months of service. Both payments are included in a lump sum payment. Any stock that would have vested in the 12 weeks following termination will vest at the termination date.

Campus Recruiting Program

A total of 182 graduating students and 395 summer interns were hired during FY93 compared with 183 graduating students and 257 interns in FY92. Minority and female candidates in FY93 accepted offers at a higher rate for both technical and non-technical positions than in FY92, as demonstrated in the following table.

Minority and Female Candidate Statistics

		Offers Extended as % of all Interviewed		Offers Accepted as % of Offers Extended	
Candidate Profile	Full-time Position Type	FY92	FY93	FY92	FY93
Minorities	Technical	28%	31%	24%	32%
	Non-technical	49%	35%	43%	58%
Females	Technical	9%	14%	10%	14%
	Non-technical	34%	57%	35%	47%

Candidates who previously worked as interns or co-op students made up approximately 50% of all new hires during FY93. Undergraduate institutions providing the most new hires were the Massachusetts Institute of Technology, Stanford University and the Universities of Michigan, Washington and Waterloo. The most prolific graduate business schools for Microsoft were Darden (University of Virginia), Harvard Business School, J.L. Kellogg (Northwestern University) and the University of Michigan Business School.

Management & Employee Development

The Management and Employee Development Center (MEDC) introduced Managing Microsoft People (MMP) during Q93-4. MMP is a management development program which provides new first-line managers with some of the information and skills they need to succeed in their managerial roles at Microsoft.

Participants in this program meet three times over a 12 month period to learn philosophies, develop new skills, exchange ideas and build a core peer group of managers. The skills and information are fundamental, yet critical, to successful management. Topics include Microsoft cultural values, managing and appraising performance, creating high performance teams, negotiations and conducting meetings. An assessment tool is also used for new managers to assess their current strengths and weaknesses and to decide which managerial skills they need to develop.

To date, four groups of new managers have attended the first two day session of their MMP programs. New sessions of MMP will continue to be offered four times a year for newly promoted managers. The target audience is employees promoted to lead, supervisory and management positions within the last six to 12 months.

Information
Technology

Information Technology

The Information Technology Group (ITG) is currently working on a number of Information at Your fingertips (IAYF) applications to enhance productivity within Microsoft. This section describes four of these applications.

SeQueL to Platinum

SeQueL to Platinum

Microsoft's first true client/server accounting and distribution system is alive and well in Microsoft Korea! The SeQueL to Platinum (STP) system went on-line in Korea at the beginning of July, and the F&A department there has just finished their first month end on the new system. Korea is processing all Accounts Receivable, Accounts Payable, Inventory and General Ledger transactions under STP, using double byte transaction data in most cases. STP is the high-end product offering from Platinum Software Corporation implemented with Windows front-ends and a SQL Server back-end.

The switch to SeQueL to Platinum is paying off in Korea in a number of areas, including:

- MET: daily downloads from STP to MET for expense actuals to budget (from Budget WB);
- Flexible Sales Analysis: monthly and yearly sales and operational data on-line using STP Report Generator, a real-time Access interface to the STP database developed by the project team;
- WWS Part Hierarchy: ability to classify items and analyze sales data based on WWS hierarchy, ensuring that this data will foot to WWS (and future MS Sales) systems;
- Automated Interfaces to Corporate: monthly WWS and GL Chart of Account balance transmittals have been automated, eliminating the previous manual formatting of text files in Excel;
- Contribution P/L: CH-specific financial statements and local version of Contribution P/L.

ITG is continuing to work with and support CH F&A in resolving severity two (and more minor) issues. Thanks to all in the CH F&A department for their hard work and commitment during the entire installation process.

Hyperion

Hyperion is a third-party Windows-based financial reporting application which integrates data from Microsoft's host systems and client/server systems. Hyperion is used by our subsidiaries in Canada, Sweden, France, Spain, Portugal, Belgium, Holland, Ireland, England, Australia and Japan. It does financial data consolidation and allocations, and uses Excel to design and generate both on-line and printed reports. Hyperion allows the same financial data to be presented by multiple organizational structures, providing flexibility which did not previously exist.

Microsoft uses the Hyperion consolidation engine, and has added several components, based on Visual Basic and Excel, to manage the import and export of data as well as report creation and management. It is in use in most of Microsoft's medium and large subsidiaries, with more installations planned for the coming months. Hyperion is slated to be one of our first desktop native NT applications with its next release later this year.

Its strong financial engine has provided a significant increase in financial reporting flexibility for Microsoft's entities. The Windows interface and Excel delivery mechanism have put this function in the hands of the Finance user group, rather than with ITG. Hyperion provides a common tool set for local management reports, consolidated corporate reporting and local statutory reporting.

Next Generation Business Systems (NGBS) - Medium & Large Sales Offices

NGBS is a multi-year, worldwide project to migrate our core business systems to Microsoft-based client/server tools and technology. NGBS is a Windows NT and SQL Server for Windows NT solution. The scope of NGBS is worldwide Line of Business (LOB) applications including order management, warehouse/logistics, manufacturing & financial systems (A/P, A/R, G/L, F/A). Microsoft is working with several ISVs in the design and development of NGBS, including Dun & Bradstreet Software (DBS), SAP and Platinum.

During the last quarter, the NGBS team furthered its working relationship the primary solutions ISV, Dun & Bradstreet Software (DBS) and engaged the user organizations in the definition of key workflow processes and system requirements. By September, Microsoft will deliver to DBS our critical requirements and begin the process of mapping our requirements to the DBS planned solution. We will also begin implementation and data conversion planning and Microsoft will beta test DBS' Windows NT Financial Stream (A/P, G/L, F/A) product in November 1993. Manufacturing and Distribution products running on Windows NT will be available the summer of 1994.

During the last quarter, SAP continued the migration of the R/3 client/server product suite to Windows NT. The database migration from Oracle to Sybase has been delayed until the availability of Sybase 10. The client portion of the application is being reengineering using Visual C++ and MFC and is targeted for first demonstration at the SAP user conference (SAPPHIRE) in October 1993.

During the last quarter, the SeQueL to Platinum financial product was successfully installed at Microsoft Korea.

Enrollment and Registration System

Enrollment

Classes offered internally to Microsoft employees cover subjects from software applications and proprietary tools to new employee orientation. The Enrollment and Registration System provides domestic and international employees with on-line information and services related to training and corporate events. Using this application, employees can enroll in classes and special sessions offered by the Management and Employee Development Center, Software Learning Center, Product Support Services, WorldWide Products Group and WorldWide Sales Training.

The enrollment application allows any employee to obtain information about a course, register for a class and view a map of the class location. Additionally, the system permits a user to enroll another employee in a class, send mail to a registrar regarding special class requests, and view transcript information.

The registration application allows designated staff to create new courses and classes, register students, and prepare reports. Registrars use the registration application to maintain class location, student, instructor and staff information.

The application was crucial in the successful enrollment and registration of nearly 1000 employees for the National Sales Meeting (NSM). In the short span of three weeks those attending the NSM used the enrollment application to request sessions by priority and were assigned classes according to a modeling module written using Visual C++ and NT. The modeling module produced schedules with 90-98% satisfaction for the first six choices. A significant improvement from the past years.

Supplemental Information

LEADING BUNDLED PRODUCTS

(units in thousands, revenues in millions)

Quarter Actuals

Bundled Product	Units	Q93-4 Revs	Product Recipient	Q93-4 Revs	
Win Office	299	$134	Win Word	$58	43%
			Win Excel	56	42%
			Win Powerpoint	16	12%
			Win Mail	4	3%
				134	100%
Win Office Upg	317	28	Win Word	$12	43%
			Win Excel	12	42%
			Win Powerpoint	3	12%
			Win Mail	1	3%
				28	100%
Mac Office	52	21	Mac Word	9	43%
			Mac Excel	9	42%
			Mac Powerpoint	2	12%
			Mac Mail	1	3%
				21	100%
DOS/Win	28	2	Windows	1	43%
			MS-DOS	1	57%
				2	100%
Mac Word/Exce	7	1	Mac Word	1	52%
			Mac Excel	0	48%
				1	100%
Mac Office Upg	4	1	Mac Word	1	43%
			Mac Excel	0	42%
			Mac Powerpoint	0	12%
			Mac Mail	0	3%
				1	100%
		$187		$187	

Year to Date Actuals

Bundled Product	FY93 YTD Units	FY93 YTD Revs	Product Recipient	'Y93 YTD Revs	
Win Office	922	$422	Win Word	$181	43%
			Win Excel	177	42%
			Win Powerpoint	51	12%
			Win Mail	13	3%
				422	100%
Win Office Upg	318	76	Win Word	$33	43%
			Win Excel	32	42%
			Win Powerpoint	9	12%
			Win Mail	2	3%
				76	100%
Mac Office	168	65	Mac Word	28	43%
			Mac Excel	27	42%
			Mac Powerpoint	8	12%
			Mac Mail	2	3%
				65	100%
DOS/Win	189	20	Windows	9	43%
			MS-DOS	11	57%
				20	100%
Mac Word/Exce	31	6	Mac Word	3	52%
			Mac Excel	3	48%
				6	100%
Win/Ballpoint	23	3	Windows	3	93%
			Win Mail	0	7%
				3	100%
		$592		$592	

Quarter Plan

Bundled Product	Units	Q93-4 Revs	Product Recipient	Q93-4 Revs	
Win Office	123	$54	Win Word	$23	43%
			Win Excel	23	42%
			Win Powerpoint	6	12%
			Win Mail	2	3%
				54	100%
Win Office Upg	5	2	Win Word	$1	43%
			Win Excel	1	42%
			Win Powerpoint	0	12%
			Win Mail	0	3%
				2	100%
Mac Office	32	13	Mac Word	6	43%
			Mac Excel	6	42%
			Mac Powerpoint	1	12%
			Mac Mail	0	3%
				13	100%
DOS/Win	36	4	Windows	2	43%
			MS-DOS	2	57%
				4	100%
		$73		$73	

Year to Date Plan

Bundled Product	FY93 YTD Units	FY93 YTD Revs	Product Recipient	'Y93 YTD Revs	
Win Office	451	$203	Win Word	$87	43%
			Win Excel	86	42%
			Win Powerpoint	24	12%
			Win Mail	6	3%
				203	100%
Win Office Upg	20	7	Win Word	$3	43%
			Win Excel	3	42%
			Win Powerpoint	1	12%
			Win Mail	0	3%
				7	100%
Mac Office	115	46	Mac Word	20	43%
			Mac Excel	19	42%
			Mac Powerpoint	6	12%
			Mac Mail	1	3%
				46	100%
DOS/Win	474	54	Windows	23	43%
			MS-DOS	31	57%
				54	100%
		$310		$310	

Bundled product revenues are allocated to specific products based upon percentages determined by the Office of the President.

Win and Mac Office revenues are allocated 43% to Word, 42% to Excel, 12% to PowerPoint, and 3% to MS Mail. Win/Mouse revenues are allocated 21% to Windows and 79% to Hardware. DOS/Win revenues are allocated 43% to Windows and 57% to MS-DOS. Sound Sys/Win revenues are allocated 15% to Windows and 85% to Hardware. Win/Ballpoint revenues are allocated 93% to Windows and 7% to MS Mail.

ALLOCATIONS

FY93 Annual Budget (dollars in thousands)

Expense Generators | **Recipients**

Research & Development

	Gross Pool		Gross Pool less: Inter-PU Allocations	
Non-PU Specific				
WWPG	$42,643	27.9%	$42,643	43.0%
Int'l R&D BIDI/DBCS	31,336	20.5%	31,336	31.6%
DAD	21,752	14.2%	21,752	21.9%
DDT	3,377	2.2%	3,377	3.4%
Applications				
DBM	6,091	4.0%	0	0.0%
WRK	5,539	3.6%	0	0.0%
LNG	5,241	3.4%	0	0.0%
WKS	594	0.4%	0	0.0%
Systems				
SYS	25,611	16.8%	0	0.0%
WIN	10,525	6.9%	0	0.0%
	$152,708	100.0%	$99,108	100.0%

Applications, Systems, and WWPG allocations are based on relative planned headcount or perceived benefit and consist of all operating expenses and allocations.

International R&D allocations are based on perceived benefit, and consist of all costs associated with developing and "localizing" products into foreign languages.

R&D allocations originate both from non-product specific departments such as the Worldwide Product Group, as well as departments which are product specific, such as Works. Allocations from product specific departments net to zero for the product groups as a whole. The total pool of allocations includes all operating expenses, and allocations into these departments from other sources such as G&A.

Win NT	$28,748	29.0%
MS-DOS	18,465	18.6%
Excel	16,735	16.9%
Word	13,735	13.9%
Pen	5,901	6.0%
APPU	5,496	5.5%
MMS	4,347	4.4%
Entry	3,746	3.8%
OOS	3,366	3.4%
Works	3,302	3.3%
Non-spec Wi	2,968	3.0%
Graphics	2,562	2.6%
Printer	2,053	2.1%
Project	1,851	1.9%
MMP	1,828	1.8%
Languages	1,799	1.8%
Win 3.x	1,493	1.5%
Other	1,401	1.4%
FOX	1,053	1.1%
Hardware	742	0.7%
DBM	676	0.7%
Workgroup	-369	-0.4%
Systems Supr	-22,788	-23.0%
Total	$99,108	100.0%

Sales & Marketing

US FG	$228,128	35.4%
Int'l Europe FG	226,875	35.2%
Int'l ROW FG	118,963	18.4%
WW OEM	47,568	7.4%
Corpcom	13,112	2.0%
PR/Trade Shows	7,219	1.1%
Marketing Matl Dist	2,997	0.5%
	$644,862	100.0%

US FG allocations are based on expected benefit and consist of non-specific channel expenses.
Int'l FG allocations are based on relative planned revenues, subject to the "2X" rule for certain applications, and consist of non-specific channel expenses.
WW OEM allocations are based on relative planned revenues, and consist of non-specific channel expenses.
Corpcom, Marketing Material Dist. & PR/Trade Shows allocations are based on perceived benefit. The rules are different for each.

Sales & Marketing allocations to the product units include all non-product specific expenses originating in the Worldwide sales and marketing channels. Product specific sales and marketing expenses are shown as an operating expense to the product units.

Word	$152,520	23.7%
Excel	142,751	22.1%
Win 3.x	94,880	14.7%
MS-DOS	59,554	9.2%
Hardware	30,541	4.7%
OOS	23,352	3.6%
Workgroup	18,765	2.9%
Works	15,961	2.5%
Win NT	15,484	2.4%
FOX	15,343	2.4%
Graphics	13,286	2.1%
Languages	11,238	1.7%
Project	10,299	1.6%
DBM	9,827	1.5%
Entry	8,656	1.3%
Printer	8,504	1.3%
APPU	7,027	1.1%
MMS	3,403	0.5%
MMP	1,277	0.2%
Pen	982	0.2%
Other	618	0.1%
Xenix	592	0.1%
Total	$644,862	100.0%

General & Administrative

Finance & Administratio	$94,943	77.5%
Legal & Corp. Affairs	27,599	22.5%
	$122,542	100.0%

Finance & Administration allocations are based on perceived benefit and consist of expenses originating in all operating departments which report to the F&A Executive VP.
Legal & Corporate Affairs allocations are based on perceived benefit and consist of all expenses originating in departments which report to the LCA VP.

General & Administrative allocations originate from executive, finance and administration and legal departments. Approximately 60% are allocated to "other" which includes domestic and international channels and non-product specific departments (e.g., corpcom). Roughly 80% of those allocations are then allocated to the product units.

Other	$73,746	60.2%
Win NT	5,759	4.7%
Win 3.x	5,710	4.7%
Word	5,049	4.1%
Excel	4,718	3.9%
MS-DOS	4,019	3.3%
Workgroup	3,088	2.5%
Languages	2,835	2.3%
Hardware	2,218	1.8%
Entry	1,834	1.5%
Works	1,789	1.5%
DBM	1,740	1.4%
MMS	1,520	1.2%
Printer	1,409	1.2%
APPU	1,336	1.1%
FOX	1,238	1.0%
MMP	980	0.8%
Project	944	0.8%
OOS	931	0.8%
Pen	858	0.7%
Graphics	821	0.7%
Total	$122,542	100.0%

ABBREVIATIONS, ACRONYMS AND TERMS

ABC	Activity Based Costing
ABU	Analysis Business Unit
ACE	Advanced Computing Environment
ACIS	IBM academic pricing program using bundles
AED	Authorized Education Dealer
AI	Artificial Intelligence
AIME	Includes Africa, Israel & Middle East
APAC	Australia, Pacific, and Canada
Apps	Applications
BBS	Bulletin Board System
BIDI	Bidirectional
CN	Campus North
CP	Component Piece
CPU	Central Processing Unit
CSA	Client Server Applications
CSI	Consumer Software, Inc.
DABU	Data Access Business Unit
DAD	Desktop Applications Division
DBCS	Double Type Character Set
DBMS	Database Management Systems
DDT	Database and Development Tools
DK	Dorling Kindersley
DLL	Dynamic Load Library
DOEM	Domestic Original Equipment Manufacturer
Domestic	Includes Redmond, Campus North, Puerto Rico and Workgroup Canada
DOS	Disk Operating System
DSO	Days Sales Outstanding
EBU	Entry Business Unit
ECU	European Currency Unit
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act
ESPP	Employee Stock Purchase Plan
EU	Equivalent Units
F&A	Finance and Administrative
FG	Finished Goods
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Principles
G&A	General and Administration
GBU	Graphics Business Unit
GLVR	Government Large Volume Reseller
GUI	Graphical User Interface
GULP	Global Update License Pack
ICON	Intercontinental - Includes Latin America, AIME and APAC regions
IFF	International Focus Factory
IFG	International Finished Goods
IOEM	International Original Equipment Manufacturer
IPG	International Product Group
IPO	Initial Public Offering
IPR	Intellectual Property Rights
ISV	Independent Software Vendor
ITG	Information Technology Group
JIT	Just-In-Time Manufacturing
LCA	Law & Corporate Affairs
LM2	Lan Man 2.0
Lng	Languages
LOI	Letter of Intent
LTD	Life to Date
LVR	Large Volume Reseller
Mac	Macintosh
MCS	Microsoft Consulting Services
MCD	Master Copy Disk
MET	Management Expense Tracking
MLP	Microsoft License Pak
MS	Microsoft
MSJ	Microsoft Systems Journal
MSU	Microsoft University
NQSO	Nonqualified Stock Option
OBU	Office Business Unit
ODBC	Open Database Connectivity
OEM	Original Equipment Manufacturer
OS	Operating System
OOS	Other Operating Systems
PC	Personal Computer
PPB	Prepaid Balance
PSS	Product Support Services
R&D	Research and Development
RM	Raw Materials
ROW	Rest of World - Includes Far East region and ICON
S&M	Sales and Marketing
SCO	Santa Cruz Operation
SDK	Software Developer's Kit
SEC	Securities and Exchange Commission
SKU	Stock Keeping Unit (part number)
SMSD	Sales, Marketing and Service Division
SPAG	Systems, Peripherals and Accessories Group (hardware)
SRP	Suggested Retail Price
Sys	Systems
TCN	Third Country National
UPB	Unspecified Product Billing
Upg	Upgrade
USSMD	United States Sales, Marketing and Distribution
Var	Variance
VEBA	Voluntary Employees' Beneficiary Assn.
VGA	Video Graphics Array
VPP	Volume Purchase Program
WCM	World Class Manufacturing
WGA	Workgroup Applications
WGC	Microsoft Workgroup Canada
Win	Windows
Wks	Works
WOG	Worldwide Operations Group
WPG	Worldwide Products Group
WRK	Workgroup
WWS	Worldwide Sales
WSSG	Worldwide Sales & Support Group
WW	Worldwide
XLA	Extended License Agreement
XLL	Excel Load Library